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Coloplast A/S (CLPBY.DK)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Coloplast Full Year 2025/2026 Earning Release Conference Call. I'm Lorenzo, 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 Q&A 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, incoming President and CEO (sic) [President and CEO] (00:11:02). Please go ahead, sir.

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

Good morning, everyone, and welcome to Coloplast full year 2025/2026 conference call. I'm Gavin Wood, President and CEO of Coloplast, joined by our CFO, Anders, and our investor relations team.

Today, we will take you through our fourth quarter results and full year results. More importantly, we will share how we are sharpening our priorities and the choices we are making to unlock the full potential of Impact4. And then we will open the call for questions. Please turn to slide number 3.

As communicated yesterday, we have revised our financial ambition towards 2030. We now expect organic growth of 5% to 7% per year and EBIT margin in constant currencies in the mid-20s over the period and return on

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invested capital around 20% in 2029/2030. The revised ambition reflects two things, a more challenging external environment and our decision to invest more in the areas that will strengthen Coloplast in the long term. Our ambition remains to outperform the market, supported by our strength in Chronic Care, attractive opportunities in Interventional Urology, and a more focused Wound & Tissue Repair business.

Our additional investment will mainly focus on the innovation pipeline beyond Impact4 and commercial opportunities in US Chronic Care and Interventional Urology. Changes in the external environment reflected in our revised guidance include pressure from price reforms and inflation, as well as impact from the reimbursement change in US Biologics. Anders will take you through the financial assumptions later. Let me first explain the strategic choices behind the revised ambition.

Please turn to slide number 4. In Q3, I set out five priorities for the business. Today, I want to update you on how we're advancing them. We are concentrating our resources behind the first two, sustaining the strength of Chronic Care and increasing our focus on the US. Chronic Care remains at the core of Coloplast and central to our priorities. It represents more than 75% of group sales and is our main engine of growth, profitability and cash generation.

This year, Luja continued to gain traction. We expanded the SenSura Mio portfolio, and our direct businesses continued to deliver strong service levels and growth. We are now increasing investment beyond the current launch cycle to build the next generation of products in Chronic Care. We increased R&D expenditure by 13% this year, enabling a higher activity level.

Our internal R&D capabilities will remain a key strength of our competitiveness, complemented by a more systematic approach to external ideas and technologies. In Q4, our manufacturing site in Portugal became operational. At 30,000 square meters, this is our largest site to date, adding capacity to support the demand for Luja, our most important Continence Care innovation in a decade.

Our second priority is the US, where several years of investment are beginning to translate into tangible results. We now have a broader market access through key GPOs, a stronger portfolio and leadership platform, and a direct Chronic Care business, which delivered strong double-digit growth this year.

In Ostomy Care, our market share has increased to around 20%, with our position in the acute channel even stronger and continuing to gain momentum. Our targeted innovation with the new two-piece click coupling is paying off and accelerating share gains in this segment.

In Interventional Urology, our US Men's Health business is in great shape. The business delivered double-digit growth. We've integrated Uromedica into our Men's Health platform, and we are now preparing for the phased launch of Titan Prime in the coming quarters. We will invest in these strong platforms to further strengthen our position and drive sustained share gains and growth.

At the same time, we need to future-proof our operating model in light of the dynamic environment, leveraging AI and digital initiatives, particularly in our Comfort Medical direct-to-consumer business.

Our third priority is Wound & Tissue Repair, with the focus firmly on restoring profitable growth in Biologics. We are concentrating Kerecis on the in-patient segment where growth remains double digit and Kerecis has the strongest rate to win. By end of Q4, approximately 85% of our US biologic sales came from in-patient and 15% from outpatient, showing how significantly the business has already shifted. The outpatient reimbursement change has structurally altered the market. Our conviction in the category in Kerecis, however, remains high. In

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less than a decade, Kerecis has built a strong competitive position based on its proprietary technology, extensive body of clinical evidence, and continuous product innovation.

Highlights this year include a new compact product platform and a new data on chronic and burn wounds. In chronic wounds, a real-world study of 80 patients demonstrated superior clinical effectiveness with Kerecis fish skin grafts compared with the standard of care for treating severe hard-to-heal stage 3 and 4 pressure ulcers.

In burn wounds, study results show that treatment with intact fish skin grafts significantly reduced hospital stay of length for severely burned patients compared with synthetic and collagen-based alternatives. These results further demonstrate the clinical strength of our technology, our conviction in the structurally robust in-patient market where we have a right to win thus remains high.

The fourth priority I set out in Q3 was to create capacity to invest behind our priorities. This requires a more disciplined allocation of resources, concentrating investment behind the opportunities with the strongest strategic and financial potential. Through our Funding the journey program, we've identified approximately DKK 500 million through the completed rightsizing of our organization in China, lifting profitability in Biologics, organizational simplification, and lower indirect procurement spending. We expect approximately 75% of the impact from the program in 2026/2027 with full effect the following year.

