COLOPLAST

Moderator: Lars Rasmussen
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Operator: This is conference # 960109/2994396

Operator: Thank you for standing by, and welcome to the Coloplast Full Year Financial Statements 2015-2016. At this time, all participants are in listen-only mode. There'll be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, you will need to press star, one, on your telephone.

I must advise you, this conference is being recorded today Wednesday, 2nd of November, 2016. I'd like to hand the conference over to your speaker today, Lars Rasmussen. Please go ahead, sir.

Lars Rasmussen: Good afternoon and welcome to our Full Year '15/'16 Conference Call. I'm Lars Rasmussen, CEO of Coloplast and I'm joined by CFO, Anders Lonning-Skovgaard, and our Investor Relations Team. We will start with s short presentation by Anders and myself, and then open up for questions.

Please turn to Slide Number 3. For 2015/16, Coloplast delivered organic growth of 7 percent and a 34 percent EBIT margin in constant currencies before special items. With these results. Coloplast continues demonstrate industry-leading organic growth and profitability which I'm satisfied with.

We continue to see healthy demand for our products across our business areas, and have launched the number of innovative products this year, including SpeediCath Flex and Biatain silicone sizes and shapes. The year has also seen improved reimbursement for hydrophilic catheters in Japan and Australia. In addition, we continued to expand the scale and scope of our consumer efforts including our support program, Coloplast Care, which has more than 400,000 enrollments to date. This year, we saw strong performance in Europe across our business areas.

In addition, we saw a strong performance in ostomy care where we are currently growing 9 percent organically, which is approximately twice the markets. The SenSura Mio Convex launch continues to be very well-received by users and nurses, and we look forward to bringing more SenSura Mio Convex capacity to the markets next year to be able to meet the strong demand.

The underlying growth in the U.S. market for Coloplast products is strong in double digits. And I'm excited about the future for our U.S. business. Within ostomy care, Coloplast continues to gain market share and took (close contacts) with (less) hospital systems.

This year, our reported U.S. number had been negatively impacted by the buying patterns and inventory reductions as a result of contractor changes with our distributors. We did, however, see strong growth in our U.S. royalty business due to the market share gains. For next year, we expect higher growth in the U.S. compared to this year. While performance in individual emergent markets varied, the emerging markets as a whole is seeing a lower growth momentum explained, by, among other things, weaker momentum within wound care in China, Saudi Arabia and Brazil.

We have increased the provision for the U.S. mesh litigation by DKK750 million and we now estimate that we have shared more than 90 percent of the cases against Coloplast as we move towards the end of the multidistrict litigation.

Today, the Board of Directors a DKK9 ordinary dividend amounting to a total of DKK13.5 per share in dividends this year. Our guidance for '16/'17 is an organic revenue growth of 7 percent to 8 percent in constant currencies and 5 percent to 6 percent in Danish Krone. And an EBIT margin of 33 percent to 34 percent in constant currencies and 33 percent in Danish Krone.

Anders will explain later how we have arrived at this guidance. Please turn to Slide Number 4. Revenues grew 7 percent organically and 6 percent in Danish Krone and average of DKK14.7 billion. Is ostomy care, organic growth was 9 percent, and growth in Danish Krone was 7 percent. In Q4, organic growth was 8 percent. Growth continues to be driven by our SenSura and Brava portfolios especially in the U.K., Germany and the Nordic markets and the U.S.

In particular, the launch of SenSura Mio Convex has contributed SenSura Mio Convex has contributed to the strong growth momentum. In Q4, gross was negatively impacted by back orders on urostomy bags due to quality issues related an external raw material supplier.

This led to a back order value which was approximately DKK30 million above the normal level. The back order situation is expected to normalize in Q1 2016/2017. Our Assura and Alterna portfolio growth was driven by good performance in China, Russia, Algeria and Argentina. In continence care, organic growth was 5 percent, and growth in Danish Krone was 3 percent. In Q4, organic growth came in at 6 percent. The SpeediCath Ready-To-Use Intermittent Catheters continue to drive growth and especially the compact versions performed well. In the compact segment, we see strong performance in markets like U.K., France and Germany. As mentioned earlier, distributor buying patterns and inventory reductions in the U.S. have had a negative impact on growth this year, in particular, in continence care.

In addition, the value of the (national) tender in Saudi Arabia was lower this year compared to last year. Our Conveen collecting device portfolio posted slightly positive growth due to improved momentum in Russia and France.

