Coloplast
Wednesday, 19th November 2008
15:00 Hrs UK time

Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this full year 2007/8 conference call. I'm Lars Rasmussen and with me here today in Humlebaek I have Chief Financial Officer Lene Skole and Head of Investor Relations Ian Christensen (?). We have about one hour available today so let's turn quickly to slide number three.

Let me start this presentation by pointing out some of the highlights in the set of numbers we have published today. In 2007/8 we realised 7% organic sales growth and 5% reported (?) growth. We realised a 9% increase in EBIT before special items, maintaining a 16% underlying margin. It will be proposed to the annual general meeting to approve a dividend of DKK 6 per year corresponding to a payout ratio of 36%. We have given the following guidance for the financial year 2008/9: a seven to 8% organic revenue growth, which is eight to 9% in Danish kroner, a 15 to 16% EBIT margin, which is 14 to 15% EBIT margin in Danish kroner and approximately DKK 750 to 850 million in capex. The tax rate is expected to be 28%. The board of directors has today approved a revised set of long-term expectations, which are an organic growth rate on revenue higher than the market growth, and right now the market growth is 6%, and an EBIT margin of more than 20%. Let me explain the rationale behind these changes. Coloplast is, today, already market leader in many of the markets where we operate. Despite hereof we will consolidate even further and still commit to grow more than the markets and thereby taking market share. Going forward we will also focus more on the profitability and firmly believe that Coloplast holds untapped EBIT potential. This is why we have increased the margin target to now more than 20%. Finally, we have decided to put a hold on the second phase of the current share buyback programme. It has not been cancelled but, given the conditions on the financial markets, we find it appropriate to postpone the programme.

Please turn to the next slide, slide four. In Danish kroner, revenues were up by 5% to almost DKK 8.5 billion. Organic growth was 7% while the recognition of contract production increased revenue growth by two percentage points. Various changes in exchange rates reduced growth by four percentage points. In Europe, revenue rose by four percentage points to a little more than DKK 6.7 billion and the organic growth was 5%. In particular, growth was affected by the declining sales of ostomy care products to the German markets due to the situation in Sieva (?). Sieva is the former HSC. Annual revenues have been reduced by DKK 200 million because of this. In the other European markets our ostomy care and continence care businesses generated growth in line with expectations, while the urology and wounds and skin care operations still performed below expectations. Currencies reduced growth by two percentage points due to weaker pound sterling exchange rates against Danish kroner. Revenue in the Americas rose by 4% to DKK 1.2 billion, or 12% organic growth. The US market accounts for most of this sales growth and we achieved satisfactory growth in the ostomy care and in the urology and continence care markets but fails to meet our expectations in wound and skin care products. We now see the positive effect of the improved reimbursement for catheters in the US markets. Revenue in the rest of the world, in which Japan and Australia represent the two largest markets, improved by 18% to around DKK 600 million while organic growth was 13%. The reported revenue was reduced by four percentage points due to changes in the exchange rates of Japanese yen, Chinese renminbi and Hong Kong dollars against Danish kroner. China, Russia, Korea, India and Taiwan are still generating good growth rates and continue to hold a strong potential.

Please turn to the next slide, five. Sale of ostomy care products increased by 3% to almost DKK 3.6 billion. Organic growth was 6% compared with a market growth of four to 5%. Excluding our sales in Germany, growth was 9%. Organic growth for this quarter was 3%. The Sen Sura one piece product is still the main contributor to growth and now the Sen Sura two piece product has also been launched in our principal markets. Coloplast consolidates its position as market leader with 36% global market share.

And now please turn to the next slide, slide six. Urology and continence care revenue increased 4% to slightly more than DKK 3.4 billion and 9% organic growth. Changes in the US dollars and British pound exchange rates against Danish kroner lowered the reported growth rate by five percentage points. Sales of intermittent catheters continue to be very satisfactory, especially the Speedy Cap (?) products enjoyed good growth momentum. The Paristeam (?) system continues to generate healthy growth rates, but still from a low starting point. The penal implant business in North America remains strong and we see a nice growth of the newly launched Titan (?) one touch release pump product. The expected growth in surgical products in the European markets is still struggling but we are improving the business and we can see the back orders levels are dropping. Organic growth for the quarter was 11% impacted by intermittent catheter sales in the US. Our global market share is now 34% in continence care and 10% in urology.

