Final Transcript

Contents

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Corporate Participants

Lars Rasmussen

Coloplast - CEO

Lene Skole

Coloplast - CFO

Presentation

Operator

Thank you for standing by and welcome to the Coloplast Q3 2012/2013 Financial Statement. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press * 1 on your telephone. I must also advise you that the call is being recorded today, Tuesday the 13th of August, 2013 at 3 pm CET. I would now like to turn the conference over to your speaker today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen

Good afternoon, and welcome to this Q3 2012/13 conference call. I'm Lars Rasmussen, CEO of Coloplast, I'm 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 three.

I am very pleased with the results that we have reported today. Our strong set of Q3 numbers support the fact that our strategy of investing for growth, while at the same time improving our profitability is working. Our European business continues to perform well, and we see increasing growth rates both in the US and in emerging markets. Our chronic care business had a good quarter, with solid growth in ostomy care, whereas our continence care business, as expected, slowed down a bit. I am especially satisfied with our performance in wound care, and urology care this quarter. Wound care continues its good performance from last quarter and urology care takes marketshare in a very difficult market.

Our organic sales growth for the group was 6% year to date, and in line with our overall expectations, as was the EBIT margin of 31%. Today we have approved an expansion of our Nyírbátor production facility, this will increase our global volume manufacturing capacity by around 25%. We expect to invest a total of approximately 130 to 150 million krone over the next two fiscal years in this expansion. For 12/13, we continue to expect a revenue growth of six to 7% organically, and five to 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 four.

Revenues were up by 6% organically and in Danish krone and amounted to 8.7 billion krone. In ostomy care, organic growth was 7% year to date, and 8% for the quarter. The growth was driven by continued good performance from our SenSura portfolio, as well as a strong and increasing uptick in the market of our Brava accessories. We also continue to see a strong sales performance of Assura in markets like China and Brazil. In continence care, organic growth was 6% year to date and 5% in Q3. Growth was driven primarily by our SpeediCath product range. Our collective device business, especially in Europe, and our US SelfCath business continue to face increasing competition. Growth in sales of out Peristeen products for bowel management remains satisfactory. The 5% growth in the quarter should be seen against very high sales in Q3 last year, where we had the effect of the distributor consultation in the UK.

In urology care, organic growth was 9% year to date and 10% for the quarter, which is very satisfactory. Sales of penile implants continued the strong performance and so did Restorelle, our lightweight mesh for pelvic floor repair. We are very satisfied with the launch of our single incision mini-sling Altis, which meant that we, in Q3, broke the declining growth trends within slings.

With regards to the mesh cases in the US, the number of claims has increased significantly, as expected, up to the expiration of the statute of limitations in July 2013. The processing and progress under the MDL and charting agreements are as expected. Based on the current information available to Coloplast, we still do not expect this to have a significant impact on the financial position of the group.

In wound and skin care, organic growth was 4% year to date and 5% for the quarter. Growth for wound care in isolation was 2% for the first nine months, and 5% for the quarter. We are very pleased with this development, which is in line with our starting for the business. Growth was driven by our Biatain product range, and the market has responded very positively to our new Biatain silicone. The growth is derived mainly from emerging markets, where China and Brazil continue their good performance. We also saw strong growth rates in the US, where we continue to deliver on a large contract won earlier this year. Our European wound care business is still declining, but at a slightly slower pace than in the first half of the year. Our US skin care and contract manufacturing business contributed with satisfactory performance, also in Q3.

Turning to our geographical segments, we continue to see stable organic growth in our European markets of 4%, year to date, and in Q3. The performance continues to be driven by stable performance in major markets, especially in the UK, our Nordic region, Germany and France, whereas the Spanish and Dutch markets remains challenged by tough local market conditions. Looking at the strong Q3 performance in isolation, then, in addition to what I just mentioned, the continence care business was impacted by distributor consultation in the UK last year, which was partly offset by good performance in our European urology business. Organic revenue growth in other developed markets was 8% year to date, and 10% in Q3.

Overall, our US business delivered strong growth rates back by strong Brava uptick in the market. Our continence business saw slowing performance impacted by the competitive pressure in the (uncoated?) market, conversion to SpeediCath continues as planned, and the launch of SpeediCath compact set in the US is off to a good start. We therefore expect stronger performance within continence care in the US over the next 12 to 24 months. The US wound care and urology business both delivered very strong performance in Q3, whereas the remaining part of this sales region saw improving growth rates compared with performance earlier this year.

Revenue in the emerging markets grew organically by 15% year to date and 17% in Q3. Emerging markets have seen a significant pick up during the year, and performance remains very satisfactory in markets like China, Brazil and Argentina. This was further backed by strong sales in Greece, our Russian business saw a challenging quarter as tenders continue to be at a very low level.

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

Lene Skole

Gross profit amounted to 5.8 billion Danish krone, equal to a gross margin of 67%. This is an improvement of one percentage point compared with the same period last year. The improvements are primarily driven by higher revenues on a stable fixed cost base. The growth margin in fixed currencies was also 67%. The gross margin in Q2 improved slightly to 68% compared to 67% for the first six months. The SGLA to sales ratio came in at 33% against 34% in the same period last year. When adjusting last year for non-recurring items of 123 million Danish krone, the ratio was in line with last year.