Finally, sales growth for our Peristeen products remained satisfactory especially in U.K., U.S. and France. In urology care, organic growth was 9 percent and growth in Danish Krone was 10 percent. In Q4, organic growth was 11 percent. The growth was driven by sales of the Titan range of inflatable penile implants devices and female pelvic health products where we continue to gain market share.

Our India royalty business saw satisfactory growth in Europe. However, overall growth was dampened by weaker emerging markets performance. In wound and skin care, organic growth was 6 percent and growth in Danish Krone was 5 percent. Organic growth of wound care in isolation was 5 percent. For Q4, the organic growth of wound and skin care was 3 percent. The growth was driven by Biatain sales, and in particular, Biatain silicone in Europe. China contributed to growth, yet the overall growth momentum is lowered compared to last year. In addition, growth was negatively impacted by a price reform in France and weaker performance in emerging markets due to challenging market conditions. The skin care business saw satisfactory growth rates for the year and our contract manufacturing of Compeed contributed to growth.

Turning to our geographical segments, we saw organic growth of 6 percent for the full year and 5 percent in Q4 in our European markets. The growth continues to be satisfactory across the portfolio of countries, and in particular, in the U.K., France and the Nordics. In the U.K., our homecare business, Charter, grew strongly and continues to take market share. During the year, we have been able to successfully mitigate the pricing pressure in the Netherlands and Germany.

Organic revenue growth in other developed markets was 6 percent for the full year and 10 percent in Q4. As explained earlier, buying patterns and inventory reductions by distributors impacted full-year performance negativity in the U.S. Revenue in emerging markets grew organically by 14 percent for the full year and 9 percent in Q4. The growth was driven by China, Argentina, Russia and Greece, whereas Saudi Arabia impacted growth negatively.

We continue to have satisfactory growth rates in China within ostomy care. Yet, performance within wound care has weakened. Russia and Argentina are delivering on tender wins from earlier this year. Overall, we see lower growth momentum in emerging markets due to the more difficult market conditions in a number of countries.

With this, I will now hand you over to Anders and please turn to Slide Number 5.

Anders Lonning-Skovgaard: Thank you, Lars, and good afternoon, everybody. Gross profit was up by 5 percent to around DKK10 billion. This equals a gross margin of 69 percentin constant currencies and 68 percent in Danish Krone. We continue to see improvements in production efficiency at all volume sites and the positive impact from the reduction of around 100 production workers in Denmark this year, which compensates for the negative impact from the launch of new products, where the production economy is not yet fully optimized.

The gross profit was also impacted by increasing depreciation levels and relocation of manufacturing to Hungary. The distribution-to-sales ratio came in at 28 percent on par with last year. The ratio was impacted by incremental sales investments in the U.S., China, U.K. and Germany. In Q4, distribution-to-sales ratio was 27 percent compared to 28 percent last year. The admin-to-sales ratio came in at 4 percent of sales on par with last year. Last year was impacted by a non-recurring cost of DKK75 million.

In Q4, the ratio was 4 percent compared to 3 percent last year. The R&D-to-sales ratio came in at 3 percent of sales on par with last year. This year was impacted by higher general activity levels compared to last year, as a result of, among other things, the launch of SpeediCath Flex and Biatain silicone sizers and shapes. In Q4 the ratio was 3 percent on par with last year.

The provision for the mesh litigation has been raised by DKK750 million. The entire amount is booked in Q4 under special items. The total provision is now DKK5.25 billion, and it is our current best estimate of the total potential cost including existing settlements, future potential settlements and potential results of litigation, as well as other costs associated with the litigation including legal advisory costs.

Overall, this has resulted in an increasing operating profit before special items of 7 percent, corresponding to the EBIT margin of 34 percent in constant currencies and 33 percent in Danish Krone. Including special items, the EBIT margin was 28 percent in constant currencies and Danish Krone.

Operating cash flow amounted DKK3 billion and was approximately DKK300 million lower than last year. The positive impact from higher absolute earnings before special items and lower tax payments due to higher voluntary on-account tax payments last year, was offset by payments to settle missed claims.

During ‘15/’16, mesh payments total DKK1.6 billion, and total mesh payments to date amount to DKK2.4 billion. Cash flow from investing activities was impacted by investments in capacity expansion, both in machines for production of new products, and the site expansion in Tatabánya in Hungary. Investments in intangible assets and property, plant and equipment increased to DKK649 million, up 5 percent compared to last year. Adjusted for payments made in connection with mesh litigations, the free cash flow amount to approximately DKK4 billion, compared to approximately DKK2.8 billion last year.