Please turn to the next slide, slide seven. Wound and skin care products generated a revenue growth of 15% to almost DKK 1.5 billion adjusted for changes in exchange rate and for contract production. Organic growth was five percentage points. Organic growth for the quarter was 3%. The Coloplast portfolio of advanced Biatain foam (?) dressings for chronic wounds generated satisfactory growth of around 10% whereas the sales of haracolic (?) dressings, we also call them confiel (?), declines. The major European markets for wound and skin care products remains very competitive and prices are still under pressure. Due to the unsatisfactory developments in our wound and skin care business we have accelerated the implementation of our existing wound and skin care strategy. We will improve profitability by focusing on the top five markets to drive growth. We will be very selective about investments beyond these markets and supports and systems with distribution set up in markets beyond the top five markets. We will also simplify our product portfolio and offering to the market, just to mention a few of our initiatives. We expect this to reduce revenue growth in the range of one to two percentage points in 2008/9 and a slight impact on the EBITs but it will contribute to the long-term profitability of this business. The market where we are at present is growing by five to 7% a year and is around DKK 16 billion in size. We believe we have 9% of this market and that is a loss of one percentage point on market share since last year where we believe we had 10%. With this sales update I hand you over to Lene who will go through some of the details of the financial numbers.

Lene Skole

Thank you, Lars. Now please turn to slide eight. The gross profit for 2007/08 increased by 3% to almost DKK 5 billion and the improvement was a result of the 5% revenue growth partly offset by the cost of sales. Our production cost increased by 8% as they were impacted by continued higher than expected production costs for our Sen Sura ostomy bags and for our Biatain foam dressing and we expect this to normalise during 2009. The gross margin was 59% against 60% last year. Changes in the exchange rates had reduced the gross margin by one percentage point. When we adjust the changes in exchange rate and for non recurring factors, the gross margin continues to be in line with last year's gross margin. This is not a satisfactory development. When we entered this financial year we had expected an improvement in gross margin. The fact that we did not see this improvement was actually the trigger point behind the reorganisation, primarily within global operations, that we undertook in September 2008.

Now please turn to the next slide and that's slide nine. Our full year operating profit margin of 12% was negatively impacted by two things. One was the adverse currency movements that reduced the EBIT margin by 1% and the other was non-recurring items which reduced the EBIT margin by three percentage points. The underlying margin was just 16% and thus in line with last year. This is not satisfactory and is due both to the fact that we did not see the expected improvement in gross margin and the fact that we had lower sales than what we expected at the beginning of the year. Looking at our SGNA costs we can see that we continue the trend of reducing them compared with revenues. We're satisfied with this development and we will continue this focus going forward. Our distribution costs increased by 2%, equal to 31% of revenues. On an absolute basis, distribution cost increased but relative to sales it was down due to cost reductions. Administrative expenses fell by 11%. This equalled an improvement from 12% of revenue in 2006/08 to 10% of revenue in 2007/08. The underlying figures reveal a slight drop in administrative expenses as a percentage of revenue even if we disregard the restructuring costs related to Sieva and if we disregard the improvement initiatives in our US operations. Looking at R&D we see an increase in cost of 30%. This is consistent with a strategy to increase innovation spend but is also due to reclassification of costs in connection with the reorganizational changes earlier in the year. Without this reclassification the increase could have been 25% instead of 30%. R&D costs are now about 5% of revenue. Sales of products that have been on the market for more than four years accounted for about 14% of overall revenue. This is below our target of 20%, and with the growth we are seeing in our newly launched products, such as Sen Sura and Biatain range, we expect to get closer to the target next year. We took a restructuring charge of DKK 160 million in Q4 07/08 and that was related to the layoffs announced on September 25th. We still expect a total charge in the range of DKK 180 million from this initiative.

Now please turn to the next slide, which is slide ten. We believe that Coloplast has a very healthy balance sheet. We have DKK 3.4 billion in debt, of which around 75 is fixed interest debt. We have 4.5 billion in committed credit facilities and around 70% of these are utilised. Our long-term committed facilities have an average commitment of six years. We therefore have very limited refinancing risks. We have, in light of recent events on the international capital markets, decided to change our net debt to EBITDA target ratio so that it is now between 1.5 to 2.5. This was previously between 2.0 and 3.5, and this represents a slightly more conservative approach to gearing on our part. Our equity fell by about DKK 100 million compared with last year. Equity fell as a consequence of paying out almost 400 million in dividends and buying back a net amount of 500 million worth of Coloplast shares and this was countered by the profit for the period. The return on equity was 29%. Net interest bearing debt was DKK 3.4 billion and that's up 8% compared with last year. The increase is caused by the purchase of our own shares and dividend payments. Net interest bearing debt to EBITDA ended the year at 2.2. Return on invested capital after tax amounted to 14% and that's 4% up compared with the same period last year.

