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Coloplast A/S (CLPBY.DK)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Coloplast Interim Financial Statements for Nine Months 2025/2026 Conference Call. And I'm Morris, the Chorus Call operator. I would like to remind you that all participants will be in a listen-only mode and the conference is being recorded. The presentation will be followed by a question-and-answer session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Gavin Wood, [ph] Incoming (00:00:39) President and CEO. Please go ahead, sir.

Gavin Wood

President & Chief Executive Officer, Coloplast A/S

Good morning, everyone, and welcome to Coloplast Q3 2025/2026 conference call. I'm Gavin Wood, President and CEO of Coloplast. I'm joined today by our CFO, Anders, and our Investor Relations team. Anders and I will take you through the quarter, and then we'll open up the call for questions.

Please turn to slide number 3. Over my first 100 days at Coloplast, I've spent a great deal of time with our businesses, customers, users and colleagues. When we last met, I spoke about what attracted me to Coloplast, its purpose, its people, and its ambition. What I've seen since joining has reinforced that initial view. Coloplast is fundamentally a strong company.

We operate in attractive markets with leadership positions across our businesses and continue to generate sustainable growth, profitability and cash flow. The Impact4 strategy provides a strong foundation. As we progress through the rest of the year, I will continue to evaluate our priorities and the choices that will be critical to driving growth and long-term value creation.

Today, I want to highlight a few. Starting with the core of Coloplast, Chronic Care. We have to sustain and extend our leadership in Chronic Care. Chronic Care is the foundation of Coloplast. It represents more than 75% of group sales and is our main engine of growth, profitability and cash generation. We have number one positions in attractive categories, deep customer relationships, and an annuity-based business model that provides a stable and predictable revenue stream. Combine this, it creates a unique opportunity and a powerful competitive moat.

One of the things that has stood out to me is the quality and clinical differentiation of our products. SenSura Mio combines BodyFit Technology with a secure fit designed to prevent leakage and protect the skin. The Luja range intermittent catheters has been proven to enable complete bladder emptying in one free flow without the need for repositioning the catheter. I believe we have an outstanding product portfolio, which gives us a strong starting point as we prepare for the next innovation cycle.

We also have a strong capability in opening and developing markets. This has been an important source of growth throughout the company's history and there is still considerable potential ahead. In Continence Care, for example, we see strong double-digit growth rates in markets with recent reimbursement openings.

Looking ahead, our objective is to extend that leadership. We will increase our investment in innovation, shorten time to market for new products, and strengthen commercial execution. We have a solid pipeline today, but we have to look also beyond the immediate launch cycle and develop products that will shape our categories over the longer term. We are well positioned to deliver on these priorities.

The second priority I want to touch on is our US opportunity. We have to capture a larger share of the largest healthcare market globally. It represents our biggest value creation opportunity and only accounts for around a quarter of group sales today. We are seeing strong momentum with high-single digit to double-digit growth across Chronic Care and Interventional Urology. At the same time, our position remains below its full potential when we look at current positions.

In US Ostomy Care, we're number three, with a market share of around 15% to 20%. In Continence Care, we're number one, but our share is around 30%. In both categories, our US position is still well below our global average. We also see considerable potential in men's health, the fastest growing part of Interventional Urology. Here we hold the number two position and have a strong platform from which to grow.

The US, in our opinion, should therefore play a much larger role in our strategic and investment choices going forward. We will be more deliberate about where we invest and more focused in our execution with a clear ambition of accelerating growth and strengthening our market positions.

Moving on to Wound & Tissue Repair. We continue to see attractive long-term opportunities in Biologics. The recent market reset in the US has been challenging, but has also given us a much clearer view of where we can win, the right customer segments, specialties and care settings. We increasingly see Biologics moving toward the inpatient setting.

Kerecis is very well positioned there, supported by strong clinical evidence, favorable healing outcomes, and clear product differentiation. It is also where the majority of Kerecis sales are already generated. We will continue to concentrate our resources on priority accounts and specialties, and continue to deepen our presence in inpatient care.

At the same time, we will restore profitable growth. That means increasing field productivity, sharpening commercial execution, and continuing to build on our clinical capabilities. As announced yesterday, Fertram will step down from his position as Executive Vice President of Wound & Tissue Repair and transition into a new role in Coloplast as Chief Innovation & Technology Advisor to the CEO.

The Wound & Tissue Repair business will report into me on an interim basis, while we sharpen the organization and priorities to support the next chapter of this business. I want to thank Fertram for his exceptional contribution to Coloplast over the past three years. And I'm very pleased that Coloplast will continue to benefit from his experience and innovation mindset.

I have now given you an idea of where we will focus and what we believe in will drive value for Coloplast. And we will need to also continue to fund our growth journey, and continuous productivity improvement and disciplined capital allocation has to be a central part of it. Coloplast has a strong record of operational discipline, productivity and cost management. These capabilities underpin our industry-leading profitability and remain an important competitive strength.

Going forward, we need to apply the same discipline to how we allocate resources and capital. We will direct investment towards opportunities with the greatest potential for sustainable growth, value creation and operating leverage, supported by clear accountability and rigorous investment governance, enabling us to make smarter investments.