Please turn to Slide 6. For 2016/’17, we expect revenues to grow to 7 percent to 8 percent organically in constant currencies and 5 percent to 6 percent in Danish Krone. Our guidance assumes stable growth rates in Europe. We also assume higher growth rates in North America in ‘16/’17 compared to ‘15/’16. We expect the very last difference between the first quarter and the remainder of the year due to inventory situation in the U.S., where we expect additional destocking in Q1 by our largest distributors. As a result, we expect mid-single digit growth in our Q1. We assume that the current momentum in emerging markets will continue into the next year.

We expect a negative price pressure of around 1 percentage point on our top line and this is reflected in our guidance. The negative pricing pressure is expected to be driven by reimbursement pressure in France and the price reform in Greece within wound care.

For ‘16/’17, we expect an EBIT margin of 33 percent to 34 percent in constant currencies, and 33 percent in Danish Krone. High growth from our new product launch still means pressure on the gross margin, but we continue to relocate manufacturing out of Denmark to Hungary, and we will reduce the number of production workers in Denmark by an additional 100 in ‘16/’17 as previously communicated. We expect the benefits to be absorbed by the cost of relocation and restructuring cost in ‘16/’17. We also expect depreciations to increase at the same bill as last year as a consequence of the last couple of years increasing CapEx.

On our operating expenses, we expect stable change into ‘16/’17 and we will continue to invest into sales-enhancing initiatives as communicated at the Capital Market Day in June. We currently expect our net financials to end the financial year ‘16/’17 at DKK0 million. CapEx guidance for ‘16/’17 is expected to be around DKK700 million, and is driven basically by investments in more capacity and for new products including SenSura Mio Convex, SpeediCath Flex and Biatain silicone as well as a new factory.

Finally, our effective tax rate is expected to be around 23 percent. This concludes our presentation. Thank you very much. Operator, we are now ready to take questions.

Operator: Thank you. We’ll now begin the question-and-answer session. If you wish to ask a question, please press star, one, on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, that’s star, one, if you wish to ask a question on the phone line.

Your first question comes from the line of Ian Douglas-Pennant. Please go ahead.

Ian Douglas-Pennant: Hi. Yes, thank you very much. And this is -- the first one is on SenSura Mio capacity. Can you just remind us when you hope that will come online and how large is the capacity shortfall that you have currently? I’m just trying to gauge the essential uplift in growth coming from that.

And the second one is kind of a longer-term question. Do you feel like you need to innovate again in order to grow above the market as your guidance calls for a longer term? I think it’s just striking your guidance again this year, it's slightly below your longer-term growth rates, and I recognize it is slightly. And do you think you've fallen behind (Hollister) in catheter innovation and your aging distribution strategy in the U.S. is being eroded by people like Bard, amongst others. I mean, how do you -- how do you stay ahead on a three-year view? Do you need to invest more in the sales force? I mean, how do you think strategically from here?

(Off-Mic)

Ian Douglas-Pennant: Lars, I think I can hear you speaking in the background. It's super quiet. I don't know whether the problem is my end or...

Lars Rasmussen: Yes. No, thank you very much. Is this better?

Ian Douglas-Pennant: Yes, that's perfect, thank you. Sorry.

Lars Rasmussen: OK. Thank you. I'm sorry about that, it was just because I was not near to the sort of microphone. So, let me start with the last -- yes, the last part of your question first. We have a guidance of 7 percent to 9 percent. And that is in a market which we -- we just did the analysis again and we think that the market is going 4 percent to 5 percent. So, with the current momentum of 7 percent to 8 percent I think that we are -- we are going well above the market.

And for ostomy, I think your question must be if we want to be at the upper end of the guidance that we are coming with, which suggests that we grow twice as much as the market. Then we would need to see that is a stronger underlying demand in emerging markets and as it is, we are hit -- I think the whole industry, by the fact that China is not moving as fast as it did a couple of years back that -- South America is not moving as fast as it did a couple of years back and that there may have been Middle East and Russia is very weak compared to what it used to be.

So, in that sense, in my view, 7 percent to 8 percent organic growth is -- I think we have to work to do that and I think it's pretty solid performance. But that's of course, something that I think. That's just where I am coming from, but I would need to see emerging markets grow more to come with a bolder statement on the -- on the guidance for top line growth. Would I like to grow more than 7 percent to 8 percent? You bet. But you have to -- you have to get up early to grow the 7 percent to 8 percent. And when it comes to Convex, then I would not be able to answer your question about what is the -- what is the demand. We have had to take a bit and say how much are we increasing capacity and that's a lot. But we can't gauge the demand in the market because we have given a -- or allocated a certain volume per market and said through each of the markets that this is what you get because this is -- when we add the different (countries) together, this is a 24/7 capacity that we sit on.