Now please turn to the next slide. That's slide 11. Our cash flow from operations was up by 24% to DKK 1.3 billion. The improvement was mainly due to less income taxes paid relative to the same period last year as well as to cash gains on currency hedging contracts. The improvement was partly offset by an almost DKK 100 million increase in working capital with negative trends, especially within inventories, which increased by more than DKK 280 million. The continued inventory build up was to ensure customer supply in connection with the relocation of production from Denmark to Hungary and to China. We believe that we are now at the peak of inventory increases as we also at the peak of transfer of production to Hungary. We invested DKK 754 million in property, plants (?) and equipment during the year, mainly in production equipment for the factories in Hungary and China. The investments made amounted to 9% of revenue. We therefore end the year within our guided range but on a higher level than normal, and that's particularly due to investments in the new US headquarter. Adjusted for acquisitions and divestments, the free cash flow amounted to 656 million against DKK 1.1 billion last year. And now back to you, Lars.

Lars Rasmussen

Thank you, Lene. I will end this presentation by going through our guidance for 2008/9 and our long-term financial expectations. For 2008/9 we expect an organic sales growth of around seven to 8%, or eight to 9% in Danish kroner. We expect continued sound growth within ostomy care, continence care and our American urology business. We also expect to see growth returning to our European urology business. Wound and skin care will be the main challenge during 2008/9 due to the fact that we have increased focus on the execution of our wound care strategy, as mentioned earlier. This will reduce growth in the range of one to two percentage points in 2008/9. We believe that the market situation in Germany has stabilised. That has been included in the guidance. We are still waiting for the final results of the last hearing in connection with the UK healthcare reform. We expect this to happen in January 2009 with the implementation during summer 2009, therefore no effect from the UK healthcare reform has been included in the guidance. We expect an EBIT margin of about 15 to 16% for local currencies, or 14 to 15% in Danish kroner, which is also impacted by lower top line growth due to the wound and skin care strategy implementation. Our capex estimate for 2008/9 is in the range of DKK 750 to 850 million. This included estimated maintenance capex of six to 7% of sales plus expenses for finishing our headquarters in the US and certain IT investments. The effective tax rate is expected to be around 28%. Finally, as mentioned earlier, the board of directors has, today, approved a revised set of long-term financial expectations and these are organic revenue growth above market growth and an EBIT margin of more than 20%.

I would like to use the last few minutes talking about our new long-term EBIT target guidance, so let's turn to the last slide of the presentation. That is slide 13. We firmly believe that Coloplast holds a significant untapped EBIT potential that will take us from 18 to 20% margin to more than 20% margin in three to five years time. I know that many of our analysts and investors remain sceptical about our long-term EBIT guidance, but let me explain the rationale behind this change. Many of you might have seen this EBIT breadth (?) at our capital markets day earlier this year. The reason I have it with me here is that we believe we can do even better than the 18 to 20%. Looking at the breadth, non-recurring items will give us one percentage point. Our layoffs in September 2008 will give us two to three percentage points. We've (?) fully executed and we identified efficiency improvements in our sales organisation that will give us 1%. We still expect to gain about 1% from the transfer of production to low cost countries and about two percentage points from continued cost focus within the company. Finally, we expect improvements in the profitability of wound and skin care and disposable surgical urology of the European urology business to provide the remaining EBIT lift. This gives us an EBIT of more than 20% when fully executed. All in all, we believe that an EBIT margin of plus 20% is very obtainable and now it is a matter for the new executive management to deliver on this new guidance on a three to five year scale.

With these last comments I believe we are ready to take questions.

Questions and Answers

Jacob Thrane, Standard and Poors – London

Hello, this is Jacob Thrane, Standard and Poors in London. Just a question regarding the German situation. I'm wondering, we were told that the CMD, well, that the situation's sort of that... you called it stabilise and we're seeing a revenue loss of roughly DKK 200 million for this year. Now you say it's stabilised. Is that where we are going to see the growth starting at this point or do you... how fast do you think you can regain the territory lost in Germany? And, secondly, you say now that you will outgrow the market sort of giving us five to 7% of sort of average market growth. Are you willing to put any numbers against this? Earlier you've been talking about ten or perhaps even more than a double digit growth. Could you elaborate a little on this for me, please? Thank you.