I want to conclude this topic, which you've heard me speak about before, the importance of people and culture. I'm deeply impressed by the people I've met across Coloplast. There's a strong sense of purpose and a deep commitment to users and customers across the organization. We will build on this foundation by strengthening accountability, giving teams greater clarity and room to act, and aligning our performance expectations to our ambitions and priorities.

We will focus on developing the capabilities for the future and ensure that our strongest people are working on the priorities that matter most. A stronger talent pipeline and clear succession plans will be essential. And an important first step is the appointment of our new Chief People Officer. I'm very pleased to welcome Amanda Rajkumar to Coloplast into the executive leadership team. With three decades of global HR experience, Amanda brings deep expertise in leadership dynamics, employee culture, succession planning, remuneration and talent development.

So, this was a recap of my first 100 days and my perspective on the priorities and choices that will be central to driving long-term value creation. At our full-year results, we expect to provide a broader update on what they will mean for our strategic priorities, value drivers and execution within the Impact4 framework.

Let me now turn to our performance in the third quarter. Please turn to slide number 4. I'm pleased to share that we delivered a third quarter with 6% organic revenue growth and 5% EBIT growth in constant currencies before special items. Return on invested capital after tax and before special items was 15%, in line with last year's adjusted level. Performance in Chronic Care and Interventional Urology was also strong, while Biologics continued to be affected by the recent reimbursement changes. Net profit and free cash flow also developed strongly.

Let me take you through the performance by business area. Please turn to slide number 5. In Ostomy Care, organic growth was 5% for the first nine months and growth in Danish kroner was 2%. In Q3, organic growth was 5%, with growth in Danish kroner of 4%. Across Europe, US and emerging markets, excluding China, Ostomy continued the strong performance and grew 7%. Growth in the US was a strong double digit, continuing the momentum in the first half and benefiting from recent product launches.

In China, the implementation of our new channel strategy resulted in a significant inventory reduction in the third quarter. This temporarily affected growth, but is expected to improve channel economics over time. From a product perspective, SenSura Mio remained the main contributor to growth, led by the Convex segment. Our latest launches with SenSura Mio continued the good performance with further variants expected to launch next year.

In Continence Care, organic growth was 7% for the first nine months, and growth in Danish kroner was 5%. In Q3, organic growth was 8% and growth in Danish kroner was also 8%. Growth was led by the US and Europe. The US delivered strong double-digit growth, supported by Luja and a positive phasing effect between third and fourth quarters.

Luja was the main product contributor. Bowel Care also performed well, delivering strong double-digit growth in the quarter. Since launch, Luja male has been a key contributor to sustained high-single-digit growth in the male catheter business. And Luja female has lifted growth in the female catheter business to high-single digit today. These are both very encouraging early indicators and demonstrate the value of meaningful innovation.

Voice & Respiratory Care delivered 7% organic growth for the first nine months, with growth in Danish kroner of 5%. In Q4 (sic) [Q3], organic growth was 6% and growth in Danish kroner was 5%. Laryngectomy delivered high-single-digit growth in the quarter, while Tracheostomy was softer due to order phasing in the distributor markets, with the affected orders expected to move into fourth quarter.

In Wound & Tissue Repair, organic growth was 2% for the first nine months and growth in Danish kroner was minus 4%, with 2 percentage points negative impact from the Skin Care divestment in December 2024. In Q3, organic growth was 3% and the growth in Danish kroner was also 3%.

Advanced Wound Dressings returned to growth, increasing 4% in the third quarter. The improved momentum was driven by strong momentum in the US, phasing in Germany and Middle East. China remained a headwind due to the product return initiated in the third quarter of last year.

Biologics declined 6% in the quarter, but in line with our expectations. The decline reflects the continued impact from the reimbursement reform in the outpatient setting. In the inpatient setting, momentum remains healthy with double-digit growth year-to-date.

In Interventional Urology, organic growth was 8% for the first nine months, and growth in Danish kroner was 4%. In Q3, organic growth was 7% and reported growth in Danish kroner was 8%. Growth in the quarter was led by Men's Health in the US, particularly Titan, our flagship inflatable penile implant. Titan has delivered double-digit growth for several quarters in a market growing at the mid-single-digit rate.

Our next-generation penile implant, Titan Prime, has received FDA approval in the US, and we expect to launch the product in the next couple of months. We are also seeing strong performance ahead of expectations in Uromedica, the company Coloplast acquired back in February. And finally, given the recently anticipated FDA review timing for Intibia, we now expect the launch of the product in the US at the beginning of 2027/2028.

With that, I will hand over to Anders, who will take you through our nine-month financial performance. Please turn to slide 6.

Anders Lonning-Skovgaard

Executive Vice President & Chief Financial Officer, Coloplast A/S

Thank you, Gavin, and good morning, everyone.