So, that also means that this product has not been launched on our (DTC) channel at all. This also means that it's not even been launched in all of the hospitals where we would like to launch. So, once we start to put those buttons, what's kind of demand are we able to create? We don't know, of course. So, that's -- but that will come in in the second half of the current fiscal year.

Ian Douglas-Pennant: OK, great. And sorry, if I could just you a quick followup on the first question that you answered.

Lars Rasmussen: Yes.

Ian Douglas-Pennant: On China, I mean, is it tracking in line with your expectations now? And do you communicate with the capital markets there if -- things go worse there, I mean, negative growth doesn't seem to be consistent with what you were saying before.

Lars Rasmussen: That's correct. If we look at China, then we have around 20 percent total growth in '15/'16 which is well below what we expected to have. If you're in that -- a little bit more detail, then we have the demand and also the sales that we expected to have in ostomy care and that's very strong. That is also a -- that is primarily an out-of-pocket business and it's a community business. And in wound care, that's why we have seen different changes in the year and where we have had to reset our strategy and what we do in wound care is that we have a pretty wide coverage in China.

We don't expand that coverage for the coming year. We simply -- we simply go for the hospital accounts that we have and go to get more out of them.

It means that we will grow with it slower, but it also will impact positively of course our profitability in the country. But that's the -- that's the current strategy. We don't see a need to expand further right now, we need to get more of what we already enlisted in when it comes to wound care in China.

Ian Douglas-Pennant: Perfect. That's very clear. Thank you. I'll get back in the queue.

Operator: Thank you. Your next question comes from the line of (Annette Light). Please go ahead.

(Annette Light): Thank you so much. Yes, I would like to follow up on the wound care, on the reimbursement situation in France. What's sort of the impact should we expect in '16/'17 if you could elaborate a little bit more on that?
Then secondly, on conversion of low-end to high-end catheters in the U.S., an update here. Is this going according to your plans? And how do you see that ahead of the patent expiry in '17? And then, on the SpeediCath Flex, if recently launched, what is sort of the feedback you have regarding this context? I know it's early days, but it would be nice to know a little bit about SpeediCath.

Lars Rasmussen: OK. Yes. For the reimbursement on wound care in France, it's one word. "Annoying." Because they have had so many reductions of prices in France, but it is still within a limited part of the company, so the impact from it excluded in the -- in the current guidance for the company that we have. So, I can't take that out and isolate it and say it's like this because then you'd need all of the other numbers to get to the (close) number that we give you anyways, but it is -- it is not something that we consider to be a special thing, it is included in the overall, approximately 1 percent negative price pressure that we do see, and that is included in the guidance that we have given you already.

In the U.S., what is driving growth in catheters in the U.S. and the growth underlying is actually pretty strong in catheters. It is -- that is solely the modern catheters, the hydrophilic-coated catheters. And I do know there are, as we have talked about, many times, there are a lot of the products that are very close to the product version we have but none that is exactly the same thing. So, nothing is going to change in the U.S. when we -- when the patent goes off. I mean, the prices will still be the same. The reimbursement levels are not changed at all. And we have -- this is one of the markets where it's not converted to modern catheters like everybody else.

So, if there will be another player or two that will push the hydrophilic markets, I even think that that would not be -- to any disadvantage to us, because the market is so huge, still on the old-fashioned products that it's almost unbelievable. But what is driving our growth a lot of the growth that we see in the U.S. is the modern catheters and we have also invested to have that. We have a pretty significant sales force in the U.S. and this is also what we use. (Inaudible) to drive.

And SpeediCath Flex is, as you say, it's early days. But we have extremely positive feedback from the users and also from health (type) of business. And it is launched in the major markets here during '16/'17, so I'm excited to see more impact from that in the coming -- in the coming period.

(Annette Light): OK. Thank you very much.

Operator: Thank you. Your next question comes from the line of Martin Parker. Please go ahead.

Martin Parker: Yes. Thank you very much. Martin Parker from Danske Bank. Just to follow up on this relatively modest growth you expected in the first quarter, I guess that -- have you also, this included, that you should actually see a reversal of growth in the -- in the ostomy franchise if you say you get to a normalized order backlog. As I can understand it, it's impacting your ostomy growth negatively by 2 percent in the fourth quarter, so, should we expect to see a similar 2 percent positive in the first quarter of next year?