During the first nine months of 2012/13, we invested a total of 105 million Danish krone in sales initiatives, of which half were in the emerging markets, and the other half in established markets. 45 million Danish krone of the investments were realised in Q3, as we continue our investments in growth in markets like China, Brazil, Middle East, North Africa and India. This quarter saw no new initiatives as focus is currently on securing satisfactory progress on existing initiatives. In total we have committed more than 700 million Danish krone in sales investment since the strategy update in March 2013.

The R&D to sales ratio was 3%, in line with the full year 11/12 level. All in all, this results in a reported EBIT margin of 31% compared with 29% in the same period of last year. Net of currency impact, the EBIT margin was also 31%. Adjusted for one-offs, last year the EBIT margin showed a slight improvement compared with last year.

Looking at Q3, our EBIT margin was 32%, and that's higher than the year to date number. The increase is primarily related to higher sales in the quarter, and the reversal of 10 million Danish krone in provisions for bad debt. Net financials were 81 million Danish krone, a decrease of 145 million compared with the first nine months of last year. The change was mainly due to foreign exchange adjustments, where we last year realised losses of 94 million Danish krone and cashflow hedge contracts compared with a gain of 18 million Danish krone in the first nine months of this year.

Our net profit for the period increased by 24% to 1 billion, 962 million Danish krone, corresponding to diluted earnings per share of 9.14 krone, an increase of 23% compared with the same period of last year.

Capex amounted to 295 million Danish krone, 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. For the past years we have optimised our production capacity through site consolidation as well as production efficiencies. We are, however, reaching near full capacity utilisation, and as Lars mentioned earlier on, the board has today approved an expansion of our Nyírbátor production facility. This will, when completed, increase our global volume manufacturing capacity by around 25%.

The total investment is in the range of 130 to 150 million Danish krone over the next two fiscal years. We have been granted up to 140 million in Hungarian subsidies. The subsidies are conditional on meeting a number of milestones over the coming years. The subsidies will take the form of direct subsidies as well as tax concessions.

Free cashflow amounted to 1 billion, 650 million Danish krone compared with 1 billion 467 million last year. This is due to increased earnings, net gains from realised foreign exchange rate hedging contracts, countered by increase in capex and net working capital as well as higher taxes paid. Return on investment capital after tax was 42%, up six percentage points from last year, as we continue to increase earnings on a stable asset base. And finally, we completed the second half of our one billion share buyback programme. Now I will ask you to please turn to slide number six.

For 2012/13, we continue to expect revenues to grow six to 7% organically, and five to 6% in Danish krone. The growth guidance continues to be based on stable growth in the European business, whereas we expect the US market and our emerging markets to exceed last year's growth. Growth in the US and emerging markets, however, remain volatile due to difficult to forecast distributor uptake between quarters.

From the 1st of September 2013, we expect reimbursement prices to be lowered 5% in France on chronic care products. Coloplast expects to absorb 3.2% of the decline, leaving the remaining 1.8% to distribution. This will have an estimated annualised impact in the range of 30 to 40 million Danish krone on the top line, and most of this will flow through to operating profit. Further, the sale to the French wound care community channel of products containing silver or ibuprofen has been stopped as of May 27th, 2013, as we can no longer get reimbursement for these products. This will have an annualised impact of ten to 15 million Danish krone on top line and operating profit.

For 12/13, 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 assumption behind our EBIT margin guidance, which are that we expect six to 7% organic growth, gross margin improvements within the half to 1% range, and continued cost discipline in the organisation. Our capex guidance for 12/13 continues to be around 400 million Danish krone, whereas our effective tax rate is expected around 25% due to changes to the Danish corporate tax rate and the subsequent impact from accounting changes to deferred tax balances.

Now this concludes our presentation. Thank you very much, and operator, we're now ready to take questions.

Questions and Answers

Operator

Thank you, as a reminder, if you wish to ask a question, please press * 1 on your phone and wait for your name to be announced. If you would like to cancel your request, please press the # key. Once again, that's * 1 if you wish to ask a question. Your first question comes from Martin Wales (?) from UBS. Please ask your question.

Martin Wales - *UBS*

Good afternoon. Can you start by giving us just a little bit more colour on the impressive growth in the wound care business, what was it, 5% in Q3 versus 2% for nine months, particularly impressive given that you said Europe's still declining. Can you give us a little bit more detail on how you're driving that growth, and whether you really have turned the corner here?

Lars Rasmussen

It's been quite a long journey, I have to say, because when we started the turnaround of the wound care business, we had to stop selling in some of the markets that were not profitable for us, and on top of that we have had quite an impact from the financial crisis on the pricing in Europe. So quite some quarters we have been suffering with, you could say, a declining business in Europe, and an uptick outside of Europe, but we have, over the past years, invested quite significantly in stabilising the situation in Europe, and then investing in growth outside of Europe, and that is what you see coming through now.

That is then topped off by the fact that we have launched a new silicone product which has been received extremely positively by the market, so it is a combination of all of this. Unfortunately we are not still growing in Europe, as a total, but it's so much stabilised now, and the growth is well, so strong, that we now see a growth which is starting to become on par with and even stronger than the market. So if you look at the trend curve over the last 12 months, it's going up. So it's not one single quarter we are talking about, but it's actually, it's simply something that, a momentum that we have been building over the last quarters.

So we feel quite confident about the uptick we see in wound care, and we are very pleased with that.

Martin Wales - *UBS*

And do you think you're taking market share in Europe, despite declining? Or do you think you're (overtalking)…

Lars Rasmussen

That's very, very hard to say. I don't know.