Reported revenue for the first nine month increased by DKK 568 million, or around 3% compared to last year. Organic growth contributed DKK 1.2 billion or around 6% to reported revenue. Foreign exchange rates had a negative impact of DKK 595 million, or around 3 percentage points (sic) [3%] on reported revenue, mainly related to the depreciation of the US dollar, the British pound, and a basket of emerging markets currencies against the Danish kroner.

Please turn to slide 7. Gross profit for the first nine months amounted to DKK 14.4 billion, corresponding to a gross margin of 67%, compared to 68% last year. The gross margin was negatively impacted by currencies of around 90 basis points, mostly related to the depreciation of the US dollar, the British pound and a basket of emerging markets currencies against the Danish kroner, and an appreciation of the Hungarian forint against the Danish kroner. Ramp-up cost in Costa Rica and Portugal also impacted the gross margin negatively. The negative impact was partly offset by low inflation on freight compared to last year. We're still not seeing any material impact on the gross margin from the conflict in the Middle East in Q3.

Operating expenses for the first nine month amounted to DKK 8.8 billion, a 3% increase from last year. The distribution-to-sales ratio for the first nine month was 33%, on par with last year. Distribution cost grew 2% versus last year, reflecting Kerecis one-off cost in Q1, partly offset by lower sales cost in China and lower logistics cost due to the one-off cost in the US last year. The development in distribution costs were also positively impacted by the depreciation of the US dollar against the Danish kroner.

The admin-to-sales ratio for the first nine month was 4%, on par with last year. And the R&D-to-sales ratio for the first nine month was 4% of sales, compared to 3% last year. The increase was driven by higher activity levels in Chronic Care and Biologics. Overall, this resulted in an operating profit before special items of DKK 5.6 billion in the first nine month, or a 2% decrease compared to last year. EBIT margin before special items in the period was 26%, compared to 27% last year, reflecting around 90 basis points negative impact from currencies and around 50 basis points negative impact from Kerecis.

In constant currencies, EBIT grew 5% compared to last year. Coloplast incurred special items expenses of DKK 3.1 billion in the first nine month, of which DKK 3 billion relates to the Kerecis impairment loss. Financial items in the first nine month was a net expense of DKK 100 million compared to a net expense of DKK 875 million last year. The net expense included around DKK 500 million in interest expenses, most related to the financing of the Atos Medical acquisition.

The interest expenses were largely offset by gains on exchange rate adjustments, mostly related to the US dollar, Hungarian forint and the Costa Rican colón. The tax expense in the first nine month was DKK 533 million, compared to an ordinary tax expense of around DKK 1 billion last year. The tax rate was 22%, on par with the ordinary tax rate last year. Net profit before special items in the first nine month was DKK 4.3 billion, or DKK 510 million increase from last year when adjusted for the non-recurring tax expenses last year. Adjusted diluted earnings per share before special items increased by 14%.

Please turn to slide number 8. Operating cash flow for the first nine month was an inflow of DKK 5.4 billion, compared to an inflow of DKK 4.4 billion last year. The positive development in cash flows from operating activities was mostly driven by favorable development in working capital, in particular, due to improved trade receivables.

Lower financial items also had a positive impact on cash flows, while higher income tax paid had a negative impact. Cash flow from investing activities was an outflow of DKK 1.3 billion, compared to an outflow of DKK 861 million last year. CapEx in the first nine month was 5% of sales, on par with last year and includes investments related to the new manufacturing site in Portugal, which is on track to be operational here in Q4 2025/2026.

As a result, the free cash flow for the first nine month was an inflow of DKK 4.1 billion compared to an inflow of DKK 3.5 billion last year, or a 16% increase. Excluding acquisition cost this year and benefit from the divestment last year, the free cash flow increased 27% in the first nine month with a free cash flow-to-sales ratio of 20%, compared to 16% last year. The trailing 12-month cash conversion was 91% and net working capital amounted to around 26% of sales.

Now, let's take a brief look at the financial guidance for the year. Please turn to slide number 9. Our guidance for full-year 2025/2026 remains unchanged. We expect full-year organic revenue growth of 5% to 6%, EBIT growth in constant currencies before special items of around 5%, and return on invested capital after tax before special items of around 15%.

We continue to expect negative impact from currencies with around 2 to 3 percentage points impact on reported revenue growth and around 80 basis points negative impact on the reported EBIT margin. We are especially seeing negative impact from the Hungarian forint, which saw a notable appreciation against the Danish kroner following the Hungarian election back in April.

We continue to monitor the developments in the Middle East and the impact on the business, including implications for demand, supply and cost inflation. With the knowledge we have today, we expect limited impact on sales and we maintain our previously communicated assumptions around raw material cost inflation, where we expect around 1% raw material cost inflation in the second half of this year and around 2% to 3% raw material inflation next year. We now expect net financial items of around minus DKK 300 million based on spot rates as of August 14, down from around minus DKK 500 million previously. Finally, by the end of the fiscal year, we expect to reach a gearing ratio of around 2.3 times EBITDA.

Thank you very much. Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Good morning. Thank you for taking my questions. A couple, please. Firstly, Gavin, just on some of your reflections on Chronic Care and the next innovation cycle. Do you see a need to increase R&D in a material way in order to sustain and extend that leadership? You also talk about the US being a key strategic priority. So, could we see some compromise in the margin to drive stronger innovation, commercial execution and, ultimately, a stronger top line?

