Coloplast A/S
H1 2012/13 Financial Results
Tues, 30th April 2013
15:00 Hrs UK Time
Chaired by Lars Rasmussen

Lars Rasmussen

Good afternoon and welcome to this Q2 2012/13 conference call. I am Lars Rasmussen, CEO of Coloplast, and I am joined by CFO, Lene Skole, and our Investor Relations Team. As usual, Lene and I will start with a short presentation and then we will open up for questions.

Please turn to slide number 3. We are very satisfied with the results we have announced today. We continue to see a stable European business, the US market performing in line with expectations and, as expected, an increased growth momentum in Emerging Markets. We are also very pleased with the performance in wound care this quarter, which showed the best growth performance in many years.

Our organic sales growth for the Group of 6% for H1 was in line with our overall expectations, as was the EBIT margin of 31%. We continue to generate high cash flow and our liquidity situation allows us to use the mandates for extraordinary dividends in 2012/13 as per the decision adopted by the AGM in December 2012. We are therefore returning DKK 634 million in extraordinary dividends to shareholders, corresponding to DKK 3 per share. For 2012/13 we continue to expect a revenue growth of 6-7% organically and 5-6% in Danish krone. We also continue to expect an EBIT margin between 31% and 32% both in local currencies and in Danish krone.

Please turn to slide number 4. Revenues were up by 6% organically and 7% in Danish krone and amounted to DKK 5.7 billion. In ostomy care, organic growth was 6% in H1 2012/13 and 7% for the quarter. The growth in H1 was driven by continuous good performance in the UK, US and the Nordic region. Emerging Markets also contributed to the growth, not least in Q2 where we saw increased growth momentum in China and Brazil. It continues to be the SenSura portfolio which drives growth back increasingly by strong Brava accessories uptake in the markets.

In continence care, organic growth was 6% both in H1 2012/13 and in Q2. Growth in H1 of the year was driven primarily by our SpeediCath product range whereas collecting devices continued to face increasing competition. Growth in sales of our Peristeen products for bowel management remains satisfactory. The slightly lower growth in continence care compared with recent trends stems primarily from the fact that our SelfCath business in the US continues to face tough price competition. We have for some time been working to mitigate that situation by upgrading the market to our Hydrophilic catheters, now backed by the launch of SpeediCath compact sets. We see very satisfactory growth in our Hydrophilic catheters in the US and are thus confident with these measures but are also aware of the time it takes to implement.

In urology care, organic growth was 9% in H1 2012/13 and 7% for the quarter. Growth in H1 was very satisfactory and we saw growth in all product areas except from slings for treatment of stress urinary incontinence. Sales of penile implants continued the strong performance and so did Restorelle, our synthetic lightweight mesh for pelvic floor repair. We are very satisfied with our launch of Altis and we have already passed 1,000 sling implantations globally, which is in line with our own expectations.

Over the past month we have seen increasing interest and speculation from the financial markets in the media in the build-up of potential mesh litigation cases in the US. Since 2011 Coloplast has been named as a defendant in individual lawsuits in various US federal and state courts, alleging injury resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress incontinence. No trial dates have been scheduled so far involving Coloplast products. The so-called MDL (Multi-District Litigation) continues in the Southern District of West Virginia. We cannot predict the timing or outcome of any such litigation or whether any additional litigation will be brought against the Company or its subsidiaries. Based on the current information available to Coloplast, however, we do not expect this to have a significant impact on the financial position of the Group.

In wound and skin care, organic growth was 3% for H1 2012/13 and 7% for the quarter. Growth for wound care in isolation was 1% for the first six months of this year and 6% for Q2. We are very pleased about this development. Although we see some very encouraging pick-up in growth momentum, it is too early to say with confidence that our wound care business has turned the corner into more sustainable positive growth. The growth is derived mainly from Emerging Markets, where Brazil now contributes significantly to growth along with China. We saw strong growth rates in the US, where we started to deliver on the last contract won earlier this year. Finally, we welcome the slight improvement in Europe. All in all, a very satisfactory quarter for our wound care business.

Our US skin care and contract manufacturing business contributed very satisfactorily growth also in Q2. I am also very pleased to announce that, starting June 2013, we will be included in the wound and skin care offerings by the US GPO Premier. We expect this to lift the US wound care performance going forward.

