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# Coloplast A/S (CLPBY.DK)

Q2 2025 Earnings Call

## CORPORATE PARTICIPANTS

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*Interim Chief Executive Officer & Director, Coloplast A/S*

### Anders Lonning-Skovgaard

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

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## OTHER PARTICIPANTS

### Jack Reynolds-Clark

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*Analyst, Carnegie Investment Bank AB (Denmark)*

### Hassan Al-Wakeel

*Analyst, Barclays Capital Securities Ltd.*

### Martin Parkhøj

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Coloplast First Half 2024-2025 Earnings Release Conference Call. I am Hilda, the Chorus Call operator. I would like to remind you that all participants will be in 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 Lars Rasmussen, Interim CEO. Please go ahead.

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### Lars Søren Rasmussen

*Interim Chief Executive Officer & Director, Coloplast A/S*

Good morning and welcome to our Half Year 2024-2025 Conference Call. I'm Lars Rasmussen, Interim CEO of Coloplast and I'm joined by our CFO, Anders Lonning-Skovgaard; and our Investor Relations team. We will start with a short presentation by Anders and myself and then we open up for questions.

So, I would like to start by saying thank you. Thank you to Kristian for running the company for the last seven years, for being part of the management team for the last 17 years, and for all the good work that he has done together with the team over those years. There have been a number of very important decisions in Kristian's tenure, and among them, the acquisition of Atos and Kerecis that we are super happy with.

However, we have not seen the value creation that we have invested for and we have not seen the top line growth that we have invested for either over the period. And that is why the board of directors, they have decided that this is a good time to part with Kristian. And I would like to underpin that there's no wrongdoing on Kristian's side, but we think that what we need at this point in time will be more decision power, more execution power, and more energy in leading the company. And that is maybe also a very natural thing after running the company for seven years, which I think that most of you will know that that's probably more than the average tenure of most CEOs for global med-tech companies.

So, we are also, for the time being, preparing a new strategic direction for the company. We are going into a new strategy period; that work will still be ongoing. We are going to have the Capital Markets Days as we have sent out a placeholder for in September. And you could always ask the question, isn't this for a new CEO to decide? Well, I have to say that the prime responsibility for the board is to make sure that there is an updated strategy at any point in time and that it's being implemented and executed to the letter. And that means that a new CEO coming in will have to take over that strategy and that's just how it is.

As a result of my appointment as Interim CEO, I'm stepping down from my role as Chair of the Board of Directors at Coloplast. Board member Jette Nygaard-Andersen will be appointed Interim Chair for the duration of my tenure as Interim CEO. I'm also stepping down from the role of Chair of Remuneration and Nomination Committee and Member of the Audit Committee. I will remain on the board of directors of Coloplast as an ordinary member.

So, I am also looking forward to coming back to Coloplast in the CEO role for an interim period. I also hold – held this period – held this position from 2008 to 2018 and together with the rest of the executive leadership team, we'll continue executing on our strategic goals while ensuring operational excellence and accelerating momentum and creating value.

So, with that, I will hand over to Anders. And before I do that, I would also say that I know there will be plenty of questions afterwards. I will take the questions on the management change. This is very recent, so I have not trained myself on the financial numbers and the answers on them to the tune that I will take any of these on this call. So, we will split it between us. So, Anders will take the financials and I will take the management part of it.

Thank you very much. And over to you, Anders.

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## Anders Lønning-Skovgaard

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

All right. Thanks, Lars. And please turn to slide number 4. Good morning, everyone. We delivered 6% organic growth and a reported EBIT margin before special items of 27% in the second quarter. Adjusted return on invested capital after tax and before special items was 15%, on par with last year. The organic growth in Q2 was below our expectations.

At the high level, the quarter was marked by a high negative impact from the product recall in Interventional Urology, compared to our initial expectations and a weaker performance in our Ostomy Care business. In Interventional Oncology, we currently don't expect a significant improvement in the second half of the year and the growth rate for Interventional Urology this year is therefore adjusted to around 0% from mid-single-digit growth.

In Ostomy Care, on the other hand, we expect to see a rebound in growth in the second half of the year, following some one-off effects in the quarter. The continued impact from the product recall in Interventional Urology has led us to revise the organic growth guidance for the year. We now expect organic growth to be around 7% from

previously 8% to 9%. As a consequence of the lower expectations on organic growth, we have also adjusted the expectations on the EBIT margin before special items to 27% to 28% from previously around 28%. I will go through the details on the guidance later on.

Before we move on to the strategic update for the first half of the year, let me give you update on the Local Coverage Determination policy. The implementation of the LCD policy for skin substitutes has been postponed to the January 1, 2026. Kerecis products remain fully covered under the existing LCD policy and are supported by strong clinical evidence. As such, we currently don't expect significant impact from this delay to current trading.

With that, let's turn to half-year strategic update. Please turn to slide number 5. Let's look at growth first. With our Strive25 strategy, we set out to actively pursue M&A opportunities to build growth and value creation options for the mid- to long-term. The two most significant investments we made, Atos Medical and Kerecis, are both performing in line with our expectations with a strong future outlook.