And then, secondly, appreciate China has been a drag for some years in Ostomy, but it does look to be worsening. So, can you unpack the performance here and how much of the softer growth do you think is market share loss versus market weakness? Thank you.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Okay. Thank you, Hassan, for the question. I think, look, it's really clear that we want to invest more in innovation. And as I shared, our group sales, 75% of our business comes from Chronic, and we feel very, very strong about this platform. So, this is an area that we do want to invest more in.

My answer would be, this is not about committing to an allocated specific percentage of sales to R&D investments. That's more of a mechanical exercise, where we don't feel the value is created. What we need to do is we need to ensure that we have the headroom and the flexibility to invest when great opportunities are identified. And then we need to ensure that we have a system and a structure that allows the best ideas to surface.

So, ultimately, going forward, we want to ensure that we have the best ideas and the most meaningful innovation that's getting adequate funding. And we need to be disciplined and likely stopping some projects earlier when we don't yield the desired outcome. And we need to celebrate more calibrated risk taking. So, ultimately, this is what I would say, Hassan, is for the next generation of innovation, like we feel really strongly in our current innovation and the Impact4. This is really about investment in innovation for smarter choices going forward in the next innovation cycle.

And then I'll ask Anders to address your question on China.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Yeah. So, in regards to China, you're right, Hassan, that China has – we have had challenges in China for some time. We have seen low-single-digit growth, flattish growth. And this year, the underlying expectations for our Chinese growth is low-single-digit negative.

But on top of that, we have also now a new management in place. We have decided to review our go-to-market strategy where we are really looking into the number of distributors we are having, et cetera. And as a consequence of that work, we have decided to reduce our inventories in China as well. And that's why we see a quite a significant one-off here in Q3 and we will also see some one-off related to that in Q4. In Q3, it's a one-off of around DKK 45 million. So, yes, China is and has been a challenge. But we are optimistic with the new team in place that we are now working on a new strategy for China and then over time, we will start to see us improve the Chinese business. So, that's where we are.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Very helpful. If I can just follow up, Gavin. You highlight industry-leading profitability in your reflections in the release. I wonder if we should read into the importance of this industry-leading profitability going forwards, given some of these investments that you've been talking about.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

I'm sorry, could you repeat the question?

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Yes. It was about the commentary around industry-leading profitability in your reflections in the release today. And I wonder if we should read into the importance of this industry-leading profitability going forwards in the future over the medium term, given some of these investments that you're flagging?

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Yeah. So, listen, this is going to probably come down to a lot of reallocation. That's kind of the perspective that I have. But I think when you think of longer term looking ahead, I've kind of used the first 100 days to kind of identify choices that we're going to be – help us make longer-term value creation opportunities. And clearly at the full-year 2025/2026, we plan to probably give a broader update on the implications of how these kind of play into our strategic priorities, value drivers and the execution within the Impact4 framework.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Perfect. Thank you.

Operator: Then the next question comes from Aisyah Noor from Morgan Stanley. Please go ahead.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc

Q

Hi, Gavin and Anders. Thanks for taking my question. My first one is on Kerecis, particularly the inpatient business where we're hearing market volumes haven't really benefited from a decline in the home care setting. Could you talk about this inpatient business? Did it grow double digit in the quarter as you observed in the first half? What are you seeing competition-wise and where are channel inventory levels today?

And then second question is on Intibia. Would love to hear the reasons for the delay of the launch and whether the hurdle to success could now be higher since we've had one more tibial device launch from your US peer in the last month. Thank you.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Okay. Thank you for both questions. I'll let – Anders will start with Intibia and then I'll answer your first question.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Yeah. So, thanks for the question. In terms of Intibia, as we said here in our opening statement, we now expect the launch into 2027/2028. And it's really driven by the FDA approval process. So, we are working hard in order to get the FDA to approve our solution. We are still expecting that the Intibia launch will contribute to our growth within urology, but it's coming towards the end of the strategic period. But we still expect that the urology that is actually off to a better start than we had anticipated will continue with the high-single-digit growth we have seen also this year. But it's really driven by the FDA approval process and that had a consequence on our launch timing.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Okay. And I'll take your first question. And thank you for the question. And this is one that we have addressed before. But clearly, there's a lot of reimbursement dynamics that have played out in the US biologics skin substitute space. And I'll start with the outpatient and then move to the inpatient.

So, in outpatient, we see a continued transition rather than a full stabilization. So, the $127 centimeter square, that's the fixed payment rate that continues to pressure utilization with providers becoming much more selective and cautious. And we do see meaningful price competition, while everyone is adapting to the new pricing level. And some use of traditional lower cost wound care alternatives were clinically appropriate. However, at the same time, the market's gradually moving through the initial disruption with greater clarity around the new reimbursement environment and increasing adaptation by both providers and manufacturers.