Turning to our geographical segments, we continue to see stable organic growth in our European markets of 4% in H1 2012/13 and 5% for Q2 in isolation. The performance continues to be driven by stable trends in our chronic care business, especially in the UK, our Nordic region, Germany and France. The Spanish market remains challenged by the macro economic downturn in the region.

Looking at Q2 performance in isolation, in addition to what I have just mentioned, the European wound care business improved significantly in the quarter, which was the main reason for the improved European growth rate in Q2. Organic revenue growth in other developed markets was 7% for the first six months of 2012/13 and 6% in Q2.

Overall, our US business delivers in line with expectations and we continue to see strong growth in our US ostomy business, supported by strong Brava uptake. Our continence business saw a somewhat weaker quarter. As mentioned earlier, we still experience

pressure on the uncoded markets where we sell our SelfCath catheters and we mitigate this development with value upgrading to our Hydrophilic high-end catheters and the launch of SpeediCath compact sets.

Two important events in Q2 impacted performance significantly though. One was that we saw stock reduction in the US on the back of a merger between ISG and AssuraMed. The other important event was that our wound care business saw a significant uplift in sales as we started to deliver on a large contract in the market. The remaining parts of the sales regions saw weaker growth in the quarter, especially in Japan where performance was negatively affected by a delay in issuance of reimbursement vouchers.

Revenue in Emerging Markets grew organically by 14% in H1 2012/13 and 18% for the quarter. Emerging Markets have seen a significant pick-up compared with Q1. We saw a very satisfying performance in China and a significant pick-up in Brazil. Also Russia picked up as we started to deliver on a postponed tender from Q1. Finally, growth was impacted by comparison numbers in Greece, which had a very low Q1 last year when our Greek distributor reduced stock levels.

Within the recently established region IMEA (India, Middle East and Africa), we are now investing for growth in India. India is currently a small and underdeveloped market where we have a low market share. We are, however, seeing high double digit growth rates within the ostomy care and the advanced wound care markets, which underline the significant long term growth potential in India. Specifically, we have decided to create an organisation that is set up with the purpose of increasing our Indian business significantly over the next years.

I will now hand over to Lene and please turn to slide number 5.

Lene Skole

Thank you, Lars. We are now on slide number 5. Gross profit amounted to DKK 3.8 billion, equal to a gross margin of 67%. This is an improvement of 1% compared with H1 last year. The improvements continue to be driven by efficiency gains in our production economy and higher absolute sales. The gross margin in fixed currency was also 67%. The SGA to sales ratio came in at 33% and was down from 35% compared with the same period of last year. When adjusting last year for non-recurring items of around DKK 90 million, the ratio was in line.

During H1 2012/13 we invested a total of DKK 60 million in sales initiatives, of which half were in the Emerging Markets and the other half in established markets. This we did without diluting our SGA to sales ratio in the period. The main investments so far this year have been establishing a sales region in the Middle East, continued investment in sales force expansion in China and continued investment in a dedicated commercial set-up for wound care and client care in Brazil.

The R&D to sales was in line with the full year 2011/12 at 3%. All in all, this results in a reported EBIT of 31% compared with 37% in the same period of last year. Net of currency impact, the EBIT margin was also 31%. Looking at Q2, our EBIT margin was 30% and thus 1% lower than Q1. Around half of the decrease in the EBIT margin is due to weakening of currencies against the Danish krone and the other half is cost by

restructuring costs in our R&D organisation as well as annual sales adjustments around 2%.

Net financial expenses were DKK 68 million, a decrease of DKK 55 million compared with H1 of last year. The change was mainly due to foreign exchange adjustments where we realised losses of DKK 50 million on cash flow hedge contracts last year compared with a gain of DKK 2 million in H1 2012/13.

Our net profit for the period increased by 25% to DKK 1,252 million, corresponding to a diluted earnings per share of DKK 5.83, also an increase of 27% compared with the same period of last year. Capex amounted to DKK 183 million, corresponding to a capex to sales ratio of 3%. The increased capex compared to last year was due to higher investments in production equipment mainly for new products.

Free cash flow amounted to DKK 872 million compared with DKK 668 million last year. This is due to increased earnings, lower net loss from realised foreign exchange hedging contracts, countered by higher taxes paid. Return on invested capital after tax was 40%, up 7% from last year as we continued to increase earnings on a stable asset base.