Next, let's turn to innovation. Last year, we initiated a number of product launches in Chronic Care that will support growth during Strive25, but also beyond this strategic period. Luja, our new intermittent catheter with a Micro-hole Zone Technology is now the main growth driver in Continence Care, driven by the main product. The launch of Luja for Women is close to being finalized. We are very pleased with the market reception of Luja, and we see the Micro-hole Zone Technology as the next level of standard in intermittent catheterization. Luja will be a full product range with further product launches under the Luja brand in the coming years.

In Ostomy Care, we initiated three launches last year: SenSura Mio black bags, and two SenSura Mio additions in the two-piece segment. All of these launches are off to a good start. Given the complexity of the Ostomy Care portfolio, these launches are not finalized yet. We will further expand these product lines over the coming quarters and years to support continued growth above the market, and within Ostomy Care.

On sustainability, we continue to make good progress across all our initiatives. I would like to call out the latest results of our employee engagement survey, where we maintain a solid score of 8.2, ahead of the industry benchmark of 7.7, which we are particularly satisfied with.

Let me finish with operational efficiency. The first half of this year marks a period in which we have initiated a number of profitability improvement initiative to support long-term value creation. The first wave of initiatives was the margin improvement program within Advanced Wound Dressings, with a group margin benefit of around 30 basis points this year, including the divestment of the Skin Care business. In addition to this, we are initiating further company-wide activities, which will position us well for the next strategic period and will support profitability improvement beyond this year. These additional initiatives will have short-term implication for short-term items, which I will speak to later on.

Now, let's take a closer look at today's results. Please turn to slide number 6. In Ostomy Care, organic growth was 6% for the first six months, and growth in Danish kroner was also 6%. In Q2, organic growth was 4%, with growth in Danish kroner of 5%. Our SenSura Mio portfolio continues to be the main growth driver, followed by the Brava supporting products. Our SenSura and Assura/Alterna portfolios continued to post solid growth in emerging markets.

From a geographical perspective, growth in the quarter was driven by continued solid momentum in the US. Europe had a softer quarter impacted by a high baseline last year, and key markets like Germany and France. In the emerging markets, growth was held back by slower tender activity in selected markets. Finally, the quarter also saw a slowdown in growth in China impacted by the consumer segment.

In Continence Care, organic growth was 7% for the first six months and growth in Danish kroner was 8%. In Q2, organic growth was 8% and growth in Danish kroner was also 8%. Growth in the quarter was driven by the male Luja catheter, which performed strongly across the key European markets. SpeediCath, our previous generation of catheters also contributed to growth driven by – primarily by solid contribution from emerging markets.

Our Bowel Care business also made a solid contribution to growth driven by Peristeen Plus in Europe, while Collecting Devices (sic) [Collective Devices] (00:11:20) posted flat growth. From a geographical perspective, growth was broad-based with solid contribution across regions. Markets, where reimbursement has been recently established or improved, such as Poland, continued to perform well and grew double digit.

Voice and Respiratory Care posted 9% organic growth for the first six months, with growth in Danish kroner of also 9%. In Q2, organic growth was 7% from a high baseline last year, while growth in Danish kroner was 8%. Growth in Laryngectomy in Q2 was high single-digit and driven by an increase in the number of patients served in existing and new markets, as well as an increase in patient value driven by the Provox Life portfolio.

Growth in Tracheostomy in Q2 was double digit and driven by continued solid demand. From a geographical perspective, all regions contributed to growth driven by Europe and the US. In Advanced Wound Care, organic growth was 11% for the first six months and growth in Danish kroner was 4%. In Q2, organic growth was 10% and growth in Danish kroner was 1%. The reported growth for the period includes four months negative impact from the divestment of Skin Care.

Kerecis was the main growth contributor in Advanced Wound Care with continued solid momentum and growth of 30% in Q2 and 31% in the first six months. Growth in the quarter was broad-based with solid contributions from in-patient and out-patient segments. Kerecis' operating profit margin, excluding PPA amortization, was 12% in the quarter and in the first six months, in line with expectations.

The Advanced Wound Dressings business grew 3% organically in the quarter and also 3% in the first six months. And Europe was the main growth contributor in Q2, driven by Germany. Growth in the quarter was negatively impacted by China, which detracted from growth partly impacted by a high baseline last year. From a product perspective, Biatain Silicone, Biatain Fiber and the newly launched Biatain Superabsorber were the main growth contributors in the Dressings segment.

In Interventional Urology, organic growth was 0% for the first six months, and growth in Danish kroner was 1%. In Q2, organic growth was negative 1% and reported growth in Danish kroner was 1%. Growth in Q2 was negatively impacted by the voluntary product recall in the Bladder Health and Surgery segment, which detracted significantly from growth. The impact of the product recall was around DKK 35 million in Q2 and around DKK 60 million in H1, which was above our previous expectations. The higher-than-expected impact in the quarter was due to a higher level of customers lost than initially expected.

The negative impact of the product recall in Q2 was only partly offset by positive growth contribution from Men's Health, Women's Health and the Endourology business. From a geographical perspective, the US was the main growth contributor in Q2, while Europe detracted from growth due to the product recall.