These are not savings in isolation; they are part of a broader reallocation resources towards innovation, the US and the capabilities required for the longer-term growth. The program will deliver this broader shift through continuous improvement, simplifying how we work, and stopping or reducing activities that are no longer sufficiently differentiated. Technology will also be an important enabler, both in improving the customer experience and in making Coloplast faster and more scalable.

Delivering on these priorities will ultimately come down to our people, which is why our fifth priority remains critical. Building on the people agenda I set out in Q3, we're now sharpening our focus on performance excellence, greater clarity and accountability in execution, and faster decision making. Bringing the five priorities together here is what you should expect from us.

In 2026/2027, we expect visible progress against each of these areas. In innovation, we need to deliver the current launch cycle, while strengthening the product pipeline beyond Impact4. Over the year, we expect to launch more than 10 products across all categories. In US Chronic Care, we now aim to continue the around double-digit momentum from 2025/2026. This is a notable milestone and one we have been working towards for many, many years.

In Wound & Tissue Repair, the more focused Biologics model needs to deliver around double-digit growth and an EBIT margin above 10%. Beyond the coming year, success means a stronger innovation contribution, greater US weight in our portfolio, and customer experience at greater scale.

Please turn to slide number 5. Looking at the strength of our foundation and the priorities we have set, I'm excited about the future. We operate in structurally attractive markets, all category leading positions, and derive more than 75% of our sales from our powerful Chronic Care annuity model. Over the past decade, we have broadened Coloplast growth opportunities through innovation, direct-to-consumer capabilities, acquisitions, and investments in the US. Our focus now is to translate these strengths into top-line growth, stronger innovation contribution, and greater US weight in our portfolio.

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In doing so, we're building on the capabilities that made Coloplast a global medtech leader, with the ambition to set the standard of care at scale and extend that leadership for generations to come.

Let me now turn to our performance in the 2025/2026 financial year. Please turn to slide number 6.

We delivered 6% organic revenue growth and 4% EBIT growth in constant currencies before special items, broadly in line with the guidance provided in April. Return on invested capital was 15%, in line with last year's adjusted level. Chronic Care remains strong and Interventional Urology delivered a better-than-expected start to the strategic period. This was partly offset by US outpatient reimbursement changes, which significantly affected Biologics. Net profit and free cash flow developed strongly.

Please turn to slide number 7. Looking at our performance by business area, Ostomy Care delivered 5% growth for the year and 6% in Q4. Growth was broad based outside of China and supported by the SenSura Mio portfolio. Excluding China, Ostomy grew 7% for both quarter and the full year.

In China, the new channel strategy, inventory reduction, and organizational rightsizing weighed on our growth. With new leadership and the principal changes implemented, we're now entering a more stable period.

Continence Care grew 7% for the year and 5% in Q4, supported by Europe and Luja. Despite a slower fourth quarter in the US, Continence Care delivered double-digit full year US growth, with a strong contribution from Comfort Medical.

Voice & Respiratory Care delivered 8% organic growth for the year and 9% in Q4, driven by the Laryngectomy segment. Wound & Tissue Repair grew 2% for the year and 1% in Q4. Advanced Wound Dressings grew 9% in the quarter, while Biologics declined 12%, reflecting the continued impact from the outpatient reimbursement change. Interventional Urology grew 7% for both the year and Q4, driven by Men's Health in the US.

With that, I will hand over to Anders, who will take you through our financial performance. Please turn to slide number 8.

Anders Lonning-Skovgaard

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

Thank you, Gavin, and good morning, everyone. Reported revenue for the full year increased by DKK 1.1 billion or around 4% compared to last year. Organic growth contributed with DKK 1.6 billion or around 6% to reported revenue. Foreign exchange rates had a negative impact of DKK 472 million or around 2 percentage points 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 9. Gross profit for the full year amounted to DKK 19.2 billion, corresponding to a gross margin of 67% compared to 68% last year. The gross margin was negatively impacted by currencies with around 100 basis points related to the depreciation of a basket of currencies against the Danish kroner and the appreciation of the Hungarian forint and Costa Rican colón against the Danish kroner. Ramp-up cost in Costa Rica and Portugal also impacted the gross margin negatively.

During Q4, we started to see the impact from the Middle East conflict on raw materials prices, which increased by more than 2% and freight prices, which increased by around double-digit. We also saw impact from worse business area mix, primarily driven by the decline in Biologics.

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Operating expenses for the full year amounted to DKK 11.8 billion, a 5% increase from last year. The distribution-to-sales ratio for the full year was 33%, on par with last year. Distribution costs grew 4% versus last year, reflecting Kerecis one-off cost in Q1 and Impact4 investments during the year. The R&D-to-sales ratio for the full year was 4% of sales compared to 3% last year. The increase was driven by high activity levels in Chronic Care and Biologics. Overall, this resulted in operating profit before special items of DKK 7.4 billion for the full year.