Now I would please ask you to turn to slide number 6. It has been a while since we last commented on healthcare reforms relevant to Coloplast so I would like to update you on the key developments. The overall reform environment is largely unchanged but there are a couple of noteworthy developments. In 2012 the French Government announced planned savings of €350 million total implemented over five years. Two weeks ago the French authorities proposed that reimbursement prices for ostomy and continence products could be lowered by as much as 5% with implementation from September 2013. It is too early to conclude or provide a specific estimate as to the financial impact on Coloplast and we will revert with more information when final. We also see that French healthcare authorities are increasingly reluctant to provide specific reimbursement for wound care products containing silver. In the Netherlands we see efforts by the Government and health insurers to seek cost savings through new reimbursement models that they expect to implement in 2014. We do not know the structure or the impact of the new models.

All in all, we believe that reimbursement and reform changes continue broadly to be in line with our overall long term guidance of -1% pricing pressure per year. For 2012/13, however, we expect very limited price pressure and we continue to expect revenues to grow 6-7% organically and 5-6% in Danish krone.

The growth guidance continues to be based on stable growth in the European business whereas we expect the US market to exceed last year's growth. We expect our Emerging Markets to grow at least in line with last year. Growth in the US and Emerging Markets, however, remains volatile due to difficult to forecast distributor uptake between quarters.

When forecasting H2 of the year, it is important to keep the distributor consolidation in the UK last year in mind as this impacted the growth numbers in both Q3 and Q4 last year. This means that, on an all other things equal basis, we will see relatively low growth in Q3, followed by relatively high growth in Q4. The effect between the quarters is estimated around DKK 40 million.

For 2012/13 we continue to expect an EBIT margin between 31% and 32% both in local currencies and in Danish krone. There are no changes to the underlying assumptions behind our EBIT margin guidance, which are that we expect 6-7% organic growth, we expect gross margin improvements within the 0.5-1% range and we continue to see cost discipline in the organisation.

Our capex guidance for 2012/13 is around DKK 400 million and our effective tax rate is expected between 25% and 26%, consistent with the last financial year. We continue to generate high cash flow and our liquidity situation allows us to use the mandate for extraordinary dividend in 2012/13 provided by the AGM in December 2012. We are therefore returning DKK 634 million in extraordinary dividends, corresponding to DKK 3 per share. We have also spent a total of DKK 94 million on the second part of our share buyback program, with DKK 500 million available for repurchase of shares.

This concludes our presentation. Thank you very much and, operator, we are now ready to take questions.

Questions and Answers

Alex Kleban – Barclays

Good afternoon and thanks for taking the questions. So for wound care, first off, congratulations on the good quarter. Could you just give a sense of how much for Europe is a result of the strategic changes implemented a while back or how much maybe we have some kind of more one-off effects happening in the quarter?

The second question was on the litigation. So we have the West Virginia case but then also the Georgia MDL is out there as well. I just wanted to know if you can confirm whether or not there could be any impact on you from that one.

Then the last question is just for the US for the distributor inventory reductions, just to get a sense of if and when you see that reversing out and normalising later on in the year? Thanks.

Could you please repeat the last question?

It's the distributor inventories in the US. You talked about the merger and just to understand how that normalises or if that normalises in Q3 and Q4.

Let's take that one first. The distributor inventories are not going to normalise as we see it. Actually what happened was that first AssuraMed, they bought ISG and then just a few weeks later then actually Cardinal bought the new AssuraMed. So those were three of our significant customers in the US that then became one customer and they, of course, need lower stock than when they were three individual customers. So we see this as a one-off. Of course, that is impacting the US numbers this quarter and they will not come back because we think that, going forward, they will have lower stock compared to what they had when they were three individual companies. So that is basically just a one-off.

Then your wound care question was how much in Europe? What we can say is that Europe has stabilised compared to what we had in the past. We see that Germany is doing

better; we see that UK is doing better but we are still having you could say headwind in France even though it is less than what it used to be and Spain is a market which is really, really difficult to work in for the time being. I would say that, on balance, what we see now is an impact from the strategy that we have pursued for quite a long time, namely to invest in Emerging Markets and go for stabilisation in Europe and then, to top it off, we then started to deliver on a big contract in the US. So the US is actually stronger than also what we dared hope for at the beginning of the quarter.

Regarding the litigations in general terms, it is really early days for us with the litigations that we have in the US. It is customary that when you have these cases against the industry, whether it is our industry or other industries, that it is quite lengthy processes and we have been told that it is up to six years when you have an MDL. So everything is I would say quite new to us and we are looking at every individual case and sorting that out so that we know what we have in front of us and we haven't concluded on that work yet.