Then, could you say, how firm are you? You seemed quite convinced that you will see this inventory reduction the first quarter. Can you tell us how -- which product groups they are impacting? And then how convinced are you that this will be the -- that this will be defining a reduction because it has been a little bit of a slippery slope over the last -- or the past five, six quarters.

Lars Rasmussen: Yes, you're absolutely right, Martin. That's been listed clear and the problem have been that the distributors have no reason to give us inventory numbers and it's taken us a long time to get into -- we'll be certain of where we feel most certain about the half.

So, we are, just to remind everybody, we are impacted by the fact that we changed the contracts. So that it's no longer what they buy from us that we give a bonus on what they sell in the market. So they have to give us (sales-out) data and then on top of that, I think the last consolidation going on in the market which means that the distributors' overall needs are smaller volume of stock.

So what we have said to the U.S. organization is we don't want to hear about it either going forward, so, get it leveled out during Q1 whatever it takes so that we have a normalized situation going forward. And that's why we also say we don't know exactly what means. It just means that it goes out. And we have very good numbers on the (sales-out), so we know that we're on top of the situation there. We just want that reflected in the numbers.

So that's also why we -- to come back to the first part of question, which is what about the back orders that we lift our fourth quarter with. They will come back in Q1, that's correct. We will be delivering and come back to a normal situation in Q1. So that means that the back -- extraordinary back orders that we had in Q4 will be positively impacting the numbers in Q1. But that will be the positive part. The negative part will be the U.S. and that's why we will be cautious about this because we have visibility on the back order situation that we can see it will be normalized but we don't have the same visibility on (our own) and that's really why we are guiding like we are.

Martin Parker: OK, and then just on the product classes, any product class which hurt more than others on this inventory reduction?

Lars Rasmussen: It's more -- it's more the IC area that we will expect to see the impact on and less on the ostomy part.

Martin Parker: Though it looks -- it sounds like a lot, it will go down with mid-single digits given that you will get almost a percentage part from the order backlog. So, should we expect to see zero growth in continence care in the first quarter?

Lars Rasmussen: I don't know. That's the -- I can't give you a guidance at that level, Martin.

Martin Parker: It's OK. Thanks.

Operator: Thank you. Your next question comes from the line of (Roman Zonner). Please go ahead.

(Roman Zonner): Yes, thanks for taking my questions. I have two. The first on the margin guide ...

Lars Rasmussen: Could I get your name again, sorry?

(Roman Zonner): It's (Roman Zonner) from (XNBNP).

Lars Rasmussen: OK.

(Roman Zonner): So, yes, the first question is under -- on the margin. I was wondering what is behind your pushes margin guidance for next fiscal year and what makes you confident you can improve the margin in the long term by the 50, 200 (beeps) while the improvement has been -- they are just really muted over the past two years and most likely the year to come. So, for example, links to the higher R&D and needs in the full terms, and I have another question.

Anders Lonning-Skovgaard: So, in terms of our margin improvement, and so we are, for '16/'17, guiding a margin in the level of 33 percent to 34 percent in constant currencies. And what we also said that the capital market, the main drivers behind our margin improvement, that is leverage effect throughout our P&L when we are growing in the level of 7 percent to 8 percent, so that is the one element.

And the other element is our program of reducing the number of headcounts in our Danish production facilities, so we are running a program where over a three-year period, we'll reduce the number of production into the usual 300. We reduced with 100 last financial year and we are expecting to reduce with additional 100 in ‘16/’17, and again, 100 in the ‘17/’18. So those are the two main drivers behind our EBIT margin expansion.

(Roman Zonner): Basically, you expect -- you would expect the margin to go up again as of ‘17/’18?

Anders Lonning-Skovgaard: So our overall guidance to the market is that we would like to grow the company between 7 percent and 9 percent and on a yearly basis, improve our margin between 50 and 100 basis points. So that is what we have said at the capital market Day.

(Roman Zonner): Thank you. And just a follow-up question on the U.S., destocking impact. You seem to have a better visibility or at least on the lasting of this impact.

Lars Rasmussen: Yes.

(Roman Zonner): Do you have an idea or can you give us an idea of the magnitude we can expect on the -- on the catch-up in the following nine months because we understood Q1 will at least get impacted? The double-digit ...