Yes. Regarding Germany, we would please remind you that the first quarter of this fiscal year is still impacted by Germany whereas the changes in the German market hadn't at the end of our first quarter in the fiscal year, and from this base on we expect to grow, so we have a very, very modest expectation to Germany this year but we don't have any expectations of Germany falling like we saw last year. If I should say something about the long-term growth of the company, what we are committed to is to outgrow the markets from a market leader position. Currently we see that the market is growing on a weighted sort of scale. It's growing around 6% so we expect to grow more than 6% going forward. We actually do believe that we will have years where we're growing more than 10%. We also know that we are going to have years where we are growing less, but we still think that being the market leader and having the ambition of outgrowing the markets, that is a tall order and we invested in R&D to do that.

Right, and will these growth numbers be equally applicable to the wound and skin care division?

It's hard to say with the wound and skin care division because what we have told you is that we are not satisfied with the performance of the wound and skin care division. We are going to do something radical about that and when we know what form and shape the new wound and skin care business has after the changes we will be able to guide more on that.

All right. Just a quick follow up question that came to me. Regarding the share buybacks, will you continue to finance that via debt or would that be coming out of real money, meaning profits from the company, once you decide to reinstate the share buyback programme?

First of all, as you said, we have postponed the programme and we will of course need to look at the development in the financial markets in order to decide when we start it, and we do generate a pretty healthy cash flow and expect to continue to do so. And with regard as to whether it's debt, we will be borrowing money specifically for that or not. It's always difficult to see where the borrowed money goes, but then we will try to be, or maintain within our new net debt to EBITDA guides of 1.5 to 2.5, so that's where we will be.

Was it 1.5 to two or 1.5 to 2.5?

It was 1.5 to 2.5, sorry.

Okay, yeah, all right, thank you. Okay, I think that answers my questions so far. Thank you very much.

Klaus Madsen, Handels Bank – Copenhagen

Yes, hello, it's Klaus Madsen from Handels Bank, Copenhagen. My first question relates to the pressure you have seen on gross margins from Sin Sura and Biatain, but what kind of dilution have we seen on the gross margin level and what kind of rebound can we then expect when this is normalised during the year? That was the first one. Then on wound care, which is obviously the key culprit here, could you maybe elaborate on what you already mentioned on pruning the product portfolio and also narrowing focus? Are we seeing an even further narrowing of focus compared to what you have talked about earlier on geographic focus? And then finally, on the European urology business, the supply chain issues that set back sales as well as the product recall, you mentioned that this will improve in 2008/09 but what are we talking about in terms of timing and rebound and also what kind of market growth and year growth should we look for in this specific segment? Thank you.

Okay, Klaus, I will take the first one, that's the easy one, and then Lars will take the two others. The first one, as I say, it's an easy one because with regards to specifically how much pressure the higher production cost and what we had expected on Biatain and Sin Sura, we don't give out any particular... any specific numbers on that so I cannot tell you how much it has impacted and how much it will impact when we reach a normal level of production cost. And, Lars, will you answer the last two ones [overtalking]?

Yes, sure. On wound care, first of all I should say that it's... you can compare this situation to the situation we had with operations. We know that we want to do something with an area and we know it's going to be something which is pretty deep in that area so therefore we are doing a project on it, an analysis on it right now, but we are not ready to say details about it until we reach the first part of January. But I did mention that we would be looking at the breadth of the product portfolio, which is of course obvious when you want to be more effective. You would normally like to have fewer products that you are concentrating on and we also know that this is a kind of a business where you are rewarded for your scale in a market and therefore we are going to concentrate our efforts on fewer markets and having somebody else helping us in the markets that we're not going to concentrate on going forward. Regarding DSU, we actually are on the other side of the supply chain issues that we had last year and we are seeing a much better, much improved, delivery situation in this business area and we do expect the markets to grow in the range of one to 3%.

And will you be able to outgrow market growth in 2007/8... sorry 08/09?

Yes, we expect to be able to outgrow the market growth in that one, yes.

Okay, then just one or two add ons if I may. You mention in your report that growth is slowing in ostomy in Germany in Q4. Is there any particular reason behind this conversion at home care suppliers or anything else we should be worrying about? And, basically then, on your gearing ratio, I mean, as you've given a range, wouldn't it be better just to maybe broaden the range so you can return to the high end of the leverage range when credit markets hopefully normalise or should we see this as, let's say, a permanent reduction on your leverage even when market conditions normalise?

Let me start out by the ostomy question and then Lene can take the financial question. Our fourth quarter ostomy growth was actually 10% when you discard Germany in the equation so we actually see it being pretty strong and way above what the market growth is. And Germany, I think it would not be right to judge Germany in this comparison we have now because it's quite unstable, the comparison that we have, or the period that we have to compare against.

Okay, so there's no, well (?), increased trend in conversion to competitive products?

We are actually... overall, if you take Germany out of the equation we're actually pretty satisfied with the growth that we are enjoying inside of ostomy. It's very strong actually.