Thanks a lot.

Michael Jungling – Morgan Stanley

Hi there. This is actually Patrick () on behalf of Michael. Just a quick one on the mesh litigation; you obviously highlighted you don't expect there to be a significant impact but I'm just wondering what it would take for you to revise that view. Would your viewpoint change if there were more verdicts along lines of the J&J case? That's it, thanks.

We have stated that, with the knowledge that we have today, we don't expect it to have a significant impact. As Lars mentioned, we are in very close contact and following this very closely and obviously if we do see something that makes us think that this is very different than we believe today, then we will obviously need to revise. However, we can only use the information at hand and, when looking at that, then our best estimate is that it will not have a significant impact on Coloplast.

And to reiterate, this is a Multi-District Litigation. That means that every single case is treated as a unique case. So this is not a class action where you can take one case and then multiply it with the number of the cases that are present. Every single case will be handled as a unique case and that is also why it takes a while to sort it out because we have to look into every single case in order to understand what we have in front of us.

Yes, obviously understood. From our point of view, it is really just the question of is there an individual event that could happen that would make you, whether provisionally or substantially, revise your view?

That is very difficult to answer. We can only look at what we know today and, of course, if that changes, we will act upon that appropriately but we can only talk about what we know today.

Brilliant, thank you very much.

Veronika Duvajova – Goldman Sachs

Good afternoon. It is Veronika Duvajova from Goldman Sachs and I have three questions, if I can. My first one is on Brazil. Lars, you mentioned you have seen some good improvement in the growth rate there. I am just wondering how sustainable that is and is this your initiatives starting to pay off or is it to early to tell yet?

My second question is on the US ostomy business and this is sort of two parts. I am just wondering if you can give us a sense of where you think you are now, what your share of new patient discharges is and how it has trended over the past couple of quarters. I know you won't give us the precise numbers but if you could qualitatively give us an understanding of how much progress you are making on that, that would be very helpful. Related to that, have you seen any impact from having been taken off one of the GPO lists and is there an update that we might see from you on the GPO side here?

My last question is for Lene and that is on tax. Given the changes that we have seen in Denmark to the Corporate Tax Code, what might that mean for your tax outlook not just for this year but over the next three or four years? That would be really helpful, thank you.

Regarding Brazil, well, in a sense, yes, it is paying off that we are investing in Brazil and we had actually invested quite thoroughly in Brazil but I think that we have made no secret of the fact that we were not satisfied with the way that we were executing on our business in Brazil last year and we had some changes to our organisation. They have now you could say been implemented and we have the teams in place both for ostomy and for wound care and both these teams are working at least to the level that we had expected. So we are very, very satisfied with that. So we don't see this as a blip or as a one-off. We see this as a continuation of a very long history of investing in Brazil and where we today have an organisation which is now divided into an ostomy organisation and a wound care organisation that are separated and that are running with each their separate goals and targets and we see a very strong performance there, which we expect to continue.

Quite frankly, on the US ostomy business, well, we definitely have done quite a bit to improve on our NPD numbers in the US but that has not been prime target though. The prime target for us or the prime goal for us in the US has been to strengthen the collaboration with the dealers because in the US we have a higher new patient discharge market share than community market share because what you see in the US is that the patients that are coming from the hospital with an ostomy bag from Coloplast on their stomachs, they are actually being converted downstream. So the most efficient thing for us to do was to preserve - well, build on the NPD we have now but put more effort into making sure that people who are actually leaving hospitals with an ostomy bag from Coloplast on their stomach, that they at least also stay on that. Therefore we have done a lot to invest in the relationship with the dealers in the US and that has paid off tremendously and that is why you see this take-up in the US and that is also what has paved the way for making sure that, as we are winning hospital market share, so our NPDs going forward, we are also getting the full effect from it.

Then we had the impact from the GPO and I would say it's simply too early days. It takes time to implement GPO contracts and, as I also said, we are implementing full-speed but

we are putting even more effort on making sure that our relationship with the dealers is structured.

Then you have the last question about tax, Veronika, and it is correct that the Danish Government has proposed that the corporate tax rate in Denmark is lower from presently 25% to 22% and they expect to do that gradually 1% per year. So that will be fully implemented in 2016. It is not approved by Parliament yet. I have to say that and that is also why I didn't mention it. So there is, of course, that hopefully small risk but that will have an impact on us as historically we have approximately 80% of our profit that is taxed in Denmark. So we will get quite a good effect of that. I hope that answers your question.