Martin Wales - *UBS*

Okay, and just a question on your R&D spend, which, having cut R&D last year, it seems to be growing ever more strongly this year. Where are you spending the money?

Lars Rasmussen

Yes. We have, and we've also shown that, on several occasions, we actually have a very strong pipeline of new products that we are going to launch in the coming quarters, and the spend is primarily for that.

Martin Wales - *UBS*

Okay, so no change. Thank you very much.

Operator

Your next question comes from Alex Claybourne (?), from Barclays. Please ask your question.

Alex Claybourne – *Barclays*

Yes, thanks for taking the questions. First off, just wondering if you could give a comment on the KCI and Histogenics (?) deal. So just in the past you talked about a sort of deadlock in the wound care asset market. I'm just wondering if you see that as kind of breaking the deadlock. And also if that's something that you were involved in, or is it the kind of asset that you're looking at, you know, kind of why or why not?

Lars Rasmussen

Histogenics have been for sale for a very, very long time. I think that's been no secret to anyone. I think that everybody in the market who is a player, like we are, have spoken to Histogenics and their owners. It's hard for me to comment on why somebody, or why they do the deal that they do. We can only say that our strategy has been to first create a healthy business, and then to then look at what are the options. And now we have a healthy business, and then we look at what the options are.

Alex Claybourne – *Barclays*

Okay, very clear. And then just moving over to ostomy, I just saw that one of your competitors recently revamped its own accessories line in the US, and they're doing a big focus on the on-line channel, and I was just wondering if you're just hearing any feedback about that, if it's something that you're considering in terms of making a push on-line, or whether you just plan to continue working directly with dealers and using that channel?

Lars Rasmussen

First of all, we have done a lot within accessories, you also see that in the sales numbers, so that is not something which is unfamiliar to us. We also, as you may know, already have direct sales to NGOs within a small number of countries, like for example in UK where we have quite sizeable business with Charter Healthcare, with Ceva (?) in Germany, and also in Japan. So it's something we know a lot about, you could say. Within the US, as it stands right now, we are doing our trade through dealers, we do a lot of on-line activities, and all the business that comes out of that is business that we direct to the dealers, and to our trade partners, and it's working very well for us.

If you look at the growth rates in the US, just a couple of years back it was single digits, and now it's healthy double digits, so we're quite pleased with the way it goes.

Alex Claybourne – *Barclays*

Thanks very much.

Operator

Your next question comes from Veronica Dibiova (?) from Goldman Sachs. Please ask your question.

Veronica Dibiova – *Goldman Sachs*

Good afternoon, and thank you for taking my questions. I have three. But the first one, maybe we can start with just the outlook for the full year. I mean, congratulations, you've delivered quite an impressive acceleration in growth, if I look at the nine month period, but it seems that despite that, your pick up in revenue growth, you're still very much trending towards the bottom line of that EBIT margin guidance. And so as we think about the full year, and I guess outlook beyond, I mean, when would you expect these investment efforts to start materialising, not just an upside in revenue growth, but also on the EBIT level? And what are the sort of pulls and pushes that you think about as you make those investment decisions?

Lene Skole

Right, if we think about the EBIT margin, we've actually quite satisfied with the development in the EBIT margin. As we have mentioned, also, several occasions, we believe that the business has the potential to… sorry, I'm hearing that you can't… can you hear what I'm saying now?

Veronica Dibiova – *Goldman Sachs*

Yes, yes.

Lene Skole

Good, I'm sorry, I got a message that you couldn't hear what I was saying. So I'll just start again. Thinking about the EBIT margin, we're actually quite satisfied with the way that that's developing. We believe that we are delivering according to what we have said is the potential in the business, which is half to 1% improvement on gross margin, that will then flow through to the EBIT margin. So if you look at the year to date numbers, for instance, and you strip out one-offs, last year, you will see a slight improvement in our EBIT margin, to the tune of that, around half a percent, we're satisfied with that.

If you look at the quarter in isolation, and strip out one-offs last year, it's correct that you see a slightly lower EBIT margin, however Q3 last year, because of the sales we had in the UK, was also the highest EBIT margin we've ever had. So being that we're totally, for the year, in line with a slight improvement at the same time as we've actually invested 105 million Danish krone in a growth initiative, we actually believe we are delivering on what we said we would, and we're quite satisfied with that, and we're also confident that we will be within the range that we're guiding, 31 to 32 for the year.

Veronica Dibiova – *Goldman Sachs*

That's helpful. And maybe I can ask this question a little bit more longer term, as opposed to just what you've done year to date, but as you think about investment versus margin improvement, I mean, is it fair to say that maybe for the next year to two years, as you invest into the business, you'll be towards the lower end of that 50 to 100 basis point target, and then as those investments start coming through you'll end up being towards the higher end of that margin expansion target? Or… I guess, you know, I'm trying to understand what the timing is in the trade-off between gross and margin (overtalking).

Lene Skole

Yes, I can understand fully what you're asking, Veronica. I just think, you know, trying to talk longer terms about something that's a movement of potentially half a percent is just not, you know, that's not very easy, and I don't think anyone can have the ability to forecast that accurately. I think it's, the way you should think about it is that we are investing in growth, we want to invest in growth. As I mentioned in the introduction to the conference call, we've already committed 700 million since we updated our strategy, March last year, it's important for us to get the growth up, as Lars has also commented on, our growth momentum is higher now than it was.