And this is where we see Kerecis having a distinct advantage, because if you start to look at the inpatient where most of the market has shifted towards, this is the area where Kerecis has the majority of our sales today and our market position. And we have very strong product differentiation, very strong data on our products. So, when you look at inpatient, in contrast to outpatient, the inpatient setting remains a much more stable environment with healthy underlying demand and where we've had double-digit growth today. You did ask about the last quarter that the last quarter was high-single digit, but we're still confident that we're going to close the year with a double-digit growth in inpatient, and that remains our focus.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc

Q

Perfect. Thank you. If I could follow up also on Kerecis. And this is in regards to the change in executive leadership that you've announced overnight. What should we be reading from your interim kind of – taking over as the interim head of Wound? Are more serious discussions being had about the future of this business? And I know Anders mentioned in an interview previous to this call that the outlook is now lower for Kerecis. Is there an outcome here where you're actually strategically reviewing this business for the future?

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

No. I think this is more a natural evolution of a business. So, if you think of it, we acquired Kerecis three years ago in September. And so, the leadership change is really also about strengthening our outlook going forward. So, if you think of it, Fertram had been with Coloplast for three years. He's now stepping into a technology assessment role.

I have very high conviction in the category of biologics and technology going forward. And Fertram is going to play in an area to his strengths, where he – I mean, he's incredibly strong at assessing technology and external innovation and brings that innovative mindset that really helped develop Kerecis. So, with his capability focused there, I'm kind of taking an assessment of the business of how do we kind of professionalize and scale this business throughout the US and globally. And I did come with a background where I worked previously in wound care. So, I felt taking this on personally would give me an opportunity to really go in and assess the organization and the talent to develop what's the right setup for the future.

Aisyah Noor
Analyst, Morgan Stanley & Co. International Plc

Q

Perfect. Thank you so much.

Operator: And the next question comes from Martin Parkhøi from SEB. Please go ahead.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB (Denmark)

Q

Yes. Martin Parkhøi, SEB. A couple of questions both for Anders and for Gavin. Let's start with Anders. Anders, can you just – we, of course, talk about raw material inflation. I don't – I understand you're not giving guidance for 2027/2028. But can you just give general kind of sold numbers of how the impact you expect to see on raw material inflations going into next year, given what you know today?

And the second question for you is your dividend policy. You haven't seen your dividend per share going down for decades. Is that a firm policy for you also, given the investments you need now and your ambition to go down to a gearing level of 1.5? Do you still believe that you can keep the dividend intact or even go up over the Impact4 period?

And then just, Gavin, it's one question maybe in two. Just to confirm again, China, with the change you're making in China, does that impact also the growth ambitions you have in China in the Impact4 period? And related to that, can you just confirm that with the strategic priorities you're doing and the broader review you are making, are you still comfortable with 7% to 8% top line growth towards 2029 to 2030? Thank you.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Thanks a lot, Martin, for your questions. Let me start with the first ones. So, in terms of the raw material, as I said in my opening statements, we are this year, this financial year expecting some impact to – impact the P&L here in Q4. And when we move into next year, I'm still expecting it will have the inflation related to the Middle East, the crisis will impact our raw material cost with around 2 to 3 percentage points. So, that is my current assumptions moving into next financial year.

In terms of your second question, the dividend policy. So, last year, when we communicated our Impact4 strategy, we confirmed our dividend policy also with the aim to get the payout ratio down to something between 60% and 80%. And we have a lot of focus on improving our cash flow and we have a lot of focus also to reduce our debt ratio from – I'm expecting this year to hit around 2.3 times EBITDA and get it down below 2 over the period. So, we have a lot of focus on maintaining the dividend policy. And that, of course, requires a strong cash flow in the years to come. Gavin?

Gavin Wood
President & Chief Executive Officer, Coloplast A/S
A

Okay. Thanks, Martin. So, I'll start with your question on China. So, the Impact4 assumption was kind of flattish growth over the period for China. So, that's an unchanged assumption. We don't plan that to be any different.

Your question on strategic priorities, and I think you're alluding to impact on future guidance. To be very open, I'm currently evaluating the Impact4 as part of my broader 100-day review. So, my focus in the last 100 days has been really on getting to know the business, as I shared earlier. I now have much stronger view on the priorities for the business looking ahead, which I've shared. And also some of the strategic choices that we believe we need to make. So, from here going forward, I will continue to progress my view on the overall business. And as we get to the full-year announcement, I expect to be able to share more about what implications I anticipate as a result of my 100-day review.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB (Denmark)
Q

Thank you. Clear.

Operator: Then the next question comes from Anchal Verma from JPMorgan. Please go ahead.

Anchal Verma
Analyst, JPMorgan Securities Plc
Q

Hi. Good morning, Anders and Gavin. A few questions for you. The first one would be just to follow up on Aisyah's question around Intibia delay. Could you outline if FDA has raised any concerns? Have they asked for more data or will you need to do further clinical trials?

And then the second one is just when you talk about being more focused in where you invest and making smarter investments, could you give us a bit of flavor on the type of investments you'll be looking at? Are there any gaps you'd like to fill? On the contrary, are there any businesses in the portfolio that are potentially disposal candidates? And to that point, how do you feel about the balance sheet position right now and what are your thoughts on financing further M&A?