That's great. Thanks. Lene. And I just have one quick follow-up on that extraordinary dividend and congratulations on announcing that. I am just wondering why you still believe that you need to maintain DKK 1 billion net cash as you think about what the right capital structure is for the business going forward.

Well, our capital structure as it stands right now is as we have explained, that we are repaying our debts and we are almost done with that. We have very, very little left and, as we have also said, then we want to have about DKK 1 billion in cash so that we are able to act if something of a larger scale comes along. We have also committed to taking the excess of that and repaying it to shareholders and that is what we are doing now and that is what we will, of course, continue to do with the capital structure we have as of today. That capital structure, we review that with the Board basically on an annual basis but that is the way it stands today.

That is very helpful, thank you very much.

Ed Ridleyday – Bank of America

Good afternoon, thank you. A few follow-up questions please. First of all, on the litigation in the US and it seems to me there are a number of misunderstandings in the market but could you, Lars, maybe talk to the differences between the products? There are, as far as I'm aware, differences between your product and the other manufacturers' products and, indeed, your new products and your old products and on that basis it seems to me that there is risk associated with one product and not necessarily risk associated with another product. That would be my first question.

Lars Rasmussen

Thank you for that question. It is correct that first we have two different types of products. We have the mesh which is used for pelvic organ prolapse, which is you could say the sort of physically bigger products, and then you have the slings that are used for stress urinary incontinence. We have historically not had so much business within the mesh but we have had more business within slings, so that is correct. I don't know what you mean about the new and the old products because I don't think that the new products, if you talk about the new slings that we have, they are subject to this litigation.

Lene Skole

It might be that what Ed is thinking about is our Restorelle mesh.

Exactly.

They are one of the lightest meshes in the market.

Lars Rasmussen

Yes, of course, we have the lightest weight mesh in the market and what you normally say is that the lighter the mesh is or the product that you put into the body is, the less risk that it causes any trauma afterwards but we also have to say, as I said before, we have not really been deep in to this. So therefore we don't have a full overview of what kind of cases there are but it is definitely fair to have the distinction between slings and mesh and also a distinction between the lighter or the heavier products.

Just another follow-up on that is since the FDA panel a couple of years ago, which we all discussed at the time, the FDA encouraged manufacturers to assimilate sort of safety data and presumably you have pretty good data, at least over the last couple of years, on your safety record.

Yes, that is correct and we also at this point in time have, as you know, the only sling in the market which has been approved by FDA after they have issued the safety warning and it is also approved after the new and tougher clinical trial recommendations. As you can hear, I am a bit hesitant to go deep into it because it is an ongoing case and therefore we can talk about the facts but I won't like to speculate about any outcome.

I understand. My final question related to the litigation. In terms of the Mentor Corporation case in Georgia, my understanding is that is a Johnson & Johnson risk because my understanding is that when you bought Mentor, effectively the deal was done excluding uptake.

That is correct. It was actually new uptake, yes.

And the final question, not on litigation. (Laughter)... I wanted to talk about the special dividend – obviously good news but could we potentially consider that you may look at adding as it were a full year special dividend to the interim dividend or do you think of that more like it would be next year now?

Well, I think you should think about this as being what we called an extraordinary dividend. That is how we think about them. So we think about ordinary dividend, as we have always done. That will continue along the same lines, under the same policy as we have had previously. Then the extraordinary dividends will actually come up when and if we see that liquidity is at such a level that we could potentially have much more than around a billion. So I think you should not try to put them into a normalised picture. That is sort of the whole idea about this. They are extraordinary – that is how we think about them. So ordinary dividends as usual and then when we have excess liquidity over and above the DKK 1 billion, then you should be expecting extraordinary dividends.

Very good, thank you very much.

Khristopher Liljeber – Carnegie

Good afternoon. Khristopher Liljeber from Carnegie. The first question is on the gross margin. The decline you saw by almost a percentage point compared with Q1, is that only due to adverse currency effects or is there also some mix effect, selling more in Emerging Markets, for example?

That is mainly due to currency effects.

Okay, thank you. The second question is also on the mesh litigations. If I remember correctly, you have talked about some kind of insurance that could protect you against this previously. Could you say something more about that and if that is insurance that was signed when you did the Mentor acquisition or if it is normal product liability insurance? Thank you.