So a focus on investing in growth and actually seeing that growth coming through, at the same time as continuing to see that potential for half to 1% I think is what you should be looking at, also, for the next couple of years.

Veronica Dibiova – *Goldman Sachs*

I completely understand that. And then hopefully just two quick questions, one for you, Lene, which is distribution costs. Is 850 the new run rate that we should be thinking off, or were there maybe some one-off expenses in the quarter, and the second on is for Lars just on ostomy, in the US, Lars, can you give us an update on actually what was the growth that you saw in the quarter, and maybe where you are in terms of market share with new patients. Thank you.

Lene Skole

The distribution line, there were no one-offs, the pick up there reflects the additional investments in growth for the quarter of the 45 million that I just mentioned, but we didn't have any one-off, the only one-off that we had in this quarter was actually on the admin line, where we had a positive impact from the right back off provisions for bad debt.

Lars Rasmussen

And when it comes for the growth rates in the US, it's… I don't think that we normally give a precise number for that, but it is very, very high, and many times the market growth.

Veronica Dibiova – *Goldman Sachs*

I thought I'd try, anyhow. And market share?

Lars Rasmussen

Good try.

Lene Skole

But that was good news, wasn't it?

Veronica Dibiova – *Goldman Sachs*

And market share with new patients?

Lars Rasmussen

Market share with new patients is more or less what it was. And still significantly above the community market here.

Veronica Dibiova – *Goldman Sachs*

That's great. Thank you so much, I'll jump back into the queue.

Lars Rasmussen

Thank you.

Operator

Your next question comes from Christopher Learburg (?) from Carnegie, please ask your question.

Christopher Learburg – *Carnegie*

Yes, thank you. I have three questions. First a follow up on the distribution costs, and how we should think about them for the fourth quarter relative to the third quarter, if you're planning any additional investments, in particular given that of course surprised negatively in the final quarter last year?

Lene Skole

Sorry, what was the last part of your question? (Overtalking).

Christopher Learburg – *Carnegie*

I remember last year, costs in Q4 surprised negatively, both, I think what concerns us are then I guess was, relative to your own expectations, and therefore I'm a bit curious, are you thinking about distribution costs now for the fourth quarter?

Lene Skole

In terms of distribution costs, we expect we will continue to invest in growth initiatives. We had 45 in Q3, and we would expect that we probably will have a little bit more, but not a lot more, in Q4. So at least the 45, maybe 45 to 50 that we would expect to have in Q4.

Christopher Learburg – *Carnegie*

Higher costs in Q4 than in the third quarter?

Lene Skole

Yes, due to investment in growth initiatives.

Christopher Learburg – *Carnegie*

Yes, okay. And is there any other seasonal effects that will mitigate that?

Lene Skole

I don't think there is, I think the only thing that we can talk about with Q4 that will also impact, if nothing else, at least the distribution relative to sales, is that as we had the negative impact from the UK consolidation in Q3, we will have a positive impact in Q4.

Christopher Learburg – *Carnegie*

Okay. The second question on the financial (nap?) that were worse than I thought. First of all, the other financial items minus ten million, what that is, and secondly, shouldn't there have been some up high positive hedging gains this quarter?

Lene Skole

Well, it depends really where the individual contracts, when they are running out. If we look at it for the full year, because that might help you to think about it, is for the full year we expect net financial expenses of around 30 million Danish krone, so that means that for Q4, with the knowledge we have today, that we would expect a 50 million positive in Q4, so that would at least give you for the year how we think about them.

Christopher Learburg – *Carnegie*

Okay. And that was a total financial….

Lene Skole

And by the way, you also asked about the tin, the miners tin, that's related to some swaps that we unwound in connection with the repayment of loans.

Christopher Learburg – *Carnegie*

Okay, and the final question I have, the investment you will do now in new manufacturing capacity, and the fact that you are nearing full capacity, as you said, how is that impacting the potential to continue to improve the gross margin from scale effects of half a percentage point to one percentage points that you have been talking about?

Lene Skole

The half to one percentage point, as we have said, would be over the next couple of years or so, because that's related to the specific plans we've had for improvement in our production unit. What will happen after that, we can't really comment on now, because those plans are not finalised.

Christopher Learburg – *Carnegie*

But do you see improvements elsewhere that will continue to compensate for the gross margin, or is it fair to assume that it will become much more difficult now for you to improve it for the, as you reach full capacity?

Lene Skole

Well, there is no, first of all, when you say compensate for the gross margin, I trust you believe whether we can continue to improve our gross margin, you know, with a new factory, of course, we have placed that, and decided on that in a way that is the most cost efficient for us to do, and we will continue to work on that, but I cannot, at this point in time, we cannot give you a guidance over and above what we said at our capital markets day, with the half to 1% potential uplift over the next couple of years.

Christopher Learburg – *Carnegie*

Okay, thank you.

Operator

Your next question comes from Scott Bardot (?), from Barenberg (?). Please ask your questions.

Scott Bardot – *Barenberg*

Yes, thank you very much for taking my questions, I have a few, please. So firstly, just on margins and just to get a better understanding of the full year guidance. I appreciate you're tracking very well with your top line forecasts, just following on from Veronica, it seems to me you need to post something like a 34% margin in the fourth quarter to get to the upper end of your targets, which is, you know, clearly, you know, a strong 300 basis point progression on the prior year. So I'm just trying to understand whether there's any special sort of one-off items we might see in that quarter, or actually, that is, a hurdle too high. So just if you could help us understand that, please, that would be helpful.