Please turn to slide 7. Reported revenue for the first six months increased by DKK 765 million, or 6% compared to last year. Organic growth contributed DKK 871 million, or around 7% to reported revenue. Revenue from divested operations, mostly related to the divestment of the Skin business, in December 2024, reduced reported revenue

by DKK 148 million, or 1%. Foreign exchange rates had a small positive impact of DKK 42 million on reported revenue, mainly related to the appreciation of the US dollar and British pound against the Danish kroner.

Please turn to slide 8. Gross profit for the first six months amounted to DKK 9.5 billion, corresponding to a gross margin of 68% on par with last year. The gross margin was positively impacted by favorable development input costs, price increases, and country and product mix, partly offset by ramp-up cost at our manufacturing sites in Costa Rica and Portugal. The gross margin also included a small positive impact from currencies of around 10 basis points.

Operating expenses for the first six months amounted to DKK 5.7 billion, a 6% increase from last year. The distribution-to-sales ratio for the first six months was 33%, compared to 32% last year. The increase in distribution costs was driven by continued commercial investments in Kerecis and higher sales activities across markets. The distribution cost also include around DKK 30 million extraordinary costs related to the new distribution center in the US. I'm now pleased to say that our US distribution is now operating at a normal service level, and we don't expect further extraordinary cost related to this.

The admin-to-sales ratio for the first six months was 4% compared to 5% last year, and includes impact from a high baseline as well as benefit from synergies from the Atos Medical integration. The R&D-to-sales ratio for the first six month was 3% of sales on par with last year.

Overall, this resulted in an operating profit before special items of DKK 3.8 billion in the first six months and a 5% increase compared to last year. The EBIT margin before special items in the period was 27%, on par with last year. The EBIT margin in the first six month continues to include negative impact of around 100 basis points from the inclusion of Kerecis, including PPA amortization cost, in line with expectations.

Currencies had a small positive impact on the reported EBIT margin of around 10 basis points in the first six month. Financial items in the first six months were a net expense of DKK 385 million, compared to a net expense of DKK 418 million last year, driven mostly by interest expenses related to the financing of the Atos Medical acquisition. The ordinary tax expense in the first six months was DKK 717 million, with an ordinary tax rate of 22%, on par with last year. The total tax expense in the first six months was DKK 1.3 billion, impacted by the transfer of Kerecis Intellectual Property from Iceland to Denmark, and as a result of the extraordinary tax expenses, the effective tax rate in the first six months amounted to 40%.

Adjusted for the Kerecis IP transfer, net profit before special items in the first six month was DKK 2.7 billion, or 7% increase compared to last year. Adjusted diluted earnings per share before special items increased by 7% to DKK 11.83. Please turn to slide number 9.

Operating cash flow for the first six month was an inflow of DKK 2.7 billion compared to an outflow of DKK 772 million last year, impacted by the tax payment related to the Atos Medical Intellectual Property transfer. The underlying development in the operating cash flow was positive, driven mostly by lower income tax paid and an increase in operating profit. Cash flow from investing activities was an outflow of DKK 442 million, compared to an outflow of DKK 554 million last year.

CapEx in the first six month was 4% of sales, on par with last year. As a result, the free cash flow for the first six months was an inflow of DKK 2.3 billion, compared to an outflow of DKK 1.3 billion last year. Excluding the positive impact from the Skin Care divestment and the negative impact from the tax payment related to the Atos Medical IP transfer last year, the adjusted free cash flow for the first six month was an inflow of DKK 2.1 billion, or an 80% increase compared to adjusted free cash flow last year.



The trailing 12-month cash conversion was 81%, while the free cash flow-to-sales ratio was 15%. Net working capital was around 26% of sales impacted by lower level of sales in Q2. Lastly, the board of directors approved a half-year interim dividend of DKK 5 per share, corresponding to a total interim dividend payout of approximately DKK 1.1 billion.

Now let's look at the financial guidance for the year. Please turn to slide 10. As mentioned earlier, we now expect organic revenue growth for the year to be around 7%, with the following updated assumptions. Growth in Interventional Urology is now expected to be around 0%. A slowdown in China to low-single digit from previously around mid-single digit impacted by consumer segment and mostly relevant for Ostomy Care. High uncertainty related to timing of tenders in Emerging markets, mostly related to Ostomy Care. The assumptions on the remaining business areas are largely in line with the expectations laid out in November 2024.

Next, the reported revenue growth in Danish kroner is now expected to be around 4% from previously around 7%, which includes the lower organic growth expectations around 2 percentage point negative impact from currencies related to a weaker US dollar and around 1.5 percentage points negative impact from the Skin Care divestment. The EBIT margin before special items is now expected to be 27% to 28%. The updated expectation on the EBIT margin is related to the lower organic growth outlook to be partly offset by prudent cost management.

The remaining expectations on the EBIT margin before special items are largely in line with the expectations laid out in November 2024. Here, I would also like to mention that our financials include an assumption that impact from the US tariffs will be immaterial. Products in our Chronic Care categories, which cover Ostomy, Continence, and Voice and Respiratory Care, are all currently exempted from the tariffs. We have some exposure in Advanced Wound Care and Interventional Urology. However, as mentioned, the impact from this exposure is not significant for the group.