Yes, Coloplast does have insurance and we are working closely and cooperatively with our insurance partners. We have a policy not to comment or disclose any information about specific policies.

Okay, thank you.

Ian Douglas-Pennant – UBS

Hi and thanks for squeezing me in. Just on not mesh litigation – on the acquisition potential going forward, how do you see that market going forward? Essentially, I am trying to ask are you going to do a deal without actually asking that. That

Lene Skole

Without actually-

-without actually asking the question outright. (Laughter)...

Okay. So you want to know whether we want to do a deal.

Lars Rasmussen

So now you are going to answer without really answering. *(Laughter)...*

Lene Skole

Yes, I will answer without really answering. Part of having the capital structure as it is obviously is to make sure that we are in a position where we have some firing power if something attractive should come along. So that I guess answers a little bit about what you are saying and, of course, we are also in a situation where, yes, we would, of course, rather invest in the business than pay out to shareholders but, on the other hand, we also know that there is not that much available at the moment, so we are cautious about this.

Thank you very much.

Yidan Wang – Deutsche Bank

Thank you very much. I have two questions. First of all, on the US ostomy business, do I take it from your comments that we have not really seen much benefit from the GPO contracts that you have signed so far and, if that is the case, when could we start to see some of that benefits? Then the second question also relates to US ostomy. So for the community share, can you give us a sense of how much increase you have experienced so far? Then on the second topic, I will come back after you have answered these. Thank you.

Well, you should have a lot of points for really trying to get us to talk about market shares. The US ostomy business and the GPO contracts, of course, we are in a better position with having the contracts that we have and we can also feel that but, as I said before, we have not closed the gap yet between our positive market share and the community market share and that is the most important to us and that is really a big part of the growth that we see in the US, that we are closing that gap. So for every day that passes, we have a better relationship with the dealers. We are driving a lot of business their way and that is how you over time build a relationship that makes sure that we will have full benefit from the implementation of the GPOs that we are implementing on or that we are winning on the ostomy side. This is not something that we fix from one quarter to another. This is a relationship that we are building over time.

Personally, I am very, very happy with the build-up of relationships that we are having with the dealers and I am also happy with the implementation of the GPO contracts but the implementation of the GPO contracts is a lengthy process. It is not something that you do from one quarter to another. You have to go to every single hospital, you have to get your products on the shelves, you have to make sure that the staff is well-trained and that is how you start selling over time. So this is a long term business but you will see that the business will be moving faster than just what we have on new patient discharge rate improvement because of the improved relationship with the dealers.

The community market share, I think that what we normally say is it is around 10% and that has not moved significantly in the last quarter.

Okay. If you were to close that gap completely, what would your community share be?

(Laughter)... Well, higher.

How much higher?

Somewhat higher but you know you are not going to get a number.

Okay, I will stop there then on that one. So another way to ask the question: that gap, how long do you think it will take you to close the gap at the speed that you are going at the moment?

That's a very good question. Actually, we have picked up speed maybe a bit more than what I have thought we would be able to. As I said, I am really happy with the progress that we are making. We have made a strategy for how to win in the US and it is now a bit more than two years old and I would say that we are following it to the letter and it is

really working out the way that we expected it to, maybe even hoped it to do, so we haven't changed much in that and we are going to follow through on this. Whether that gives us two points more or less per year doesn't really matter. It is a matter of how fast we are able to implement what we have in front of us.

Okay. Then on the second topic, which is the US continence care market, the upgrading of the catheter market, my understanding is that the value is in the product being available to selected distributors. So how do distributors qualify to participate in this initiative and is there any collateral damage from people who don't qualify?

I won't make any secrets out of the fact that we would like to do business with as many dealers as possible but there is no doubt that there are – in the beginning we had to focus in on a few dealers and where we are now, we are quite open to do business with dealers but, of course, we are also looking at the financials. We would rather have a few key accounts that are really able to move the needle than trying to do everything with everybody, if you understand what I am saying. So we are pushing some relationships more than other relationships, of course.

Again, in terms of timing, how fast are you moving and when could you complete this process? How long would it take you?