Secondly, you know, very pleased to see the growth in North America continue at a strong pace, and I think you've confirmed your anticipation to accelerate on top of last year's growth there. It seems, though, that there were a few potentially negative developments in the quarter with respect to GPO contracts, the big GPO contract that I think was a press release from the company with novation in ostomy, it seems now that that's been scaled back quite considerably from the initial expectations, and similarly you weren't included on the premier contract.

So I just wondered, can you help us understand, you know, whether this did come as a disappointment to you, or is that in line with your expectations. And, you know, how are you responding and shaping your ostomy starting strategy in the US to make sure you pin down the sort of growth that you want there. So they are the first two, I'll have a follow up please.

Lene Skole

Okay, to start with the EBIT margin guidance, we guide between 31 and 32, we don't guide around 32, so we guide in that range. And we feel comfortable with that guidance, and why should you believe that we will meet that? We do expect higher sales in Q4, and that should have a good and positive impact on the EBIT margin, and those higher sales will, of course, not least be because of sort of the flip side of the negative impact we had on the UK comparison numbers in Q3, of course we'll have it go the other way around in Q4, so the higher absolute sales will be… that is what makes us feel comfortable with the range we're guiding in.

Lars Rasmussen

When it comes to the GPO contracts in North America, then let me just start by saying we are not satisfied with the development that we have there. But maybe I should paint a little bit of a bigger picture, because the situation is that we do actually have still a higher market share in the hospitals, the NPD (?) shares, than we do have community market share. And therefore you could say short term, new GPO contracts are not vital for us to keep the growth up, and as I said we have an extremely healthy growth in ostomy in the US.

Long term, however, if we do not get the place that we need to have in the GPOs, then we will not be able to keep high growth in the US, but here we are talking more years going forward. So what I'm mostly disappointed with, you could say, is that we have not been able to hold onto everything that we got into the novation contract originally, the reason for it is that we came in off-cycle, you could say, and there has been quite some activity also from our competitors to mitigate us coming in there. So we could say we are definitely visible on the radar screen in the US, and therefore you see a lot of activities there. So we only managed to stay on board with the new products there, and as you know they are coming more and more, new products, so let's see if we can get them in also.

And us not getting into premier, that's not what we anticipated, but that's the situation as it is, and we have to do it better from thereon. So it's more that we are hurt on our pride than we are hurt on our business result with this, because our business results are accelerating in the US, and continue to do so, but we of course need to be, have a better presence in the GPOs.

Scott Bardot – *Barenberg*

Thanks a lot. I just wanted to follow up on that with regard to one of your competitor actions, and I think we also see confirmation now that they're using the 180 medical channel to introduce ostomy direct to consumer. Do you think this is something that, you know, you could ever contemplate? I know you've historically shied away from this, but it seems to me that the channel is getting a little bit tighter in the US, and I just wonder whether that's going to stop you developing your starting?

Lars Rasmussen

First of all, we are investing in sales pressure outside of Europe, and we are also investing in further sales pressure in the US. We are investing to get a much higher market share in the US, and we go by all means, you could say, but we have no plans to go direct, as for example with (unclear) medical. We think that the right way for us to go about this is to work with the distribution partners we have today. They keep adding business to us, and at a very healthy pace, and we feel that this is the right strategy for us, where our company is today. And you do know, we are not unfamiliar with forward integration activities, we have been, or we are forward integrated as I also mentioned before, in several geographies, also with sizeable businesses. But you always have to take stock of the situation, and we think that the current strategy we are pursuing in the US is serving us very well, and we keep pushing that way.

Scott Bardot – *Barenberg*

One last question from me, then, if it's possible. So Russia has been a very important emerging market for you, and a major growth driver in the past, I was a little bit concerned to see some of the commentary about cancellation in tenders and uncertainty there, so can you just shed some light on what's going on in Russia, and how that's affecting your investments for me?

Lars Rasmussen

I can do that. It's really, really strange what is going on, but what we have seen in Russia is that when there have been tenders, and, you know, the companies have been delivering their prices and their bids, their terms to go for a tender, we have lost to somebody who came with terms that were, you know, unheard of. And then afterwards it turned out that this company that have made several offers have not at all been able to follow through. So they have basically not been able to deliver, and therefore their whole tender process is going over again, so we're starting from scratch.

And that has postponed the sales in Russia, but it's not so that we see that the market is gone, it's simply disrupted by somebody playing a very, very strange game in the market. But now it's known to the authorities who it is.

Scott Bardot – *Barenberg*

Thanks so much for taking the questions.

Lene Skole

Okay, I just have one thing here, which is actually to Christopher, I've just been reminded that on your very direct question as to whether the plant expansion was going to do anything to our gross margin, I got so carried away with talking about our gross margin, I didn't actually answer you specifically on that, and the answer is that we don't expect any significant impact on the gross margin solely due to the expansion of our site in Hungary. Just so we get that clear. Sorry about that Christopher.

Operator

Your next question comes from Hans Mahler (?) from Handelsbanken (?). Please ask your question.

Hans Mahler – *Handelsbanken*

Thank you, I have two questions. And the first, when it comes to the reimbursement cuts in France, what was the key reason that you took more than half of the heat here, but nothing when it happened in Spain? And then second question, on the same subject, is when it comes to the reimbursement cuts in France, will you pay (unclear) at already in the next fiscal or what do you plan to do to offset that impact, given it's such a large market for you? Thank you.