Thanks.

Okay, Klaus, maybe I should answer your question on the gearing ratio. There are really two reasons for us to change it, because what we had before was quite a wide range and a number of you and a number of our investors have complained a bit that the range was so wide that maybe it didn't give a lot of guidance at all, so one reason for changing it was to narrow it. And then the second reason was both the fact that we have been in the lower end of the range and when we then saw what has happened in the financial markets, then we felt that we wanted to be slightly less geared and that's why we then, instead of just narrowing it, actually put it down so it started at 1.5 instead of 2.0. Whether that's a permanent situation or not, I don't know. Our view on the financial market is that it would be quite a long time before there would be any reason for us to revise that one upwards.

Okay, thank you very much.

Yi-Dan Wang, Deutsche Bank – London

This is Yi-Dan from Deutsche Bank. I have several questions. The first one is about your margin guidance, which, to me, seems to be rather conservative. I mean, clearly, looking at the margin, the underlying margins that you have this year of 16%, which excludes the benefit to restructuring and excludes the more... well, the lower cost for manufacturing, Sin Sura and Biatain, etc, etc, I would say that, you know, if you just add back the restructuring benefits, that should improve your underlying margin to about 17.6%. So could you help us understand what will fully, or more than fully, offset the restructuring benefits that you announced at the back end of the year last year for you to arrive at your 15 to 16% margin target? That's the first question.

Okay, shall we answer that before you pose the remainder of the questions?

Yes. I'll ask them one at a time to save people writing them all down.

As Lars mentioned then, in our guidance for this year we also expect that we will lose some revenue due to the restructuring within the wound and skin care and obviously that will flow through to the bottom line. It is of course also, what we want to do is to make sure we have some savings in this area, but as we expect that savings will probably come also with cost to actually obtain them, then we will see lost revenue flow through to the bottom line, and that's actually the key reason, together with currency movements from last year underlying to this year underlying that you see the guidance of the 15 to 16%. And whether that's conservative or not, that is what we view as a realistic guidance given the fact that we are guiding seven to 8% organic revenue growth.

Okay, can I just clarify? So the... I mean, I suppose for us to look at this and say... so the difference between what the underlying was last year, adding... together with the restructuring benefits and the guidance you provided for this year, would be the negative impact of the wound and skin care restructuring?

That would be the negative impact of the revenue loss that we have from the wound and skin care because the restructuring cost within wound and skin care, as we expect it now will probably net... be more or the less the same as the savings it will produce.

Right, okay, great, thank you. And the second question is regarding the benefits that Coloplast is experiencing from intermittent customers in the US. Can you elaborate on that a bit more on what you have seen in the fourth quarter versus the quarter before and what you're seeing now and what your expectation is for the coming year? And the third question is, in terms of the wound and skin care restructuring, we understand that there is going to be some portfolio pruning. Are you also going to, I suppose, refocus on some of your key regions even further than what you have done, so beyond the five key markets that you've been doing, basically?

Do you want to start, perhaps, with the wound care portfolio pruning and then we can get back to the other one?

Yes, but I don’t think that I can say much more about the pruning than I said to Klaus Madsen before because we haven’t done the project yet, but if we make an analysis of where our turnover comes from we do of course have a... well, not of course but we do have a pretty long sale of products that don’t turnover a lot and, since this is not a business which is a high loyalty business, we think that it makes a lot of sense to make sure that we do not have low turnover products in the range unless that they are growing very fast, and those we are going to clean up. Regarding the intermittent catheters for the US, actually you have to bear with me because I’m not sure what we normally say on this. [Overtalking and laughter]. I know it’s going very well but how specific are we?

And, you know, I think you were very specific, Lars, actually, because, I mean, the great news here is that we can see a pickup in the revenues coming from the intermittent catheters in the US so it is actually flowing through to our revenue line, and, as we said earlier on, we expected a slow start up. It has been a slow start up but certainly not worse than what we expected, so I think it’s good news from that front and that’s about as specific as we get on it.

Maybe we could just be a little bit more specific and say that we’ve made a business case up front on this one even before it was released, the change of the policy was released, and we are actually following that business case more or less to the letter, so it’s actually going to our expectations.

Okay, so that one you said that you... have you gone through the slow start now and are we in the full swing of things now or are you still sort of expect... or when do you expect the thing to be in the full swing of things?

No, it’s going according to plan, and what we expected was that...

We said that we... at that time we said we expected it could take a couple of years before we have the full impact. I mean, that is the situation, isn’t it, Lars?