In constant currencies, EBIT grew 4% compared to last year, while the reported EBIT decreased 3% compared to last year. The EBIT margin before special items was 26% compared to 28% last year, reflecting around 40 basis points of incremental negative impact from Kerecis and around 100 basis points negative impact from currencies. Some of the negative impact from currencies was offset by currency hedges, positively impacting our financial items. Coloplast incurred special items expenses of DKK 3.2 billion for the full year, of which DKK 3 billion related to the Kerecis impairment loss.

Financial items for the full year were a net expense of DKK 403 million compared to a net expense of DKK 1 billion last year. The net expense included DKK 629 million in interest expenses, partly offset by gains on exchange rate adjustments. The tax expense for the full year was DKK 755 million, with a tax rate of 20% compared to 22% ordinary tax rate last year, impacted by the impairment loss on goodwill related to Kerecis.

Net profit before special items for the year was DKK 5.6 billion or a DKK 418 million increase when adjusted for the non-recurring tax expenses last year. Adjusted diluted earnings per share before special items increased by 8%.

Please turn to slide 10. Operating cash flow for the full year was an inflow of DKK 8 billion compared to an inflow of DKK 6.6 billion last year. The positive development in cash flows from operating activities was mostly driven by strong development in working capital, which ended at 24% of sales, in particular related to trade receivables and trade payables. 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 1.7 billion. CapEx for the full year was 5% of sales, on par with last year, and includes investments related to the new manufacturing site in Portugal, which became operational in our fourth quarter. As a result, the free cash flow for the full year was an inflow of DKK 6.3 billion compared to an inflow of DKK 5.4 billion last year or a 16% increase. Excluding acquisition costs this year and benefit from the divestment last year, the free cash flow increased 23% in the full year, with a strong free cash flow-to-sales ratio of 22% compared to 19% last year. The trailing 12-month cash conversion was 98%.

Turning to our sustainability performance, we are developing in line with our Impact4 ambition across most themes. Key highlights from the year include, first, we are making good progress on decreasing our absolute Scope 1 and 2 emissions, which decreased by 52% in the year compared to the base year 2018/2019, driven by ongoing efforts to phase out fossil-based energy sources as well as continued progress towards increasing the share of electric vehicles.

Another important part of our sustainability strategy is improving access to healthcare. This year, we had a key success in the US where the Centers for Medicare & Medicaid Services implemented free new quotes for hydrophilic catheters from January 2026.

Finally, we have had a strong focus on organizational health. And I'm pleased to see that employee satisfaction continues to be above the industry benchmark at 78% out of 100%.

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Now, let's take a closer look at our updated 2030 ambition and the financial guidance for the coming year. Please turn to slide 11. As Gavin already shared, we now expect organic revenue growth in the range of 5% to 7% per year for the rest of the Impact4 for strategic period, ending in financial year 2029/2030. The revised organic growth guidance reflects the reimbursement change in Biologics and increased level of pressure from healthcare reforms where we now expect neutral to negative pricing impact for the remainder of the Impact4 period.

Coloplast operates in reimbursed categories, making pricing pressure from healthcare reforms a key risk to our business. In 2026/2027 financial year, reforms will be implemented in France and Germany, impacting both Chronic Care and our Dressings business. In addition, we are preparing for the Competitive Bidding Program in the US, expected to take effect in January 2028, where impact continues to be uncertain.

The growth assumptions per business areas are as follows. In Chronic Care, we expect continued good momentum with growth above the market. And in Interventional Urology, we continue to expect mid- to high-single digit growth.

In Wound & Tissue Repair, we now expect mid-single digit growth from previously around double-digit growth, driven by the reimbursement change in the outpatient setting in Biologics. For the 2026/2027 financial year, we expect organic revenue growth of 5% to 7%. The assumptions per business area are largely in line with our 2030 ambition.

Please turn to slide 12. Turning to profitability, we now expect an EBIT margin in the mid-20s range over the period in constant currencies and before special items. Our updated ambition include a step-up in investments in key strategic priorities to drive growth and value creation during and beyond Impact4. The updated ambition also reflects the external headwinds from pricing pressure and inflation.

In addition to the investments presented at our Capital Markets Day, we will invest more offensively to support value creation during the strategic period and beyond, with a specific focus on innovation and the pipeline before or beyond Impact4 as well as the US.

To partly offset the impact from the step-up in investments and external headwinds, we have initiated the Funding the journey program, which aims to broaden resource allocation and free up around DKK 500 million, with full effect in 2027/2028 financial year. Around 75% of the impact will already become visible in our financial year 2026/2027. And most of it will impact the operating expenses line, primarily distribution cost.

For the financial year 2026/2027, we expect an EBIT margin of around 25%, which includes the following assumptions. On gross margin, we now expect inflationary pressure of 3% to 4%, impacting raw materials and freight, which accounted for around 55% of total cost of goods sold of DKK 9.7 billion in the previous financial year. We also expect continued headwind from ramp-up costs, in particular driven by Portugal.