Lars Rasmussen

I think it's a new negotiation in every country that you are in, and it's also a story about how the distribution of the profit already is in the current value chain. So this was the result in France, and as you do know, this is… this is something which is also negotiated year over year, so it's just very visible what the result is right when you come out with healthcare spend cut, as we see here, but contracts are actually constantly re-negotiated. The total amount that we talk about here is part of the guidance that we have about the approximately one percentage points downward price pressure per year, and it is to be contained in that, so it doesn't change our guidance to the market about us being able to deliver 50 to 100 basis points year over year in improvements.

Hans Mahler – *Handelsbanken*

Okay. And also, in the beginning of this fiscal you said that underlying market will go on growing at the pace of, I think, four to 5%. Given the uptick for wound care and rather solid performance you have seen elsewhere, should we regard that as somewhat conservative at this stage, or do you have any comments on that?

Lars Rasmussen

No, I don't really have any comments on that. You know, it's always negative to have a price cut like we had here. It goes, from the top line it goes directly from the bottom line, but we have a strong organisation in France, and we have a good progress, many places, with the business, so we'll be able to mitigate this.

Hans Mahler – *Handelsbanken*

Okay. Thank you very much.

Operator

Your next question comes from Oliver Metzger (?) from Commerzbank, please ask your questions.

Oliver Metzger – *Commerzbank*

Yes, high. Two questions, if I may. First is also regarding your price expectations. For this year you mentioned that you expect a lower price pressure in 1%, this is your long term guidance, going forward for next year, there's the reimbursement change in France, which was answered in the question before, but more generally, do you have any indication to be a little bit more optimistic on your long term price guidance for next year?

Them the second question, do you see some significant tender businesses in the next quarters, and a more general question, if yes, would these tenders be included in your organic growth guidance, mainly for next year?

Lene Skole

Okay, maybe it was the price expectation, or the price expectation for price pressure, we stick to the 50 or 200 basis points on price pressure, specifically of how we account for tenders, I mean, yes, they are part of our organic growth, that is the way we have always accounted for tenders.

Oliver Metzger – *Commerzbank*

And do you see any larger tenders in the next quarters?

Lene Skole

Not something out of the ordinary.

Oliver Metzger – *Commerzbank*

Okay, thank you.

Operator

Your next question comes from Inge Bargoi (?) from Jeffreys (?), please ask your question.

Inge Bargoi – *Jeffreys*

Hi, good afternoon, thank you for taking my questions, a couple of quick ones and one a bit longer one. First, on the tax expectation going forward, will the additional tax breaks that you're getting in Hungary impact the mid to long term rate? Secondly, on FX and going into next year, which part of your exposure have you already hedged, and what could we expect in particular, given the FX moves in Australia and Japan.

And then my final question is on competition, and you've touched a bit on it, but it feels like there's a bit more talk about competition both in continence and ostomy. Could you talk about what you see as the best response to competition maybe waking up a bit?

Lene Skole

Maybe we can do the tax rate, because that's relatively quick. No, we don't actually expect any tax concessions in Hungary to impact our tax rates. Remember that we actually repatriate approximately 80% of our profits to Denmark, so the vast part of what we make is actually taxed in Denmark. So, and small changes in a country is not going to impact our tax rates. And we have hedged on average around 11 months, so not quite next full year.

Lars Rasmussen

When it comes to competition, maybe a good place to start with competition is that we, at this point in time, are growing significantly stronger, organically, than we did a year ago. And that is of course due to the fact that we are more competitive. So we have more new products in the market, we have also significantly more salespeople than we were a year ago. So when we talk about more competition, it's very much linked to the catheter situation, it's a (unclear) catheter situation in the US, because as you probably do know, the (unclear) catheters in the US are primarily low technology catheters, and we are upgrading that market to become you could say a high spec market. We also take a higher price for the products that come in there, and that means that the distribution have a lower margin on the products that they sell for us.

And we have the highest price in the low spec segments, so therefore we are bleeding in that segment, meaning that we are not getting as fast as the market in that segment, but we are mitigating that by the uptick that we have from the SpeediCath conversion of the market. So in that sense, the downward trend that we see on the SelfCath business is, in a sense, due to more competition, and it is a competition we can only counter by launching higher technology, higher price products in the market, and that is what we talk about.

But you could say that if you sort of take the continence care numbers that are a bit weak, and strip out the effect from the high sales in UK last year due to the wholesaler consultation, you are more or less back to par, where we used to be. So we are growing significantly more than the market also in continence care.

Lene Skole

And just one more, Inge, because I believe you actually also asked about what gains you could expect, or results on financials from the hedges we've done, that would come in next year, and that would be, for those that are already in place, and of course we haven't covered all of next year, you should expect about 50 for next year, as it looks now. That's what (overtalking).

Inge Bargoi – *Jeffreys*

That's very helpful. Thank you.

Operator

Your next question comes from Neil Zlef (?), from SEB. Please ask your question.

Neil Zlef – *SEB*

Yes, my first question would be kind of a household question regarding your depreciation and amortizations, which in the quarter fell with something like 15, 20 million krone compared to the previous quarters. Is that due to the completion of amortizations related to the Mensure (?) urology acquisition back in 26, that's my first question. My second question would be a question regarding the gross margin development, and as you mentioned, you talked about 50 to 100 basis point gross margin improvement on your capital market for the next couple of years. Does it mean that for this fiscal year and in the next fiscal year you would still be expecting gross margin expansions, and after that we should expect more like a flattish development? Thank you.