That is the situation, yes. The reason for it not being something from one day to the other is that the way that it has been launched, when Medicare (?) launched this policy they also lost it together with a kind of a bang to the distributors that they could not just go through, full blown, into all of their competitors and try to convert them. And they also almost threatened to go out and audit the value chain to make sure that nobody was just pushing this just for the benefit of their turnover, but it should be for the benefit of the patients. And it’s going according to that so everything is going according to plan on that one.

Okay, great. And I also have a question on R&D. What sort of R&D growth should we expect your business to sort of expanse going forward? And, secondly, you mentioned that there was a negative impact on the urology and continence care business in Germany. Could you elaborate on that, please? I think that’s the first time we’ve heard about that.

Well, I don’t think... well, I’m not aware that I mentioned anything specifically about urology in Germany, but when it comes to the spending on R&D, we have increased the spending quite significantly and it takes time for this to work. I think we have a very good pipeline and we think that we like to see this pipeline in the market before we put even more money into this, so we think we have a good balance right now.

Okay, great, thank you.

Frank Anderson, Jyskebenk Bank – Silkeborg

Yes, hi, it's Frank Anderson from Jyskebenk. I have a couple of questions to you as well. First of all I would like it if you could refer to the 20% EBIT margin and what currency you're expecting that to be. And also I would like to... if you could elaborate a little on what has changed since you upgraded the expectations for the EBIT margin from the capital market day where you were stating the 18 to 20%, and also if you could have a comment on that you actually are downgrading the EBIT in absolute figures on the back o this. And my second question is the US spending, your stock buyback programme, would there be any reason besides the financial crisis for you to do so? I was thinking that would you use that for, like, acquisitions within wounds and skin care, or could you elaborate a little bit on if there would be other reasons besides the one you have stated for the spending of the share buyback programme? Thank you.

Let me start out by saying what has changed since the capital market day because at that point in time we reiterated the 18 top 20%. I think we should remind you that the capital markets day was actually in September and we had a new management which was in place from 1st October so we have had approximately one and a half months to look at how do we want to run the business from here on, what are we prepared to do in order to create a strong and healthy business? And with the conclusions we arrived at we have made the choice to change the guidance going forward. It also means that we are going to have much more emphasis on the profits of the company, and, having said that, I'd also like to state of course that we do have a growth agenda for the company and we do think that without a strong growth agenda we cannot deliver a strong bottom line also. But we are going to have more focus on the profitability and we are going to change the spending culture of Coloplast. And with that I'll hand back to Lene.

Okay, thank you, Lars. Then I'll go a little bit more into the various specific questions that you asked. Frank, you asked whether the 20 plus EBIT margins, what currencies we base that on. I mean, this is our expectation; it's our long-term expectation. It's a three to five year view and, I mean, we would look at it as being in local currencies but it is not a margin that we go and change every other day because of movement in currencies. That has to be really severe and continued changes in currencies for us to go and change that margin. Then you also asked specifically why we now think we can do more than what we thought at the end of September. Lars has outlined how we have now put even more focus on profitability but I would also like to remind you that in fact what is going to give us this is, you know, our initiatives that have either already been completed, such as the restructuring that we did in the company, primarily global operations, or they have already been started and talked about, such as the wound care profitability improvement and improvement in the European disposable surgical urology. So it is actually real actions that are behind the 20 plus long-term targets.

You also asked now when we then changed the guidance, the growth guidance, from around 10% to growing more than the market, if we are then downgrading the EBIT in absolute numbers. I think that's a very difficult question to answer because, as Lars said, we certainly expect that there will be years when we grow 10%, could even be more. We are just saying there will also be years that we don't, and then we have increased the EBIT margin so we're saying with that growth rate, i.e. continuing to take market share, we will do that and be even more profitable than we were before. Specifically whether there is another reason for suspending of the share buyback, no, there are no other reasons for suspending that.

Okay, thank you.

Hans Bostrum, Goldman Sachs – London

Good afternoon, this is Hans Bostrum at Goldman Sachs in London. I have also a few questions and I'm afraid I'm going to have to go back to the wound care discussion and specifically ask for clarification whether the one to two percentage point slowdown that you anticipate from the restructuring of wound care is a group slowdown or a business division slowdown in terms of that one to two percentage points. And then, secondly, just also I want to understand... just to clarify actually also Yi-Dan's question regarding the net effect of restructuring being netted off the... or the positive effect from restructuring being netted off the negative effect (?) from the reconfiguration of that business next year. Is this with regards to the redundancies you made in the fourth quarter of the last fiscal year or any other benefits or any other costs you're talking about? And then, lastly, you have been given, well, an impact from the currency exchange effect on the EBIT line. What type of currency or hedging gains do you envisage as a result of that that would impact the financial net? Thank you very much.