That's a very good question because it is also about being able to reach out and also have people wanting to use something else than what they were using in the past. So I couldn't give you an answer to that. What I would say is that there is still plenty to go for and it is also important to remember that you need the dealers to buy into this because for every patient that we are converting, the catheter sales, the value of the catheter sales is lower for the dealer and higher for Coloplast. So they need to be able to see the benefit of the extra business that they get with these patients coming on board. So it is not just an easy sell in every single instance.

Okay. Last question on both US continence care and ostomy. In terms of resources that you need, do you need additional feet on the ground to complete both of these initiatives?

In the US?

Yes.

Yes.

Okay. So how much additional resource do you need?

Do you want a number?

No, just qualitative is fine. I'm happy with that as long as it's a good qualitative answer there.

We need more resources because we don't have full coverage to the tune that we want it yet and, as you also know, this is a very competitive business. Of course, we don't want to give numbers or timing or anything on it but we have gradually upgraded our

organisation in the US and we have more people there than a year ago and we will also be more people next year than we are right now.

Perfect, thank you.

And you do know that we are actually investing quite a bit in sales force both in the US and also in Emerging Markets.

Okay, that's a very good qualitative answer. Thank you.

Scott Bardo – Berenberg Bank

Thank you for taking my questions. The first question please and this is on the surgical mesh litigation. I am encouraged to see that you don't think there is any need for concern related to your financial statements. Can you just clarify that this is an internal assessment at the moment and comment maybe if there is any requirement for an external audit/expert to assess your potential liability and whether that could impact your finances going forward? I would just appreciate some commentary there.

Secondly, on the US and there are two parts to this question: firstly, I wonder if you could help us understand why we are seeing such acute price pressure in the SelfCath market. That is a market you have around 50% share of if I understand correctly. So why are we seeing pressure there and is that anything we should be concerned about in the future or should that stabilise?

Secondly, on the recent movements in the channel, I think you have flagged Cardinal buying AssuraMed, including Edge Park, the biggest ostomy distributor, apart from obviously the near term inventory impact, is there anything we need to consider in terms of slightly higher pricing pressure on your products or deteriorated sort of negotiation conditions for you, given that the channel has now strengthened? Just some commentary around that would be appreciated. Thank you.

If I start with your question about the mesh and the fact that we say we don't expect this to have any significant financial impact, that is based obviously on what we see and our knowledge and on top of that we have shared all the knowledge that we have with our external auditors at PricewaterhouseCoopers. We did that both towards the end of last year and are continuously keeping them updated on what is happening. I hope that answers your question.

On the pricing pressure on IC or SelfCath in the US, I would say it is not new. So nothing has really changed but you could say that the IC market historically was quite limited in the US and when the Government opened up or Medicare opened up and made it possible for people to use a clean catheter every time they had to (), then more players came into the market. The market was completely underdeveloped, so a lot of what is being used in the US are basically what we call raw catheters...

So in a sense you are able to get a full Medicare reimbursement for a product which is I would say 50 years old technology. As long as the market is not completely aware that they could also get the newest technology for the same price, then there is a window of opportunity for bounty hunters and therefore you see a lot of cheap products flowing into

the market and that is why we are fighting against that because we still sell a lot of the EasiCath or the SelfCath products in the market and that is also why we are converting away from that and quite successfully but, until the conversion is complete you could say, then you will, of course, see that there are some that are trying to trade in products at a lower price and, quite honestly, there are little differences between the low spec catheters. So that is the reason for it.

Regarding the contract negotiations with you could say the new distributor we now have, which is now a combination of ISG, Assuramed and Cardinal, that process has taken place and the contract is signed and it is now you could say a normal business relationship.

And can you perhaps comment whether the terms of that contract were materially different from what you had previously?

I would say it is, of course, a completely classic discussion where you suddenly have a bigger customer who thinks that they deserve a better rebate and, on the other hand, we have a company with what we think is the best products in the market. We are always willing to talk about the price if that is on the basis of a bigger business for us and I think it is what you could call a win-win contract.

Thank you for that and the last question please just on the special dividend and I am pleased to see some of the capital distribution occurring. I just wondered, is it fair to say that if we do not see another extraordinary dividend in the next quarter and just the normal dividend that you see in the full year, that, in the absence of any acquisitions, you won't have redistributed your capital over sort of this DKK 1 billion? It seems to me that as this juncture and given your guidance, a special dividend could have been higher than the one that you announced today. So I just wonder are you just sort of freeing yourself up a bit of capital to make an acquisition as some () comments around acquisitions? Just maybe just some commentary on this capital allocation around DKK 1 billion.