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S
A

All right. Let me take those questions. The first question in terms of Intibia, we cannot really speak more to the clinical outcome at this point in time. So, we need to get through the FDA process. And as I said earlier, we now expect that to be complete early 2027/2028.

To your second question, in terms of M&A, as I understood your question, we are not planning any bigger M&As towards 2030. We are really focusing on executing on the businesses we have. It might be we will evaluate some smaller tuck-ins, in particular, within urology. As you know, we did a smaller technology investment earlier this year. It's called Uromedica. And it's a very interesting technology that is really benefiting our Men's Health business in the US. And we're actually off to a good start with that acquisition. But you should not expect us to do any bigger M&As towards 2030.

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

And just a follow-up. In terms of potential disposal candidates, are there any that you have identified thus far?

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

I did not really understand the first part of your question.

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

I'm just trying to understand when you're talking about reviewing the portfolio you have, if there were any areas you think that could potentially be divested or disposed of.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

So, that's not the plan, so...

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

Perfect. Thank you.

Operator: Then the next question comes from Jesper Ingildsen from DNB Carnegie. Please go ahead.

Jesper Ingildsen
Analyst, DNB Carnegie

Q

Thank you so much. I have a couple of questions. I think you're currently growing 5% to 6% organically. It seems like Kerecis inpatient is now below 10%. Intibia is being pushed to 2027/2028. China Ostomy Care continues to decline. I appreciate you're going to come with a wider update in November in regards to the 7% to 8% organic growth you currently have for the Impact4 strategy. But is there anything you can point to in terms of what's going to accelerate growth in the coming years assuming the renewed focus on the US will take some time to show in the numbers?

And then my second question would be around the margins. So, your priorities imply higher investments in innovation, US commercial execution capabilities. In addition to this, you have headwinds from raw materials, as you just highlight as well, FX too and wage inflation. How do you fund all of that without further margin pressure? I mean, Coloplast already looks like a very lean organization. Where would you find any savings or potentially reallocating from? Thanks.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Yeah. So, Jesper, thanks for your question. Let me just start towards 2030, as I understood your question. So, actually, we are off to a good start within our chronic business if I exclude the China. We are off to a really good start in US chronic, driven by innovation, driven by commercial execution. And we are really satisfied in terms of where that business is. And we are also off to a really good start with our urology business.

Our urology business is already now at a high-single-digit growth. We actually anticipated that to come later in the period. But that business is also off to a better start than we had anticipated. It's clear that this year is really impacted by the Biologics situation. We have talked a lot about it. But it's really impacted by this reimbursement reform that came into play from January 1. And then China, this quarter we have taken a decision to reduce our inventory levels. But there's actually quite a bit of our business that is either at or above the expectations we have towards 2030.

In terms of question two, Gavin?

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Thank you. So, I think that one of the big questions is how to fund the journey when we start to make some of these choices. And specifically, it's on innovation within Chronic. It's also looking at other fast-growing BUs, and it's also looking at geographies. So, I think overall Coloplast if you look, historically, we've been very strong in driving continuous improvements and we need to continue to leverage this strength. Meanwhile, we're also reviewing the growth and profit pools across our businesses and we'll be assessing these against bigger value opportunities.

And to be more tangible, we see meaningful opportunities to free up capacity through organizational simplification, operational efficiencies and tech-enabled productivity improvements. And some of these examples include assessing our overhead spend, especially in non-customer-facing areas. I mean, we're going to be really focused on investing in customer-facing roles, commercial productivity improvements and alignment, looking at direct spend optimization.

And this means investing more behind innovation and growth, while continuously improving productivity, reducing complexity where returns are diminishing. So, ultimately, I see meaningful opportunity to sharpen our focus on resource allocation and reallocation, capital deployment and investment governance. And this will ensure that resources are directed towards the opportunities that have the greatest potential to drive growth and create value. And ultimately, we're trying to make smarter choices to drive growth long term.

Jesper Ingildsen
Analyst, DNB Carnegie

Q

Perfect. Thanks so much.

Operator: And the next question comes from Veronika Dubajova from Citi. Please go ahead.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Good morning, Gavin and Anders, and thank you for taking my questions. I have two, please. And forgive the bluntness. My first one is just on the priorities, Gavin. If I look at what we're talking about, it sort of seems very much the same thing as what's been going on at Coloplast. And I think we can all objectively look at it from the outside and for a variety of reasons, there has been very limited earnings growth through the last period in the business.

So, I'm just curious kind of what are you actually going to do differently? Yes, I know there's opportunities in the US. Yes, I know there's opportunities in Wound. Chronic Care is a great business. But just looking at it, it doesn't sound to me like there is a huge amount of change. So, maybe you can outline what is going to be different under your leadership versus your predecessor.