First of all, the clarification on the wound and skin care, the one to two percentage, that is a group one to two percentage impact that we expect and not specifically for the wound and skin care. Then with regards to hedging, yes we are still hedging. I cannot guide you on how much we expect to gain from hedges going forward. And then the middle question, I actually only heard part of that because here the line was breaking up towards the later part of it. Would you mind, Hans, just to repeat that question?

Yeah. No, I explained it very... lacking clarity, but I wasn't just quite clear when you said that you would net... there was some kind of net effect, the benefits from the... from what I presume the redundancy programme you had in Q4. Would that be tantamount to the foregone profits from the reduction in sales in wound care or what was the actual netting?

When we were talking about, or when I was talking about that I was talking specifically about the wound care business where we are saying that expect to lose some revenue and we also expect to make some profit improvement initiatives but that we expect... being that we're already now partly into the year, then we expect that there could be costs associated with the improvement initiatives so that, specifically for wound care, that may end up for the year in a zero effect so that we will only get the positive effect in 09, ten it must be, and therefore the loss of revenue will be the one that slows down and impacts the margin. That was what I was trying to say. I don't know if that makes sense.

Okay, no, that makes sense but I suppose that really opens up the question, what has happened with the, well, 100 odd million? Was it DKK 150 million cost reduction?

Yeah, that we will gain, but, clearly, also remember that the currencies have impacted us quite significantly from one year to the other.

Okay, so that clearly is taken into account in your EBIT margin guidance for the year?

Yes it is.

And any kind of restructuring costs from the wound care would also be included in your EBIT guidance I presume now.

Yes it would.

And then, very lastly, can you just clarify to us what type of changes that really trigger this huge increase in R&D costs in the fourth quarter? Because I think the R&D cost charge was over 7% of revenue in Q4, which obviously is massively higher than any other quarter in the year.

There was... I mean, one part was the restructure, or sort of reclassification that I explained, but that was a relatively minor amount, but a lot of that actually also came in Q4 so in the Q4 alone it looks fairly big, but for the year as such it changed the increase from 30 to actually 25 if you adjust for that. That's a question of DKK 15 million, and apart from that it was, I think, normal fluctuations in the workload and the projects that are undertaken in R&D

Okay, thank you very much.

Maybe I should just clarify a little bit on that, Hans, because what has happened to us is our... what has happened with the changes that we did in the structure of Coloplast is that our R&D spending are not completely internal anymore as they used to be so we are actually buying external R&D for a part of R&D and therefore it can fluctuate from quarter to quarter. But all in all we think that we are at the right level with the 5%.

Okay, thank you very much.

David Addlington, Casanove – London

Hi, it's David Addlington from Casanove in London. A couple of questions. Firstly I just wondered if you could give us some idea of the operating margins for the three divisions and where you expect to see the key savings coming through. Maybe you could just answer that one first.

We don't actually give operating margins for the individual business area but only for the consolidated business.

Could you perhaps give us an indication of which divisions are operating above the group average and which are operating below the group average and where you might expect to see the gain?

Well, I think it is quite clear that we have said that we want to improve the profitability within wound and skin care and within the European disposable urology, so those are ones that we want to improve and they are the ones that are below the average.

And then I just wondered what your best estimate of the potential impact of the UK healthcare reform was, given that that's not currently in your guidance.

We have... even though we of course know what we expect, then we have... through the period that this consultation has lasted, and that's been a very, very long time now, we have been quite firm in saying that we do not want to give any indication of what the impact will be and we don't want to do so because we want to keep the door open for further discussions in the UK. So the only thing we can say is that obviously, with the last consultation paper, we expect it to be a lot less than when we entered into it, but for those reasons we don't want to comment specifically on what it will mean to us.

But we should view that as a downside risk to your stated guidance?

Well, I'm pretty sure that it won't increase prices [David Addlington laughs] so of course it will go down.

Right, and then just finally I just wondered what... You've given the tax rate for this year. I just wondered what your sort of long-term tax expectations were now.

We still expect that that should be around the 28%. That goes very well in line with most of our profit being taxed in Denmark where the tax rate is 25 and then having to leave mark up in the various countries where we sell our products where normally tax rates are higher, and that, combined with a small portion that's always sort of not deductable for tax purposes, that makes up the 28%.

Great, thank you.

You're welcome.