I am not 100% certain what the real question is here but I can give you just the thinking behind the extraordinary dividend. It is quite straightforward in that we have looked at our liquidity position and, as you can see, if you look only at what we have available liquidity towards the end of the quarter, you could say why didn't we pay out more but we also in April here have paid out quite a lot of the remaining debt. That is what you can see under short term debt in our balance sheet. So when we look at our liquidity, we actually stick to what we have said, that we don't want to go above in any significant way the DKK 1 billion that we have as a buffer. If you do that calculation and take into account that we actually repaid quite a lot of loans in April and we also have a share buyback program, then the DKK 3 is something that fulfils what we have said that we are going to do, i.e. pay out anything over and above the DKK 1 billion as the buffer.

Thanks very much, Lene. So just to understand then, there is potential for another special dividend in Q3?

I won't say that because obviously, first of all, it is up to how much we actually make and it is up to the Board how often they want to do that and I don't feel certain that this is something that they want to do every quarter.

Great and thanks for taking my questions, guys.

Niels Leth – SEB

Good afternoon. Two questions, if I may, and probably most relevant to you. Lene, to answer those questions. You talked about in your presentation that you have established sales representations in Middle East, Brazil and India I believe it was. Could you just provide a little bit more colour to your build-up of sales representation in those three countries, meaning what is the size of these sales offices and how much of your sales would they altogether represent of your Group sales today?

We don't want to give sort of specifics as to how much we are actually investing in each individual of our sales initiatives nor specifically how many feet we are putting on the ground. I think what is very important and which I mentioned is that we actually invested in H1 a total of DKK 60 million in these initiatives. I think that actually is quite a significant amount and most of that is recurring. So it gives you an idea at least that we are actually investing along the lines that we said that we will do. Again I can't give you specific details into how much these markets are but, if we look at the BRIC countries, then they are approximately 50% of our Emerging Market sales. So that at least gives you some idea without me answering specifically.

Okay, thank you, and then, finally, just a housekeeping question. Looking at your depreciation and amortisations for Q2 specifically, it seems like that line has increased by 10-12 million. Have you made any write-downs in Q2?

We have not made any specific write-downs over and above the smaller things that one always does and I am just looking here to make sure if there is anything else but there hasn't been any specific write-downs.

Okay, thank you.

There is a bit of currency impact in this as well.

Okay. So the 134 for Q2 should be the run rate going forward?

Pretty much. There is nothing specific at least in that quarter.

Okay, thank you.

Oliver Metzger – Commerzbank

Hi and thanks a lot for taking my questions. First, regarding the agreement of novation, probably you can give us an update in general and do you regard the development of this contract as significant right now after that was implemented a little more than one year ago?

The second question is you talked in one of your previous sessions about the consolidation of the distributors in US and also about the negotiations. Do you think that this trend in general could continue so that further consolidations might happen with stronger negative price impact long term?

Finally, on the improvement of wound care business, there is also the skin care and wound care. So if you compare both businesses, which has performed better or have you seen a general recovery of the whole wound care business? Thank you.

I can't put much more flavour on the narration, saying what I already said because the thing is it is fantastic that we have gotten into these contracts both for novation on the ostomy side but the most important thing for us and priority number one still is to make sure that we are closing the gap between our NPD rate and then our community markets here. So the relationship with the dealers is priority number one and then implementation of novation is, of course, also important but that will impact our growth rate positively longer term. That is not a short term thing.

The consolidation of the trade, I think that is a natural tendency. That is what you see in the business and that means that you will have entities that have a stronger negotiation power but you also have to remember that we are not completely just a victim to that because the whole idea behind the way that Coloplast is innovating products, the whole way that we are designing our products is to make sure that we are creating a pull in the market, making sure that people know about it and they ask for it because they are now entitled to have it and there are also upsides to us because, when you have strong dealerships, especially in the US, they can push your business. So when you come with new and better products, they also get more customers into their business and in that sense it goes hand in hand. So it is a kind of you could say power balance but I think that is the game and that is how it is.

There is no doubt that skin care for Coloplast has been working quite well over the last couple of years and now wound care is picking up, so you get the consolidated wound and skin care business which is stronger than it was before.

Closing Comments

I actually think that we are over time now, so I would also like to say that that would be the last answers for us but I know that we are going to meet quite a few of you on our roadshow, so looking forward to that. Thank you for participating in today's meeting.