Our operating expenses assume impact from the step-up investment plan for the year. At the same time, our Funding the journey program will support the step-up in investments and partly offset the gross margin headwinds.

Please turn to slide 13. The remaining financial assumptions for 2026/2027 financial year are as follows. Reported revenue growth in Danish kroner is expected to be 7% to 9%, with a positive impact from currencies of around 2 percentage points. While the reported EBIT margin will include up to 50 basis points positive impact from currencies calculated using the current spot rates.

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Return on invested capital, after tax before special items is expected around 16%. Special items are expected to be around DKK 200 million related to our Funding the journey program. CapEx-to-sales ratio is expected to be around 5%. The effective tax rate is expected to be around 22%. And net finances for the year are expected to be around DKK 900 million.

In terms of phasing, we expect a slower start to the year due to the continued impact on organic growth from the reimbursement change in Biologics with improvement already in Q2. The EBIT margin will follow a similar trajectory, impacted by the top-line development in Biologics.

Finally, in terms of our capital allocation priorities, we continue to target a dividend payout ratio of 60% to 80% over the period, while simultaneously bringing our leverage ratio to below 2 times EBITDA. We believe that the updated ambition today provides both realistic and ambitious targets, enables us to invest in the long-term strength of the company and allow us to deal with incremental external headwinds, while maintaining our position as growth and profitability leader in medtech.

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 Anna Ractliffe from Bank of America. Please go ahead.

Anna Ractliffe
Analyst, Bank of America

Q

Good morning. Thank you for taking the question. I mean, maybe best place to start is the updated mid-term targets. What are the areas of conservatism that have been baked into the guide and some of the areas of risk? Feels like the low end is relatively de-risked given it's in line with the market growth, but would also be helpful to hear what you think could drive upside or drive you to the high end of the mid-term guide.

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

A

Thank you, Anna, for the question. It's Gavin speaking. So here's our thinking, like our updated financial ambition towards 2030 reflects changes to the external environment, and that includes increased pricing pressure from healthcare reforms and inflation and stepped up investments that we're required to grow. And also, too, the ambition includes headroom to be able to manage headwinds such as the Competitive Bidding Program in the US in 2028. And we've also had to absorb, as you're aware, the Biologics reimbursement change in outpatient in the US.

But ultimately, our focus is on creating shareholder value by growing above the market and strong development in EBIT and improvement in return on invested capital and free cash flow generation. So net-net, our ambition is of course to accelerate growth and improve EBIT margin over the period. However, we wanted to be prudent and reflect the current state of the external environment into our financials.

Anna Ractliffe
Analyst, Bank of America

Q

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Great. Thank you. And then maybe as a follow-up, would you be able to comment on the areas of risk like maybe China and how you're viewing that market, and what you're seeing on the competitive front locally there?

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

Let me take that one, Anna. So China, we have talked quite a bit to China over the last couple of years. And as you all are aware, we used to have good growth. In some years back, actually, double-digit growth. But we have, in the recent years, seen our growth decline and the last year, so 2025/2026, we actually had a year with negative growth, partly due to inventory reduction, but also partly due to increased local competition, in particular, and the consumer sentiment. We expect China for this year 2026/2027 and onwards around flattish. So that is our expectations. And China today is around 4% of total revenue.

Anna Ractliffe Q
Analyst, Bank of America

Great. Thank you for taking the questions.

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

Hassan Al-Wakeel Q
Analyst, Barclays Capital Securities Ltd.

Good morning. Thank you for taking my questions. A couple for me, too, please. Firstly, double clicking on mid-term targets and specifically how we should be thinking about the margin trajectory over the medium term and the puts and takes here, do you expect year-on-year margin contraction in 2028 as a result of CBP? And is it reasonable to assume that after 2028, margins should expand out to 2030?

And secondly, Gavin, you talked about stronger innovation contribution and you're putting investments behind this. When do you expect an acceleration of launch cadence to benefit the top line and should we expect an acceleration in growth out to 2030? Thank you.

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

So good morning, Hassan, and thanks for your questions. Let me take here the first one related to the margin development over the period. So, I just talked to our assumptions for this year, so 2026 to 2027, we are expecting to deliver a margin around the 25% level, based on the assumptions I just mentioned. And over the period, towards 2029 to 2030, we are expecting to deliver within the mid-20s.

And based on our current estimates, we are or have included an impact from competitive bidding from January 2028. But I'm not going to be more specific because the competitive bidding is highly, yeah, uncertain at this point in time. But over the period, we are comfortable to deliver a margin in the level of mid-20s.