Niles Leth, SEB Enskilda – Copenhagen

Good afternoon, Niles Leth from SEB Enskilda. Could you talk about those larger business areas with Coloplast which are currently generating profitability well below the group average? And we all know that the wound care business, the homecare business and I guess the US business as well would be generating profitability well below the group average, and is it a prerequisite for those business areas and potentially other business areas to close that margin gap in order for you to get to the 20% EBIT margin?

Well, if I can at least start that then you can always add, Lars. I will just... you know, my predecessor Carsten Lunfelt (?) always used to say that we don't want to have anything that's below the average [Niles Leth laughs], but of course that's not possible, but it's good intentions. Wound and skin care, yes we will need to do something about it. Homecare, were doing something there in the US, we know we are. You know that we have put things in place there and profitability is improvement. It is also quite clear that we look at our businesses very much as to whether they create value or not and that businesses within our portfolio, over time, will have to create value for them to continue to be interesting for us.

I shall just elaborate a little bit more on it. Take, for example, the US. The US is on a growing trend and it's going to grow even more this year than it did last year, and of course when we are looking at growth trends which is really trending in the right direction then we want it to create value for the company but we may not have the same expectations on the bottom line as we would have in a more mature market. And I think that's the way that you are normally handling your business portfolio, depending on if you have a good growth ahead of you or if you are maybe in a little more... a bit more constrained in the market. So that is the very fortunate situation we have in the US. If you're looking into the homecare business it's maybe a more defensive strategy that we have there. It's also about defending very high market shares and it might be a different way that you are looking at that. You know, we don't have a silver bullet or one model that fits everything.

So you don't necessarily need to close the margin gap in all those three areas in order for you to get [overtalking]?

If that was your question, no we don't need to close the margin gap in those areas in order to make the 20%.

Okay, thank you.

I think we have about five minutes or so left. We are getting close to the last questions.

Yi-Dan Wang, Deutsche Bank – London

Just one question on the restructure... or the cost associated with the initiatives that you're going to implement in wound care. Do you have some figures for us on that? That would be great.

We are making our plans right now. We don't have any figures available for it right now but we firmly believe that we can contain that within our guidance so you shouldn't actually expect us to come out with specific figures for what we will be spending on that.

But I suppose the interest from my end is, you know, not what your reported performance will be in the coming year but what your underlying margin will be for the year. Clearly, the cost associated with this initiative is not going to be recurring.

Yes I understand what you're saying, Yi-Dan, but you also know that we have also been criticised for reporting a lot of one offs all the time so that it became very complicated. If one offs become sufficiently big, then yes we will talk about them but otherwise it will part of the normal running of the business that will often be something that one has to fix or do differently in one area or other of the business.

Okay, and then I suppose just a follow up on that. What... how much do one offs have to be before you start to disclose them, going forward?

We don't have a specific limit for that. I think we can take just one last question now.

Jacob Thrane, Standard and Poors – London

Hello, this is just a more specific question for Lars. Forgive me for being a little academic, but I'm always a little curious when a new CEO talks about changing culture. What did you mean more specifically? If you can elaborate on spending culture you *mentioned earlier and what is it now and what is it you see changing on the... now you have taken the helm?*

Well, it's... I think that there is a distinctive culture in every company that you're entering. It's something you don't think about. It's just something... it's just a way that you do when you do your things, but that is in your company and that is in our company, and what we are doing, Lene and I, is that we are thinking about how we are spending our money and we try to spend our money in a different way. And, you know, it comes down to very small things like how much do you really need to travel in order to make sure that you stay connected in a global group like ours and how much can you use what we are doing now with telephones and video conferences and stuff like that. You know, it's down to all of these things, you know, how do you travel and so on and so forth, so it's a lot of small things but all the small things that impacts a lot when you have a lot of them.

All right, so what I'm hearing here is that that will go into that roughly 5% that is in the sales force inefficiency boxes on the EBIT margin that you're talking about. Is that where we're going to look for it going forward and that's about making part of that expansion of the margin?

We are probably going to have a couple, one or two percentage points, due to the different way that we are spending our money in this time horizon. I think that's a fair assessment, but that's also a lot of money.

Yeah, okay...

And I also think it's fair to say that we can say specifically which lines it will end up because that will be all of the company that that ( ) will also be the administration costs where, as you can see, we are already beginning to change that culture.

Right, okay, so we're looking at that on the long-term horizon, three to five years?

Yes it's not... we don't do it from today to tomorrow [overtalking].

No, no, no, I can appreciate that. Okay, all right, thank you very much, Lars, for that.

Closing comments

All right, I think that concludes today's presentation. Thank you for participating, and I guess that we are going to meet a number of you over the next days, so looking forward to that. Thank you and have a nice evening.