Currencies are expected to have limited positive impact on the EBIT margin, driven primarily by the British pound and the Hungarian forint. In terms of phasing, we expect a gradual improvement on both organic growth and EBIT margin in the second half of the year compared to the first half of the year. For 2024-2025, I now expect around DKK 450 million in special items. The additional special items are related to additional profitability improvement initiatives to benefit us beyond this financial year and a write-down of assets.

The net financial expenses for 2024-2025 are still expected to be around DKK 800 million, impacted by the weaker US dollar impacting our hedges. There are no changes to the assumptions on the ordinary and effective tax rate and CapEx. On net working capital, I still expect a net working capital-to-sales ratio in 2024-2025 in line with our long-term expectations of around 24%.

Before going into the Q&As, I would also like to thank Kristian for a strong collaboration and teamwork in the last 17 years, of which more than a decade on the executive leadership team. So, thanks a lot Kristian.

All right. With that, thank you very much. Operator, we are now ready to take questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Jack Reynolds-Clark with RBC Capital Markets. Please go ahead.

**Jack Reynolds-Clark**

*Analyst, RBC Europe Ltd.*

Q

Hi there. Thank you for taking the questions. A couple for me, please. Well, one to you, Lars. Exactly what do you think needs to be improved to drive in terms of value creation and top line growth that you commented on in your opening statement today?

And then one for Anders, on Bladder Health, why has the recovery here have been slower than you expected? What are your kind of expectations around recovery going forward, is this still kind of a good business over the next year, year-and-a-half? Thanks.

**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

So, thanks. Thanks for the question, Jack. So, what needs to be improved? As I said at the beginning and I can see that there's more people coming on. So first, I would like to start, again, by saying thank you to Kristian for leading the company for the last seven years. And as I said, what we are looking for now is more decisiveness in the management team. So, we need to make decisions that benefits the top line growth of the company. If you look at the numbers that has been presented in this deck, we have a pretty good control on the costs side, but we are missing out on the top line growth. And that has, of course, a significant impact also on the bottom line.

So, what we have invested for? Also with the acquisitions of Kerecis and Atos. And also, what we are investing for in new product development and then the professionalization of our whole go-to-market process is more top line growth, and that have not materialized. That is our focus. That is what we are going for. And I'd also like to reiterate, it's not something to do with Atos and Kerecis, it's more broad based. Actually, both Atos and Kerecis are delivering on the business case that we [ph] had of putting (00:26:40) putting in when we were acquiring those companies. So, it's more broad based, but it's all about execution in the company. It's focusing on top line growth.

**Anders Lonning-Skovgaard**

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

A

Yeah. Thanks, Jack. For your second question around our product within the Urology. So, as you might recall, we unfortunately had this recall. It started out in December. Good news were that we were back in the market from February. But unfortunately, over that period, we have seen quite a significant loss of the customers. And we actually thought that we would start to see some improvements in Q2, but we have not seen any improvements yet. So, that's also why our Q2 number was sitting around 0% growth, and our April trading is still not looking in our favor. And that's really the reason why we have – taking the full year growth down for Urology to around 0%. And that really means that we are not expecting any recovery until next year, within this specific area in urology.

**Jack Reynolds-Clark**

*Analyst, RBC Europe Ltd.*

Q

That's great. Thanks very much.



**Operator:** The next question comes from the line of Niels Granholm-Leth with Carnegie. Please go ahead.

**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

Thank you for taking my questions. Lars, can you talk about the candidates that you would evaluate, so would that include both internal and external candidates for the CEO role? Secondly, since you are still planning to host this CMD on the 2nd of September, would that also include launching new financial targets for the coming five-year period? Thank you.

**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

So, we – if we had an obvious internal candidate, we would have presented that person today. So, we don't have that. And it's the responsibility of the board to make sure that there is a CEO succession as it is a responsibility of any leader to make sure that there's somebody to replace themselves. I think we have a pretty strong pipeline of talent, but we don't have a person that we consider to be ready at this point in time.

Now, I'm moving a step closer, of course, being the Interim CEO. So, I will also get a better look at the talent in the company while we are doing this. But we have – we have initiated an external search at any internal candidates that might be interested and pop up. They will, of course, be part of that search, but that's – that's how it is at this point in time. On the Capital Market Days, we are going to do a full-fledged strategic work that we are going to present there with everything that goes with that.

**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

So, including an update to your financial targets for the coming five-year period?

**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

Yes. That's correct.

**Niels Granholm-Leth**

*Analyst, Carnegie Investment Bank AB (Denmark)*

Q

Thank you.

**Operator:** The next question comes from the line of Hassan Al-Wakeel with Barclays. Please go ahead.

**Hassan Al-Wakeel**

*Analyst, Barclays Capital Securities Ltd.*

Q

Hi. Good morning. And thank you for taking my questions. I have three, please. Firstly, Lars, you mentioned organic growth and value creation as key reasons for management change. Were there any meaningful strategic differences? And could you talk to the confidence you and the board have in the company's current strategy and mid-term targets? And secondly, and related to that, how are you and the board thinking about the strategic rationale of retaining the Interventional Urology business, given the recent performance issues?