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

And I'll take the question on innovation. So, I think I'll split it into two parts because if you look at our innovation that we're launching and the current Impact4 period up to 2030, we feel really confident. Like we're launching new products across all of our businesses. So, in Ostomy Care, we will continue with the expansion of our SenSura Mio portfolio. In intermittent catheters, we'll expand the Luja portfolio with new product variants, including a

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product tailored to the US. We've also launched product launches that we have scheduled for our smaller categories in Bowel Care and Voice & Respiratory Care. And in Interventional Urology, we're preparing for the phased launch of Titan Prime this year over the coming months, which we're really excited about. And finally, we have new products coming in our Wound & Tissue Repair business, primarily in Biologics. So the impact from these product launches is included in the growth guidance of 5% to 7%.

When I take kind of the further view, like a little bit of maybe what you're referring to in Funding the journey program, this investment level is really looking beyond 2030. So what we want to do is invest about 80% of that DKK 500 million in Funding the journey that's going to be allocated towards step-up investments, while the rest is kind of used to kind of partly offset some of the gross margin pressure.

But these investments are going to come in starting in 2026/2027, and they will include a focus on innovation and R&D to develop the pipeline beyond Impact4. If we're successful, maybe we bring something into the end of Impact4, but these are specifically to be developed for beyond Impact4 timeline.

It's also going to be focused on the US Chronic Care business, which is growing double digit right now. So we want to support this strong continued growth and also prepare for competitive bidding. And we also have selected Chronic Care markets in Europe and Emerging markets where we're seeing significant growth.

And finally, in Interventional Urology, I did just mention short term on Titan, but we're also preparing for launch preparation for Intibia in the following year, and we wanted to make sure that we had adequate investment for this launch plan as well. Thank you for the question.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Very, very helpful. Makes sense. Anders, if I could just follow up on margins. And specifically for this coming year, given some of the Biologics softness expected earlier in the year, should we think about a backend-loaded year for the group in terms of margins?

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

A

So, for this financial year, Hassan, we will start up with a softer growth here in Q1 because of the Biologics dynamic, but we should then expect that our growth will improve from Q2 and onwards. And I'm expecting there's a similar pattern for our margin over the year. So that's the assumption.

Just in relation to FX, so we are, over the year, expecting our margin to be impacted positively based on current spot rates, but it will be more in the second half. You will expect to see that because the impact from the Hungarian forint, in particular, started from our Q3 of last year.

Hassan Al-Wakeel
Analyst, Barclays Capital Securities Ltd.

Q

Perfect. Thank you very much.

Operator: The next question comes from the line of Verma Anchal from JPMorgan. Please go ahead.

Anchal Verma
Analyst, JPMorgan Securities Plc

Q

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Hi. Good morning, Gavin and Anders. A couple of questions for me, please. Firstly, just on the pricing assumptions for the mid-term target, can you just maybe dive a bit deeper on what assumptions are that underpinning your mid-term target, specifically on CBP? Can you share any color on the magnitude of price cuts you have assumed and what's baked into the mid-term guidance?

And on the Funding the journey program, you've guided to the DKK 500 million of savings, and you've mentioned there will be related costs booked under OpEx. Could you specify or share any color on what the associated costs or investments are required to deliver this program and will it all be booked into FY 2027?

And just one on this year, for cost inflation assumptions, you've shared – used 3% to 4% COGS inflation. But what are your assumptions for wage inflation in Hungary and for energy prices?

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

Yeah. Let me start with the – I think it was the second question around the Funding the journey program and the focus we have on identifying resources that we then can resource allocate to the investments that Gavin talked about earlier. So, we are expecting our special items to be around the DKK 200 million related to this program, and that will be booked as a special item. The majority of the program will impact our operating expenses and then it will be resource allocated to the investments that we talked about earlier.

The first question, was that related to the pricing?

Anchal Verma Q
Analyst, JPMorgan Securities Plc

Oh, absolutely.

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

Yeah, that was competitive bidding. So competitive bidding, we are not going to be more specific at this point in time. It's still highly uncertain. But based on our internal estimates, we have reflected it in our 2029/2030 guidance on growth and margin.

And the final one, I think that was related to inflation and Hungary. Yes, in terms of inflation, our raw material prices and freight, we are expecting that to increase by 3% to 4%. And in relation to Hungary wage inflation, we are working with high-single digit increase starting from January 2027.

Anchal Verma Q
Analyst, JPMorgan Securities Plc

Perfect. Thank you. And anything on energy prices for 2027?

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

Yeah. In terms of energy prices, we are largely hedged. So some more than 80% of our energy consumption in Hungary, that's hedged. And we expect a similar level to our energy prices versus 2025/2026.

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Anchal Verma
Analyst, JPMorgan Securities Plc

Q

Perfect. Thank you.

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

A

Yeah. Thanks.

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

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB (Denmark)

Q

Yes. Thank you very much. Two questions. Maybe the first one is a little bit more detailed. Anders, I just wanted you to go back to the Q4 margin just to understand that base from where you're coming from. And I'm just trying to get an explanation on the significant sequential increase in non-allocated cost from Q3 to Q4 off of close to DKK 200 million. I've got standardized FX and there's ramp-up costs, but we also saw that in Q3. And then, of course, there's something, of course, on the inflation. But still DKK 200 million quarter-on-quarter and actually 23% increase in non-allocated cost year-on-year. Can you explain a little bit why we have this significant step-up and if you actually have front loaded some costs in Q4?