Lene Skole

Okay, I can do it, actually, very quickly. Depreciations, you are absolutely right. So that's a yes. And gross margin, yes, that includes also next year, what will happen after that we can't really guide on now.

Neil Zlef – *SEB*

Okay, thank you.

Operator

You think next question comes from David Adlington (?) from JP Morgan. Please ask your question.

David Adlington – *JP Morgan*

Pretty much all my questions have been answered. Just maybe one on the bad debts side. I just wondered if you had, if you would be reassessing any further bad debts in the Q4, and whether we could see any further writebacks in that quarter. Thanks.

Lene Skole

At the moment, we don't expect any further writebacks. I mean, the writeback that we have done is due to positive development in Greece, because we do these on specific customers, and whereas last year we saw, and I think we also talked about that in conference call, a slight prolongation in how long it took our group distributor to pay. We have now actually seen him come back on normal payment terms, and that's the key reason for the writeback of bad debt. But we don't sort of have anything up the sleeve.

David Adlington – *JP Morgan*

Okay, thank you.

Operator

Your next question comes from Chris Grettler (?) from Credit Suisse, please ask your question.

Chris Grettler – *Credit Suisse*

Yes, hi, good afternoon. Actually, most of my questions have been answered. Maybe just one, on the decision to expand, you know, the Nyírbátor facility. If I remember right, that was, you know, mainly a continence care facility. It's basically the strategy with respect to, you know, capacity expansion, is this mainly for continence care? And would you be looking at applying new technologies, production technologies, or is it just basically a replication of lines you have already in place?

Lars Rasmussen

This means that most of the expansion that we'll do on continence care will be in the facility, because there are a lot of basic technology stuff that you need to have in place in order to be able to manufacture such products. And therefore, it's more cost effective just to keep doing more of catheters, for example, where you already do catheters. But the basic principle of the way that we do manufacturing is that we choose one place where we tend to do all manufacturing of one type of products, because it makes more sense, so therefore, you know, because we already do continence there, we'll do more continence, but it doesn't mean that it will only be continence. It might also be other products.

Chris Grettler – *Credit Suisse*

Basically, but, you know, you can use this facility easily now to expand in ostomy, for example?

Lars Rasmussen

Yes, we could do that, because when it comes to ostomy, they are more standalone machines, where for example continence care, they are more part of a process line, so you need much more back up technology to be able to perform that type of manufacturing.

Chris Grettler – *Credit Suisse*

And in terms of cost, did you look at other facilities to expand as well, or was it just basically a no brainer to use this specifically anyway?

Lars Rasmussen

No, I don't think that expanding manufacturing footprint is by any sense a no brainer. We are quite elaborate in the way that we are conducting the surveys on where to sort of put the next big part of our manufacturing that we do, but at this point in time, it turned out that Nyírbátor was the right place for us.

Chris Grettler – *Credit Suisse*

That’s interesting. And then maybe, just on the urology business, you know, mentioned I think at the beginning, there was relatively no difficult market contributions. Was this primarily referring to the sling business? Or in general.

Lars Rasmussen

I think in general the business is doing really well. So the female pelvic health is picking up, but also men's health is doing well, and the process business, which says it's more the… you could say things that are not implantables, they have also had a very nice quarter. So it's all business areas within urology care that are doing well.

Chris Grettler – *Credit Suisse*

But that is reflect, because (unclear) mention, I think, or maybe I have heard it badly, it was now referring to difficult environment, but so it basically means, you know, you are gaining share here, that would be your assessment?

Lars Rasmussen

Yes, yes. We are. We are growing significantly more than the market in this business for this time being. There's no doubt about that.

Chris Grettler – *Credit Suisse*

Okay, good, thanks. That's all for the moment.

Operator

As a reminder, if you wish to ask a question, please press * 1 on your phone and wait for your name to be announced. We have another question from Scott Bardot from Barenberg. Please go ahead.

Scott Bardot – *Barenberg*

Thank you. Just a quick follow up, please. In terms of your product launch schedule, I just wondered if you could confirm are we likely to see any new significant product launches before the end of your fiscal year? Or is this something we should expect into 2014? Thank you.

Lars Rasmussen

We are not commenting on that, but you have seen the plan, and we are basically following the plan.

Scott Bardot – *Barenberg*

So if I understand correctly, according to the plan, there's a launch slot for ostomy and wound care for the second half of 2013 which we haven't seen yet, so that would probably mean two more product launches before November?

Lars Rasmussen

We are launching one to two new products per year, and that is also what we expect to do this year. And one of them has been launched, and that's the new Biatain silicone product.

Scott Bardot – *Barenberg*

Sorry Lars, just remind me. So I remember the Biatain silicone was launched in 2011, is this sort of an adaptation on that Biatain silicone?

Lars Rasmussen

Yes, you are wrong on that one. The new Biatain silicone was launched just a couple of months back.

Scott Bardot – *Barenberg*

Perfect. (Overtalking).

Lars Rasmussen

You haven't seen that?

Scott Bardot – *Barenberg*

Missed that.

Lars Rasmussen

Ah, that's a magnificent product, you should see it.