And then finally, one for you, Anders. Could you please talk about the Ostomy Care business in the quarter and how meaningful the China slowdown was for growth and whether developed markets saw some slowdown as well? And do you think some of this slowdown overall could be attributable to share dynamics? I guess I'm trying to understand your confidence in the recovery assumed over the course of the rest of the year. Thank you.

**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

So, we – we have made a profit warning. One of the rare ones. And that's because we are not delivering on the organic growth targets that we have in the markets right now. That can happen. And no one is being laid off because of a profit warning. What we have looked at is what are the external explanations for the weaker performance, and what are the internal ones? We think – or the board was of the perception that a lot of it was internally driven. And then, of course, you have the question mark, so how do we change that? And there are, of course, a number of corrective actions going, which makes me quite confident that we can come back to the growth that we have – that we would feel satisfied with in the company. But too much of it had been internally driven with delivery issues or quality issues, for example, and that is not good enough. We have customers who are in a super vulnerable position and we cannot let them down. So, of course, we take that super seriously.

When it comes to IU and the strategy on IU, we are working on that right now. So, in a sense, it would be too early to talk about it. We will come back to that when we meet in September.

**Anders Lonning-Skovgaard**

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

A

Yeah. So, Hassan, I will take the third one, in terms of Ostomy Care. And yes, Ostomy Care in the quarter was only growing 4%. That was below our expectations. A couple of explanations. So, first of all, within our European business, we had a very high baseline and that – that – of last year, and that impacted this year's growth. And we are confident that that will come back in Q3 and Q4.

Secondly, we have also this year some tender phasing activities going on within Emerging markets. So, we have a – you can say we're expecting a strong Emerging markets growth in the second half of the year, but that also impacted our Q2.

And then finally, the third explanation, that is China. So, as you might recall, we have for some years now been looking at a growth in China Ostomy around mid-single digit. We are now seeing that the growth in China is coming down to low-single digit within ostomy. And we saw that here in the second quarter and I'm actually expecting it will stay around that in the second half of this year. So, if I should summarize, we are expecting that our Ostomy Care will improve in Q3 and Q4, and we will again take market shares, because the underlying market growth is sitting around the 4%. And this will also be driven by the new innovation that we have launched over the last year or so. So, we are confident that our Ostomy will improve in Q3 and Q4.

**Hassan Al-Wakeel**

*Analyst, Barclays Capital Securities Ltd.*

Q

Thank you very much.

**Operator:** The next question is from the line of Martin Parkhøi with SEB. Please go ahead.

**Martin Parkhøi**

*Analyst, Skandinaviska Enskilda Banken AB (Denmark)*

Q

Yes. Martin Parkhøi from SEB [audio gap] (00:35:14) like you never left. Just two questions I think is also to you. The first question is going back to the organic growth rate. Do you ever consider that maybe your ambitions for the organic growth is just too high? As I recall it in the last couple of years in your period as CEO, you also struggled a bit to deliver on the [indiscernible] (00:35:39) ambitions of your organic growth targets. So, is it – could it be that sometimes that there are – there is no buffer into your guidance like a fallout [indiscernible] (00:35:50) so your ambitions actually just has been too high.

Then the second question, of course, a concern comes now, now you raise your special items for this year, it has been a little bit [indiscernible] (00:36:01) there's been special items for a number of years now of course related to integrations, but should the stock market be concerned that there could be further restructuring, even a kitchen sinking to appear and you [ph] setting for (00:36:21) upcoming CEO.

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### Lars Søren Rasmussen

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

So, thank you, Martin. And I will take the first one. Yes, I think it's tough targets. It was also tough targets back in the days, we – it's like we have never had anything else but tough targets. Of course, they don't come out of nothing, out of the blue. So, the most important thing is that we – for us, is that we have an offering to our customers that is seen as superior when it's – when we are looking at product quality and service levels, because that is what it takes to grow above the market.

Then you can always discuss how much above the market, but we think it needs to be convincingly. So, therefore, the growth targets that we are having will always be pointing to something which is above the markets. When we look at the products that we are bringing to the market, when we look at the difference that we have compared to the companies that we are competing with and they are great companies also, of course, then we think that we deserve more growth than what we have, at least in this quarter. So, yes, we have tough targets, but they are not going to go away.

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### Anders Lonning-Skovgaard

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

A

And Martin, to answer your second question, in terms of special items, so as a result of the lower growth than anticipated, we have initiated a number of activities to improve our profitability. So, we talked to some of them in Q1. And as a result of the second quarter growth, we have initiated a number of additional activities, and that will drive restructuring cost asset write-down. And this is in order to improve our profitability and value creation from next year. You should not expect special items to continue at this level into next year. Next year will be the final year of integration, and it will be at a significantly lower level.

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### Martin Parkhøi

*Analyst, Skandinaviska Enskilda Banken AB (Denmark)*

Q

Thank you very much.

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**Operator:** Next question from Maja Stephanie Pataki with Kepler Cheuvreux. Please go ahead.

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### Maja Pataki

*Analyst, Kepler Cheuvreux SA (Switzerland)*

Q

Hi. Yes, thank you for taking my questions. I would like to continue what Martin – on your discussion with Martin. You have, Lars, now mentioned that you've invested into growth. And the growth acceleration did not come through as anticipated. I guess, we shouldn't just look at the quarter where we had the product recall as well

impacting, but how do you think about the possibility that the investments into growth, the up to 2 percentage points of investment into growth with the special product innovation plan were actually enabling you to grow where you're growing. And without that, you might have seen a deceleration from the 7% that was the exit rate of your tenure. That's number one.