And then second question just around you changed target for return on invested capital now being around 20%. What kind of assumption have you made on the development in invested capital during the period?

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

A

Yeah. So thanks a lot, Martin, for the questions. The first question related to the non-allocated costs, yes, it has increased in our Q4 and it is really driven by a number of cost of goods-related cost categories, so we have seen increases related to cost of goods. We have seen some increases related to the increased raw material prices then I talked about earlier. And then there are also some additional activity costs, including R&D, that has increased in our Q4. So those are the main explanations.

To your second question in terms of our ROIC, so we expect to deliver ROIC improvement over the period to hit around 20% in 2029/2030. Our invested capital overall, you should expect that to be flattish. So it's really the earnings improvement over the period that will drive up our ROIC. That's the underlying assumption.

Martin Parkhøi
Analyst, Skandinaviska Enskilda Banken AB (Denmark)

Q

Thank you very much.

Operator: The next question comes from the line of Jan Koch from Deutsche Bank. Please go ahead.

Jan Koch
Analyst, Deutsche Bank AG

Q

Good morning. Thanks for taking my questions. My first one is on your Q4 EBIT margin, yeah, which fell to around 25%, partially because of inflation. You mentioned raw material and freight cost inflation, but could you

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quantify their combined impact on the Q4 EBIT margin? And how do you expect inflationary pressure to evolve through 2027 in terms of phasing? Should we assume inflationary pressure to pick up throughout 2027?

Then secondly, you mentioned that you continue to expect pricing pressure from healthcare reforms in France and Germany in 2027. How much pricing pressure do you expect across your portfolio in each country and would be there additional cuts in 2028?

And then finally one clarification, you mentioned that your near, mid-term targets call for 5% to 7% organic growth per year. Does this also apply for 2028 when the Competitive Bidding Program is expected to take effect?

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

A

Yeah. So Jan, thanks a lot for the questions. Let me start. I think the first question was related to our Q4 EBIT margin. As communicated, quite a significant impact is related to FX. So we have seen a significant impact from FX around 150 basis points. And this is back to the Hungarian forint, but also the Costa Rican colón that has really impacted the FX negatively in our Q4.

We have also had effect from ramp-up costs related to Costa Rica and Portugal, and then also a negative mix from the negative growth in Biologics. So that's some of the most important drivers of the margin development. Raw material price increases and freight, it was not significant in Q4. It was a smaller impact.

To your second question around pricing and healthcare reforms. The pricing and healthcare reforms for 2026/2027 is really related to France and in Germany. So previously in 2026, those reforms were, you can say, communicated and we expect an impact, a low-single digit impact in those two markets. So that's our assumptions starting from January 1, 2027.

And then your final question was related to the growth outlook over the period. And here, we are expecting to deliver in the level of 5% to 7% also per annum over the period.

Jan Koch
Analyst, Deutsche Bank AG

Q

Got it. Thank you.

Operator: The next question comes from the line of Jack Reynold-Clark (sic) [Jack Reynolds-Clark] (00:55:10) from Morgan Stanley. Please go ahead.

Jack Christopher Reynolds-Clark
Analyst, Morgan Stanley & Co. International Plc

Q

Hi there. Thanks for taking my questions. I have two, please, on the mid-term. So starting with the growth guide, just obviously quite a large range and you talked through some of the risks there. So the question is, should we be thinking that the lower end of the range is the base case, and then actually if these kind of headwinds don't come through or are less severe than they could be then, there's upside or should we really kind of anchor it at the midpoint and then kind of adjusts up and down as required?

And then I guess follow-up to the previous question on phasing, would you expect a fairly even phasing of growth through the periods or would you expect that to be somewhat lumpy?

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And then the next question was on the mid-term margin. So to just confirm what you mean by mid-20s, does it mean towards 24% to 26% or is the range larger or smaller? And I guess what determines where you come out within this range on a three-year basis? Actually, should we be thinking about growth and how important is top-line growth for driving where you come out in that range? Thank you.

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

A

Okay. Jack, I'll take the swing factor question just on the base of 5%. And look, I think that the way we looked at it is clearly there are some swing factors that can drive growth in the upper or lower range. And these were really kind of based on the key ones being growth trajectory in Biologics, we expect to see a slow start to 2026/2027 until we get the washout of outpatient that we expect at the beginning of Q2. So then, we actually have a clear baseline. And that's once the impact of the outpatient reimbursement change has annualized.

The level of pricing pressure in a given year is another swing factor, where you're thinking of the 5%. And that can change significantly year-on-year, depending on which markets are going through our price reform and what's the magnitude of the form. Anders gave examples of what we're seeing in Germany and France, but there's always others that can come up on any given year that we wanted to be pragmatic about.