And then, my second question is just, Anders, on your comments around the review of the long-term guidance. Can I just get your perspective at this point in time whether the risks that you see are more to the sales guide or to the EBIT guide or to both? Thank you so much.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S
A

Okay. Thank you, Veronika, for the question. And I think, look, pragmatically, I'm 100 days in and I'm putting out five areas that I think are important for our future. And maybe I'll give you a little bit more context to it, but I think the real answer is going to come at full-year implications. But if you look at it from a practical standpoint, we want to continue to be strong in the US. So, as Anders said earlier, we're starting to see momentum pick up.

We've put new leaders in place to lead couple of our top businesses in the past year and a half. And that's leading our Chronic business and Interventional Urology. We're also making changes in some of our leadership that you heard today on Wound & Tissue Repair. And we're committing to putting more resources in the US. If you look at it from a result perspective, we're starting to see double-digit growth just in the past quarter in the US. So, we want to fuel that. So, that's going to be like a lean in that you're going to actually see us start to focus a lot more. And I think that that's going to be different than the past.

The other area is on Wound & Tissue Repair. I think we've been very open that there's been a lot of challenges in the outpatient market. We are actively shifting our resources from outpatient to inpatient. And we've just spent the last couple of months doing a strategic review on this business to make sure that we're much more laser focused on specific accounts and specific specialties where we're going to start to align our resources to.

And what we believe is that in the coming quarters, this will start to drive more growth than we've seen in the past in the Biologics area. So, those are two examples. And what I would say is that, as I gain more insights over the next three months and I get to the full year, I'll share a little bit more about how these come into play with more defined decisions and implications.

And I'll pass over to Anders for the second question.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S
A

Yeah. Thanks, Gavin. So, the second question, Veronika, it's basically that we are, as Gavin just mentioned, assessing a number of things currently in order to move forward. And that is back to this whole resource allocation as one of the key ones. And the next period of time, we will continue the assessment of the organization and then we will conclude when we have the full-year announcement in November.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.
Q

Okay. But at this – I guess – I appreciate that. But I guess, is the concern that you have more about the growth targets or is it that you want to allocate more resources to the business? And so, maybe it's about the EBIT targets or is it both? I guess, I'm just trying to understand. I know it's very preliminary, but I'm just trying to understand where you see the risks to the strategy that was outlined about a year ago.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Yeah. So, that's what we're currently assessing, Veronika, as Gavin has mentioned a couple of times now. We have shared Gavin's 100 days reflections and now we move into the next phase where we will evaluate what are the things we will do in a different way, and we will conclude on that when we announce our full-year results.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Okay. We had to try. Thanks, guys.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Thank you.

Operator: Then the next question comes from Julien Dormois from Jefferies. Please go ahead.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Hi. Good morning, Gavin. Good morning, Anders. Thanks for taking my questions. And I will give you a break on the mid-term guidance. First question is a more short-term one and it relates to Kerecis. I think you have indicated in the release that you expect to bring back profitable growth in that business. So, I was just curious to how long it would take. Is it a matter of a few quarters? Or are we more talking years to bring that business back to a more decent profitability level? So, that would be question number one.

And the second question also relates to the five priorities that you have highlighted, Gavin, following your 100-day review. You mentioned obviously great opportunities in the US focusing on Chronic Care, Men's Health, but I could not find any, let's say, commitments on the Wound & Tissue Repair. While I think previously you were talking about this business possibly being a priority because you're obviously punching way below your lead in that business in the US apart from Kerecis. So, just curious whether that's more something that we should think more about the next strategic period and then maybe not for that one specifically. Thank you.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Okay. So, I'll take your first question. And maybe let me give you just a little bit of background. So, the answer is we believe that sometime around Q2 2026/2027 is when we start to see some true recovery. And why that timeframe? Because if you look at the outpatient and when reimbursement was lost, we plan to see kind of the bleed out where we're comparing apples to apples beginning in Q2. And that's when we're going to be able to compare just our focus on inpatient versus our previous focus on inpatient the year before.

But I think that if I give more context, our conviction, this answers a little bit of your second question, too, our conviction in the long-term Biologics opportunity remains intact. So, when I made a comment before about growth coming in Chronic right now and seeing really good growth in Interventional Urology, it did not mean I don't believe in Biologics and Advanced Wound Care. They're just in different places of evolution right now.

Why I believe that the long-term Biologics opportunity remains intact is primarily what we've seen in the US is a reset, which has been challenging. But this has also forced us to learn and we've been able to accelerate our learning curve and provide greater clarity on where customer segments, specialties and care settings are best positioned to win. And so, what we see ultimately is that the center of gravity in Biologics is going to shift towards hospitals and specialist care settings, and specifically that's going to shift into inpatient.

So, this is fortunate for us because this is a market where Kerecis is particularly well-positioned. We're supported by strong clinical evidence. We have favorable healing outcomes and clear product differentiation, and a majority of our business sits in this call point. So, going forward, we're going to concentrate our resources on priority accounts, in specialty-led growth and a clearer focus on deeper penetration by account. And I think equally important will be restoring profitable growth in Biologics business through improved field productivity and scaling our clinical expertise. So, that kind of answers, I think, a little bit of your second question, because I do believe that we're going to see this return to growth.