And the second question is, like, you have, Lars, mentioned now a couple of times the importance of quality. And this is clearly for a medtech company, the number one thing to focus on it. Has there been anything else with regards to quality that we should be picking up here? Because to my understanding, it was the packaging in Interventional Urology that was the issue and not the product itself. So, is there anywhere, anything else where quality is not meeting the standards that you and the board would like to see? Thank you.

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**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

Yeah. Thank you, Maja. Let me take the last one first, because, yes, you are absolutely right that it was a quality issue with the packaging in the IU product, that was the cause. And then we had the delivery problems due to the distribution center in the US. But no matter if you have a quality issue that makes you not deliver or a kind of a hiccup in your – in the way that you operate your distribution, it is in the same situation that the customers do not get the products that they order. And that is what I'm talking to is that you can't – you have to avoid that at any cost in a company like this, because you have vulnerable users at end of the whole value chain. So, it was not implying that there are any quality issues of loss that you should be nervous about there. We have told you everything that we know in this department.

I'm not sure that I could understand your first question about the investment with the 2%, could you elaborate a little bit on that?

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**Maja Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*

Q

Yeah. I'll try to make it more clearer. I mean, you started a call saying like, Coloplast has been investing into growth and yet we have not seen the acceleration in top line growth and value creation to come through in the sense that you – that was anticipated or hoped for. The question always is now, were those investments enabling you to grow at the level that you were growing? And if it would not have come through, then there would have been a deceleration in top line growth? And I guess that circles back to Martin's question. Is it possible that the targets that you assume for the company, or that you set for the company are not just ambitious but given the current environment with China, with competition, not a reflection of what can be achieved in the market?

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**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

A

That's a very good question. So we – when I say that we have invested, we have invested the [ph] some billions (00:42:37) in acquiring two high-growth platforms to the company, or companies with Atos and Kerecis. They actually grow. But now, they – you could say that the base business of the company is not growing to the tune that we have invested for. And that's the problem. So, is there too much focus on the acquisitions and too little on the base business? That's – no matter what it is, we cannot say that we are not growing fully or sort of firing on all cylinders just because of external issues, because the world is, of course, becoming more complex.

Of course, there are many things that are different than they were two years ago but the assessment that we have had at the board is a lot of the issues that we see, we have created them ourselves. And that is something that we would like to correct. So, therefore, yes, it is an ambitious growth target that we have put forth, but we think we

should be able to live up to it. And now I can say it because I'm in a different chair now, but it is not the board that dictates any targets for the management team. It is the management team's expectations of what they can do with the company that we are looking at. And they should be ambitious of course, and we are happy that they are.

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**Maja Pataki**

*Analyst, Kepler Cheuvreux SA (Switzerland)*



Thank you.

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**Operator:** The next question is from Anchal Verma with JPMorgan. Please go ahead.

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**Anchal Verma**

*Analyst, JPMorgan Securities Plc*



Hi. Good morning. One for you, Lars. Just to follow-up on the CMD, is there any risk that the strategy target set or put out by yourself and the board might need to be revised when the new CEO takes over as the new CEO may have a vision of their own? And then a couple for you, Anders, when the Kerecis acquisition was announced, there was a target put out for 20% EBIT margins by 2025-2026, that's next year and margins for Kerecis this quarter were 12%. So, there's a lot more to do there. Could you shed some more light on the underperformance of the margins there? And how should we be thinking of the Kerecis margin expansion going forward?

And then the last one is just a follow-up on Ostomy Care. Could you expand on why the tender activity in Ostomy was slower in H1? Was there any specific markets that stood out? And what gives you confidence that the tender slowdown isn't more permanent, and it will pick up in H2?

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**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*



Thank you, Anchal, for your question, questions. So, if you take – if we take the textbook, now, this is not according to textbook at all, because it's always preferable that the sitting CEO is proposing the targets for the next strategic period. So, if we were to wait until we have a new CEO and that new CEO would be somebody from outside, then that would also be reasonable that a person like that would have to spend at least half a year, maybe nine months to form his or her own opinion of the company and then craft the strategy. It could mean that we would be two years without a solid strategic direction. We can't have that. So, it will be like this. We are creating a strategy. And that will be created, of course, in the executive management team.

And I will do the utmost to make sure that there's buy-in, and it's not a dictate, and that a new CEO that comes on board will have to have a personality where that person can live with taking over a strategy with the goals and direction that we have and all that we have decided. That will have to be the terms. And I can't see that we can do it in any other ways, because as I said at the beginning, that the board has – that the first task any board has is to make sure that there is an ambitious strategy and that it is being implemented and executed on, that is the task that the board has, we cannot be without it.