And then another swing factor is the US Chronic Care business, where we expect to see strong, continued execution and expected deliver around double-digit growth for the rest of the period. But we also are pragmatic that we've got competitive bidding coming up, and that's something that we have to be prepared for.

I think that if you look at it from the longer-term out because we're focusing more in the upper end range. You know that there's not really weakness in any other areas that we've kind of highlighted. We actually feel quite strong in the areas that we've been delivering consistent growth. Chronic Care remains intact. We see this strong in the US, where we're growing double-digit. We've had strength in Chronic Care in Europe. Emerging markets outside of China. And in China, Anders had mentioned, too, we do expect stabilization following the inventory reduction. And we've already gone through the organizational simplification and new leadership is in place there.

And then maybe I finish off of on Interventional Urology, where we're ahead of plan over the year and we expect good momentum mid- to high-single digit over the range period as we start to launch Titan Prime, which I mentioned earlier.

And I think I kind of conclude with where I started. We do see Q2 as more of a clearing event for Biologics. And I think that Q1 will be choppy. But once we get into Q2, we've been consistently delivering double-digit growth in in-patient, and we expect that to continue where we don't have the heavy comp on outpatient from before.

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

A

Yeah. And then, Jacklyn (sic) [Jack] (00:59:22), your question around Funding the journey. As I understood your question, that was more the phasing. So for the full year, we expect the program to contribute with around 75% of the DKK 500 million that we're aiming for, and then the rest into 2027/2028.

Some of the activities within the program we have already executed on, China is one. So we are expecting some of the savings already to be visible here in Q1, but that is then going into our investment program as well. So, that's how we see it. Did that cover the questions, Jack? Yeah.

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Operator: The next question comes from the line of Martin Brenøe from Nordea. Please go ahead.

Martin Brenøe
Analyst, Nordea Bank Abp

Q

Hey, Gavin and Anders. Thank you for taking my questions. I have two left, please. The first one would be on, I guess, we all try to understand the margin trajectory from here. And unless I get the Biologics support that you get through the year. But can you maybe give us the other part of the equation, which is what would your margin look like if you didn't have the energy hedges? And maybe also the inventory now is getting a bit of – or sorry, the margin is getting a little bit of support from the fact that you have bought your inventory at a lower spot rate versus the spot rate today. So, if we were to assume that everything else being equal with the energy price being where it is today, raw materials being where it is today, how would that impact your margin versus the hedges that you've done and the inventory that you have sitting on your portfolio today? That would be quite helpful to do the year-over-year impact for 2028, please.

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

A

So, Martin, thanks a lot for the question. As I said earlier, for this financial year, 2026 to 2027, we're expecting raw material and freight to increase something around 3% to 4%, based on current assumptions when we look at the various indexes.

I also said earlier in terms of energy, that we are hedged for this year. And the absolute cost level for our energy is ballpark at the same level as the prior year. So, based on current assumptions, the raw material prices, including freight, will increase something around 3% to 4% on our raw material cost base. That's the assumption.

Martin Brenøe
Analyst, Nordea Bank Abp

Q

Thank you, Anders. I think what I'm trying to ask is what would that look like if you hadn't been very clever and hedged at lower prices versus where it is today? What would the impact then have been on the margin next year? Because you have this tailwind this year and then at some point, your hedges, unfortunately, will be rolling off and then we have to assume that you have to buy energy at the spot price. So, just wanted to get that differentiate.

And maybe also understand on the raw materials, 3% to 4% is including that you have some inventory bought at lower spot prices. So, by the end of the year, I assume that the negative raw material impact will be bigger in Q4 versus in Q1. Would be helpful to understand if that's correct.

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

A

So, I talked to this year and the assumptions to this year, and that's also our focus moving into 2027/2028, and starting to discuss the raw material prices and energy at this level, that's definitely something we will be more focused on. And when that is set, we have already hedged some of the energy consumption also into 2027/2028. And I would also say, Martin, as you know, our energy costs in total is around 2%. So, yeah, that's where we are.

Martin Brenøe
Analyst, Nordea Bank Abp

Q

Thank you. Very clear. Just one final follow-up. Just you had ex-China growth in your Q3 numbers. I can't find it for this quarter. Can you just let us know what the ex-China growth would be for Q4, please?

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

A

7%.

Martin Brenøe
Analyst, Nordea Bank Abp

Q

Thank you.

Operator: The next question comes from the line of Oliver Metzger from ODDO. Please go ahead.

Oliver Metzger
Analyst, ODDO BHF AG

Q

Yes. Hi. First question just also on price pressure. For years, you said that you assume a 1% price pressure. Is this 1% also include part of your mid-term guidance or do you see some higher level?

Second question is about your mid-single digit growth expectations for Wound & Tissue Repair. If you decompose that, how you think about the Advanced Dressings (sic) [Advanced Wound Dressings] (01:05:07) and Biologics mid-term? Is it fair to assume this mid-single digit for Advanced Dressings (sic) [Advanced Wound Dressings] (01:05:13)? And yeah, these are my two questions. Thank you.