Scott Bardot – *Barenberg*

How does it differ?

Lars Rasmussen

It's the best silicone product in the market, of course.

Scott Bardot – *Barenberg*

I'll do my work on that, thanks.

Operator

Your next question comes from Veronica Dibiova from Goldman Sachs. Please ask your question.

Veronica Dibiova – *Goldman Sachs*

Thank you for letting me back into the queue. Just once quick follow up on continence, Lars, you mentioned that you would expect growth in the US continence business to accelerate over the next 18 to 24 months. Can you comment on kind of what you see as the key drivers, and the size of the SpeediCath opportunity on a two to three year view? Thank you.

Lars Rasmussen

Then I think you have misunderstood me. What I meant to say is that we are seeing that we have an increasing growth rate in our business in the US. And that goes for the business in its entirety, I'm not commenting on any of the specific business areas. But having said that, what we are doing now is that we are upgrading the markets in the US to higher value products from the manufacturers point of view, and over time, of course, that is going to be very positive for us. Right now we have this balance where we are losing a bit out on the SelfCath and we are waiting on SpeediCath, and that is a very delicate balance to throw. But longer term that's of course going to come in very handy for us.

Veronica Dibiova – *Goldman Sachs*

Thank you for clarifying.

Lars Rasmussen

And then I think we're in for the last question?

Operator

Your next question comes from Evali Wein (?) from Deutsche Bank, please go ahead.

Evali Wein – *Deutsche Bank*

Thank you for taking my question. I've got a few questions. The first one is on the US ostomy, can you give some sort of sense of how that growth rate, or how much of a pick up in growth rates are actually coming from accessories versus the bag parts of the business. Just, you know, qualitative (sound slip). And how good do you think (sound slip) going… meaning, you know, how long will the accessories (sound slip)…

Lars Rasmussen

Sorry, Evali, it's really, really hard to hear you. Your voice is breaking up.

Evali Wein – *Deutsche Bank*

(Sound slip). Reception is bad. I'll (sound slip).

Lars Rasmussen

You know, the part I did understand of your question is, you asked about the US ostomy. And if we could quantify it a bit more. I don't know when you entered the call, but what I have said earlier in the call is that we are growing very, very… with very satisfying growth rates, and several times faster than the market, and we do not disclose what it means, or how much of this will be from one piece or two piece ostomy, or from accessories, so we have growth on all of our business lines within the ostomy.

Evali Wein – *Deutsche Bank*

Can you hear me a bit better now?

Lars Rasmussen

Yes.

Evali Wein – *Deutsche Bank*

Okay, great. So I was just asking, if we look at the growth rate, and I can understand you don't want to disclose, you know, exactly how much, but the accessories benefit, is that more of a short term benefit versus a longer term benefit? Another way to ask it would be, you know, if you look at the opportunities that you have in accessories, maybe not just in the US but generally, is that more of a three to five year kind of benefit, or should we think about it like your traditional ostomy bag business, more of a much longer time is required for you to get the full benefit out of that portfolio?

Lars Rasmussen

If you talk about… with the limited understanding we have at this point in time because we have not been that long time in the accessories market, as I'd just like to remind you about that, it's still a new venture for us, then what we see in the nature of it is that we are reselling these products, so it means that the sales that we obtain is here to stay, most of it, but I don't know about the growth rates for it, of course, you know, how much further we can penetrate the market. But at this point in time, it's very, very early days for us, so we have a limited market share there, so I would expect that this will give us growth for a very long time. We have just begun.

Evali Wein – *Deutsche Bank*

Okay. And then the second question is on the US ostomy bag part of the business. Are you able to confirm that, you know, your share in the community care channel part of the market is growing or has been growing sequentially, quarter after quarter, and that your new patient discharge share is also growing at the same time, maybe the growth in the community share part is faster than the new patient discharge part, given your earlier comments about the GPO contracts.

Lars Rasmussen

It depends how many quarters you go back.

Evali Wein – *Deutsche Bank*

As many as you can remember.

Lars Rasmussen

I can say that with the current management tenure in the US, we have basically seen growth quarter after quarter, month after month, but we have not seen that all the time that Coloplast have been in the US, but I think that we have a very strong management team in place now, and they are doing a fantastic job. With regards to the market share, you still know that we are at five to 10% in community, so it is, we are growing from a low base.

Evali Wein – *Deutsche Bank*

And would you tell us once you’ve reached that 10%, at some point?

Lars Rasmussen

I think that we will think about that.

Evali Wein – *Deutsche Bank*

Right, okay. Because I was going to ask, when do you think you can reach that 10% point? At the moment?

Lars Rasmussen

Yes, that's a good question. We do our best every single day. But I can't give you any answer to that. And having said that, we are very pleased for the growth rates and the uptick of growth rates that we see in the US.

Evali Wein – *Deutsche Bank*

Right. And then the last question is on the upgrading of the US catheter market. If we say that the whole opportunity is out of 100, where along that line do you think you are at the moment?

Lars Rasmussen

I think that we have more to cover than we have already covered, that's for sure. We are not 50% into this yet. But I can't give you a more precise answer to that.

Evali Wein – *Deutsche Bank*

Okay, thank you. That's all.

Lars Rasmussen

Thank you, and I think that concluded the presentation from our side, so thank you very much for participating, and we are looking forward to seeing a lot of you over the next weeks.

Operator

That does concludes our conference for today, thank you for participating, you may all disconnect.