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**Anders Lonning-Skovgaard**

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



Yes. Anchal, let me take your second question related to Kerecis margin improvement. And yes, as you mentioned, our ambitions for Kerecis when we acquired the company was a CAGR growth of 30% over a three-year period and improve the underlying EBIT margin to 20% in 2025-2026. We are on track, we are also seeing a strong gross margin and that has been around the [ph] 90% (00:48:18) level since our acquisition and the

improvement on the margin is really coming from scale, and I'm also expecting the underlying margin in this year, so the second half of this year, to improve further. So, we are looking at the 20% when we finish next year.

Please also remember that we are not expecting to hire a lot more people in the back-office functions. It is really in the frontline where we are hiring people to drive the growth agenda. So, it's really scale that needs to drive the margin improvement in the Kerecis business.

To your second – or your third question around Ostomy Care, as I mentioned earlier, we have some tender phasing in emerging markets between the first half of this year and the second half of this year. It is something we have also seen in the past, and it is really related to some of the specific markets in emerging markets. One of them is Russia. There's also some tender activities going on in the Middle East, and we are confident that we will have these tenders coming in, in the second half of this year, impacting Ostomy Care and our emerging markets growth positively.

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**Anchal Verma**

*Analyst, JPMorgan Securities Plc*



That's very clear. Thank you.

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**Operator:** The next question is from Graham Doyle with UBS. Please go ahead.

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**Graham Doyle**

*Analyst, UBS AG (London Branch)*



Good morning, Lars and Anders, thanks a lot for taking my questions. Just two for me, but, look, just kind of slightly bigger picture, but this feels like quite a big change and quite a sudden change, and to be fair, the feedback we're getting from investors is like, these results aren't great, but they're not a disaster. So, I suppose, is this either a signal that you're taking the broader cumulative slowdown in the last few years very, very seriously? Or I suppose [ph] this the (00:50:23) concern, is there something else that's happening? And maybe if you didn't make this change, you feel like the situation could deteriorate further. I think people just like reassurance on that front.

And then maybe just a quick one, you flagged, Anders, some corrective actions that you're taking at the moment in terms of improving growth. Could you sort of talk a little bit more about those and maybe how you see them playing out in the second half? Thank you.

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**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*



Thanks, Graham. So, yes, it is a big change. And no, it's not an easy decision when that kind of change pops up. As I said, we have made – had a long debate in the board about, so we are not where we should be on the top line growth. We are not getting the benefits from the acquisitions that we have made on the top line growth yet. Is that a disaster? No, it's not. This is something that we can definitely correct for.

Do we have the confidence at the board level that it's going to be significantly different if we don't do something about it? No, we didn't think that. And once you have had that conversation, you have to act on it. And some of the questions that I have gotten this morning from journalists is why don't you just make a search and then announce this at the point in time where you have somebody ready? And we don't think that that would be an appropriate way forward because the moment you do that, you will start contacting a number of people in the



markets. This is a listed company. And there can start to be rumors. And we would have to be not completely honest and straightforward and the same would go for Kristian.

We didn't think that that was the right way to do it and it was not in any way a good way for Kristian to stop and for us to stop the collaboration with Kristian. So, yes, it can seem as if it's abrupt, but we think it was the right thing to do at this point in time. And we also think it was timely. So, in the sense that we didn't sit on it for too long, but we are acting on, that we are not seeing the pick-up that we would like to see.

And that's what it is. There's nothing hidden. There's nothing that we have discovered that would have blown up if we didn't go about it or something like that. It's simply down to [indiscernible] (00:53:19) even stronger execution than what the company is doing right now.

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**Anders Lonning-Skovgaard**

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

A

And to your second question, Graham, in terms of a little bit more light on the special items/profitability improvement that we have initiated, they are currently being executed. And so we're not able to give you more light until they are done. And we will share more information around this in our Q3 call in August.

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**Graham Doyle**

*Analyst, UBS AG (London Branch)*

Q

Okay. Thanks a lot. Really appreciate the color. Thank you, guys.

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**Operator:** The next question comes from the line of Shubhangi Gupta with HSBC. Please go ahead.

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**Shubhangi Gupta**

*Analyst, HSBC Securities & Capital Markets (India) Pvt Ltd.*

Q

Hi. Thanks for taking my question. So, my first question is on your Wound Care segment. So, could you give some color on what was the growth in the segment ex-Kerecis? And how should we think about in H2? And second, on your long-term organic growth targets of 8% to 10%. So, what – which ones should we think to be the biggest growth drivers there?

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**Anders Lonning-Skovgaard**

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

A

Yeah. So, thanks a lot for your questions. So, let me speak to those. The first question related to our wound care dressings business, we had a softer Q2 with around 3% growth, it was also impacted by China. So, our Chinese wound care business had a negative impact on our growth. We're also expecting our dressings business to improve in the second half of the year, driven by our strong European growth, driven by new innovation and also partly driven by our US. So, we are expecting that the wound care dressings business will improve. So, we also this year will take market shares as well.

Then to your second question around the – you can say, the long-term growth ambitions. As Lars has talked to quite a bit, we are now preparing for a new strategy that we are going to communicate in September. And here, we will speak to the various drivers, areas that we expected to improve in order to deliver on our growth and value creation ambitions in 2030. So, we will share more lights on those in September. But there is no doubt that there a lot of the things that we are currently doing that we will also continue to do. And then as Lars said, there are also areas that we need to correct to improve the growth. So, so, yeah, we will share more lights on this in the – at the new strategy in September.