And then, we're doing in parallel a review on the Advanced Wound Dressings to really determine how to win in the US because that is an area that, I agree, we've been a little bit softer. And now we're going to lean in and put the resources behind it to determine how to win in the US. And I'll come back at full year and share more on that then.

Julien Dormois
Analyst, Jefferies GmbH (FR)

Q

Very helpful. Thank you.

Operator: Then the next question comes from Anna Ractliffe from Bank of America. Please go ahead.

Anna Ractliffe
Analyst, Bank of America

Q

Hi. Thank you for taking the questions. I wanted to pile on, on the Wound questions. It seems like contract manufacturing drove a lot of the strength in the quarter. I saw you call out the phasing in Germany and the Middle East. Would you be able to give us any more detail there? How much of that was maybe catch-up from Q2 disruption? And how do you see that playing out in Q4 and into the start of next year?

And then maybe to follow up on Aisyah and on Anchal's Intibia questions. That product has been a big part of driving Interventional Urology growth to high-single digits from mid-single digits. So, maybe with the approval push-out, should we think about next year maybe as more of a mid-single-digit year ahead of the approval? Or are there any other smaller catalysts or product launches that we should be thinking about that can support organic growth for next year in this division? Thank you again for taking the questions.

Anders Lonning-Skovgaard
Executive Vice President & Chief Financial Officer, Coloplast A/S

A

Yeah. So, thanks a lot, Anna. Let me start with the first one around our Dressings growth in Q3. You're right, we saw very strong contribution from our contract manufacturing in the quarter. And we actually expect that, to some extent, continue into Q4, but not at the same level. We also had good growth contribution in Germany, but that's more a Q3, Q4 phasing. But then on the other hand, next quarter, we will – we did a big recall last year in China of around DKK 60 million, as I recall. So, we will also see a strong Q4 for our Dressings business. But, yes, there is quite a bit of underlying movements for our business. Good news actually so far this year is also our US. US Dressings is actually contributing to our growth as well.

Then question number two in terms of Urology. As we said a couple of times throughout the call, our Urology business this year is off to a better start than we thought when we announced our Impact4 strategy last year. So, we're already sitting with high-single-digit growth, in particular, driven by Men's Health. And we expect this to continue basically due to the launch of our new penile implant, the Titan Prime.

We expect to launch a new solution within the next couple of months. And then, next year, we will also see contribution to organic growth from the acquisition we did back in February. So, the Uromedica acquisition will also contribute to growth. So, we are optimistic that our Urology franchise will continue to drive the high-single-digit growth as we have also said in the Impact4 strategy. Okay?

Operator: Good. And we have one more question coming from Graham from UBS. Please go ahead.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

Morning. Thanks, guys. Can I just ask one, Gavin, on the sort of the timing of some of these changes in terms of priorities? So, in terms of investing in innovation, presumably that's a fairly slow burn, right? You can't just like double R&D spend or something overnight. So, is that something you intend to do through the period over the midterm, or is it something you could ramp up relatively quickly? And then, the offset to that is in terms of the efficiencies, are those things that are relatively low-hanging fruit in your view and something you can kind of harvest a little bit quicker as well? Just to get understanding of those kind of puts and takes in terms of timing, please.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

So, to answer your first question, it will be through the midterm. So, as I stated before, we recognize that there's an opportunity to invest more in R&D and in innovation. And it needs to be meaningful innovation. But you are right, it takes time to do this. What we are committing to is when you look at the Impact4 timeline, we actually have very solid innovation up until 2029.

So, we're looking – like this commitment is now to start the reinvestment into innovation for that time period and beyond. And that is where we're going to start to give you better line of sight as we go forward what investment choices we're going to make on innovation. But it's really putting the stake in the ground to say that we're going to start to invest for the future. But you are right, it takes time.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

And maybe just on the point around actually US expansion in terms of prioritizing that to Veronika's points. Obviously, there has been investment in the past, but you've come in with a fresh look. What are the things that you see as like – of standout opportunities to really move the dial in the near term there?

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

I think that short term the biggest is commercial execution always. It's really looking at your front line. So, you come into a company and you're new and you're starting to look around and when you start to see pockets of growth and, really, I think, the best way to answer this is when you took a look earlier at the first slide. 25% of our business comes from the US, but it represents the largest market for opportunity in medtech globally. That's for every company.

And we're sitting in position number three in Ostomy Care between 15% and 20%. And we still have a lot of runway in Continence Care. We're at 5% to 10% in US Biologics. So, you look at that naturally and you start to say, okay, let's start to invest more in our commercial execution, our commercial capabilities, because the runway, if we start to make those investments, we believe with our superior products, we can win. And that will be the short term.

Graham Doyle
Analyst, UBS AG (London Branch)

Q

Perfect. Thank you very much.

Gavin Wood
President & Chief Executive Officer, Coloplast A/S

A

Okay. Thank you very much.

Operator: Well, ladies and gentlemen...

Gavin Wood

President & Chief Executive Officer, Coloplast A/S

Okay. Well, thanks, everyone. We appreciate you joining today. And that's all the time we have for now and grateful for your questions. Thank you.