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

A

Yeah. Hi, Oliver. Let me start with the pricing. So, for the rest of this strategic period, we are expecting neutral to negative price. And when we speak to the negative part, it's really related to competitive bidding. But as we have said a few times during this call, the impact is still very uncertain.

And the second question related to our Wound & Tissue Repair.

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

A

So, I think you broken the two. The Advanced Wound Dressings market is growing between 2% and 4%. And if you think of our market, those really are OUS business because we're stronger in Advanced Wound Dressings in Europe. We're less relevant in the US. So the US is coming from a much lower base. So we expect actually stronger growth coming from our US business because of that low base. And I think that we would plan to be kind of in the upper end of the range of the 2% to 4% outside of US.

On Biologics, what we expect is our Biologics business is primarily a US business. And once we see kind of the annualization of the outpatient concluding at the beginning of our Q2, so from January, we would expect double-digit growth in Biologics going forward in the in-patient setting.

Oliver Metzger
Analyst, ODDO BHF AG

Q

Okay. That's helpful. Thank you.

Operator: The next question comes from the line of Doyle Graham from UBS. Please go ahead.

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Graham Doyle
Analyst, UBS AG (London Branch)

Q

Morning. Thanks for taking my questions. Just a couple, please. Anders, just firstly on the guidance for 2026/2027, and obviously in the last few years, there's been some misses on guidance, primarily driven by inflation and margin pressure. It's a new mid-term philosophy. Is it reasonable to think that you've taken a more prudent philosophy in terms of how you look at cost? When looking at inflation, have you baked in a level above maybe what you actually have locked in today to in terms of what you've hedged such that if things do get worse, you can accommodate that? Just to understand that.

And then secondly, Gavin, on the guide. So for the mid-term, you got a 5% to 7% and you're reinvesting the business, but you've just done 6% in a market where you had a lot of pressure on wound. I know there are some pressures out there, but one of your peers is backing themselves to 6% to 8% over the mid-term. Given you're investing in the business, should we not see growth accelerate towards the end of this decade or should we not see an alternation in terms of taking that investment out of the business towards the end of the decade if it's not showing a return? Just to understand how you're thinking about those tradeoffs first.

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

A

Yeah. So, Graham, let me start with the first question. So for this financial year 2026/2027, we are guiding a margin around the 25% level. And first and foremost, it's driven by our growth. And here, we are expecting between 5% and 7%.

Secondly, on the gross margin and now we have talked quite a bit about that, we are seeing some external-related headwinds. So, inflation is impacting us, but also pricing pressure. And then on top of that, we are ramping up in Portugal. That is also impacting our gross margin.

But in order to offset some of that and also to invest into the business, we have initiated the Funding the journey program and we have initiated a number of activities within that program to, as I said, offset some of the external headwinds and to finance the investments that we're planning to do within innovation and US, in particular. And when we sum that up, we are expecting to deliver around to 25% margin for this financial year.

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

A

And thanks for the question, Graham. Just building on what Anders said, we feel fortunate that we're in a position where we have a lot of growth opportunities to invest in. And so, of course, our ambition is to accelerate growth and improve EBIT margin over that period. However, we also wanted to be prudent and reflect the current state of the environment in our financials, as I shared before.

So I guess the best way to look at it is to think we want to take a sensible approach. We wanted to create flexibility. And when you look at freeing up the DKK 500 million, 80% of that, as I shared before, is going to be directed to the areas that we talked about from 100-day reflections.

Double down on Chronic Care, where we're strong, start to develop faster innovations and also innovations that will bring us past the 2030 timeline, and really double down on our market that we feel like we can get the fastest growth and that's the US. So we're being really specific with these investments and we're very confident that we're going to be able to deliver strongly over the period.

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Graham Doyle

Analyst, UBS AG (London Branch)

Q

Thanks a lot, Gavin. That's really helpful. Maybe just come back to Anders. So my point is you've given like a lot of assumptions there. I think what people would love to know is how much room is there for things to get worse and you still hit the key assumption, which is the 25% margin? I think that's the key question I was sort of getting at.

Anders Lonning-Skovgaard

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

A

So, Graham, we are comfortable that we will hit the numbers we have put into the market today, both the outlook and the margin outlook for 2026/2027, but also our outlook for 2029/2030. So we are comfortable that we are able to deliver on our financial ambitions.

Graham Doyle

Analyst, UBS AG (London Branch)

Q

Good. Thank you very much, guys. I really appreciate the time.

Operator: Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Gavin Wood for any closing remarks.

Gavin Wood

President & Chief Executive Officer, Coloplast A/S

So thank you for joining today and we appreciate your support. We appreciate your questions. And maybe just a couple of closing comments. We feel very confident with the revised guidance and our ability to deliver. And we look forward to seeing you at the roadshows later this week, and thanks again for all of your support and your questions today. Have a good day.

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