**Operator:** Ms. Gupta, are you done with your questions?

**Shubhangi Gupta**

*Analyst, HSBC Securities & Capital Markets (India) Pvt Ltd.*

Yeah. Thank you.

Q

**Operator:** The next question comes from the line of Marianne Bulot with Bank of America. Please go ahead.

**Marianne Bulot**

*Analyst, BofA Securities Europe SA*

Good morning, thank you for taking my questions. The first one is in the past, you talked quite lot about INTIBIA and how it could help, are you to return to a growth towards mid-to-high single digits. So, just wondering a little bit, what's the update there? Do you have any kind of visibility on the product launch and pickup and how it could potentially drive IU growth to return to mid-to-high single digits? And then my second question is on the US Chronic Care. Could you quantify if there was any kind of customer losses or market share losses due to the distribution center issue? And if you expect any shares regain now that the center is fully up and running?

Q

**Anders Lønning-Skovgaard**

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

Yes. Let me take those two questions, Marianne. Thanks. In terms of INTIBIA, we are running, as you know, the clinical studies, and we are expecting to have an outcome of those studies around summertime this year. And so, I really hope that we will have more insights later. In terms of the second question, Chronic Care in the US. Actually, our Chronic Care business in the US is doing well, we are seeing improvements both across Ostomy, but also across Continence, driven by the new launches. And yes, as you know, we had some impact or quite significant impact from the delivery challenges that we had last year in the second half and into our Q1. But overall, that is behind us. We have good service levels now and we're actually optimistic in terms of our Chronic Care business in the US in the coming period. So, yeah, we are looking at high-single-digit levels in the coming period.

A

**Marianne Bulot**

*Analyst, BofA Securities Europe SA*

Okay. Thank you. Maybe just a quick follow-up on the first question, does that mean you expect you could return to mid-to-high single-digit growth over the mid-term if INTIBIA is successful?

Q

So, there's no doubt that we decided to invest into INTIBIA several years ago with the purpose of launching the solution and with the purpose of improving our growth. Right now, we are in the middle of – we are coming to an end of the clinical studies and we really hope that we are going to have a thumbs up. And then we move into the next phase with the purpose of launching the solution and with the purpose of increasing our growth within Urology in the next strategic period.

A

**Marianne Bulot**

*Analyst, BofA Securities Europe SA*

Okay. Thank you very much.

Q

**Operator:** Next question from the line of Lisa Clive with Bernstein. Please go ahead.

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

Q

Hi. Could you just give us some detail on what the asset write-down was about? Apologies if that was published somewhere and I missed it. And then second of all, just given the internal investments that have been made in, particularly in Atos and Kerecis, as you mentioned, hasn't translated to stronger top line overall. But you've invested quite a bit on what are very attractive sort of long-term growth profiles. Should we assume the potential for a substantial amount of operating leverage in the mid-term or is this going to be much more gradual? I appreciate that you've given us some sort of long-term targets, but just thinking about the ramp up of profitability over the next few years. Thanks.

**Anders Lonning-Skovgaard**

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

A

Lisa, thanks a lot for your questions. In terms of the asset write-downs we have included in the special items, I will also be more specific on that in Q3, Q4. In relation to the second question, how we see the margin/profitability improve over the coming period, we have initiated a number of activities that should improve our margin moving into next year and how we see the financials develop towards 2030, that's again, something we will be more transparent about at the Capital Markets Day in September.

But one key driver in – at least short-term, that will be the Kerecis margin improvement that I talked to earlier. We are expecting Kerecis will improve the underlying margin to around 20% already from next year. So, that is one of the key drivers.

**Lisa Bedell Clive**

*Analyst, Bernstein Autonomous LLP*

Q

And just a quick follow-up. On China, you have an Ostomy business there, Wound business there. Ostomy is self-pay. Wound, I understand, is almost entirely in the hospital. Both have been weak, I understand around the consumer. But how should we think about both of those markets really longer-term? There's clearly been a lot of price pressure in China around things like VBP. There's also been a big ramp-up in local competition. Are you sort of confident in the outlook in China for both of those divisions? Thanks.

**Anders Lonning-Skovgaard**

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

A

Yeah. So, in terms of China, as I said earlier, our assumption has been recently that that we were growing around mid-single-digit, both in Ostomy and Wound. But here, in the first half of this year, the growth is coming down more towards the low-single-digit. And it is really driven by the consumer sentiment. Within Ostomy, we actually still see a good growth in the hospital. And remember, the Chinese ostomy market is one of the biggest in the world. So we are seeing good growth in the hospital part of the segment, but it's really in the consumer and it's really the consumer sentiment that has impacted our growth. And we are now looking at something around low-single-digit, as I talked to earlier.

**Lars Søren Rasmussen**

*Interim Chief Executive Officer & Director, Coloplast A/S*

So, with that, I would like to say thank you very much for listening in. I hope that we have sort of underscored that we are very confident in our strategy and also our ambitious targets. But we have something to mend when it

comes to our execution. And I'm confident that we are going to get out on top of that. So, so thank you very much and looking forward to meeting you later on this year. Thanks.

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