Lars Rasmussen: That’s -- no, that’s -- it’s a very -- it’s a very good question and we would like to be able to answer it, but we don’t have enough visibility to be precise on this, and that’s why we will have to stick to it. At this point in time, it’s also early days, but we’ll have to stick to that via delivering 7 percent to 8 percent growth in this fiscal year. And that you should expect that U.S. is higher -- have a higher growth in ‘16/’17 than it did in ‘15/’16.

Operator: Thank you. Your next question comes from the line of (Monica Deleova). Please go ahead.

(Monica Deleova): Good afternoon, gentlemen. Thank you for taking my question. If we can first start on the margin profile in the fourth quarter, and maybe Anders you can help us think through the next fiscal year as well. I was a little surprised by just how weak the gross margin was in 4Q. Fourth quarter is normally your strongest quarter, also looking at the full year it seems like there was a modest margin contraction excluding currencies.

Can you just talk about the various pulls and pushes? And I guess, the manufacturing relocation has been taking quite a long time relative to the original timelines that you had -- that you had communicated to us quite a while ago. What has been the cause of the delay and how are you thinking about that for fiscal year '17?

And related to that, the distribution costs were quite low in 4Q as well, to the extent that you can comment on any specific drivers. And if your view on the amount of investments for driving top line growth has changed at all? That would be my first question, and then my second question s I've noticed in your press release that there has been yet another change to the U.K. leadership. Lars, I don't know if you can just comment to us and give us a sense for what's going on there. And I know that you're encouraged by the growth in the U.K., but why are you having such a hard time maintaining management in place of this business? Thank you.

Lars Rasmussen: Could I start out with the last one? Because that's probably a briefer question or a briefer answer to it. So, as (Oleg Barrison) who has been heading up the U.K., he's leaving not because we asked him to leave. We are truly sorry to see him leave. But he is -- he's leaving basically because basically, he got an offer that he could not refuse. And I think that -- well, if you look at the performance of the company, if you sort of take into account how the numbers there have improved compared to many other companies, I think you would understand why a lot of people in Coloplast have been approached by other companies.

So, some of them get offers that they cannot refuse, and that's why -- like he has left. So we are sorry to see him leave, and (Marie) who will take over, she have -- she's done a great job for us in Holland and she will take over in U.K. when she is back from maternity leave. So, that's basically as it is and Paul Cook, who is currently running the U.K. and have been in the organization for quite a while, he would then take Netherlands.

So that's what we -- that's what we do and I'm happy that we have been able to make internal backfills of these important positions. And then you also, Anders?

Anders Lonning-Skovgaard: Yes. So, in terms of the Q4 margins, so we delivered the incontinent currencies margin of 35 percent. And in the Danish Krone, a margin of 34 percent. The underlying drivers that have been a gross margin of 59 percent, in constant exchange rates and a gross margin of 68 percent.

So, on the gross margin, the running (KBI) impacted by currency due to the fact that we are producing a significant part of our volumes out of Hungary. The other thing that has impacted our -- the Q4 margin, that is our cost that we have -- the tight cost control throughout our Q4 in order to deliver on our margin improvements. But we have continued out investment plans, so the things we have talked about previously in this year that we have been investing in the U.S. and the U.K., for instance, we have continued that into Q4, and we will also continue our investments in ‘16/’17. We said at the Capital Market Day that we would invest more into innovation in wound care, for instance, and that is some of the things we are investing into in ‘16/’17.

And in terms of your question around relocation of machines from Denmark to Hungary, we are on track. We have been transferring a lot of machines in the ‘15/’16, and we will continue to transfer machines in ‘16/’17. So, the plan of reducing the number of (FTEs) in Denmark with 300 was in production. We are on plan, and as I said earlier, we will continue with that in ‘16/’17 where we expect to reduce 100 (FTEs) and then again, additional 100 in ‘17/’18. So, our plans of moving production from Denmark to Hungary, we are on plan.

(Monica Deleova): That’s very helpful. Thank you both. If I can just -- one real quick followup on the USD stocking. Lars, I understand you sort of trying to get this under control. Your comment is “We’ll do whatever it takes.” But I think, bigger picture, it seems like the U.S. distribution landscape is consolidating quite significantly and I’m not entirely sure we’re done with that process.

What can you do as you look forward to mitigate -- not from a inventory management perspective, but also from a pricing perspective, this growing consolidation in the market.

Lars Rasmussen: The current situation is, instead of -- a very unfortunate situation because we have this change of contract at the same point in time where we get the effects from the consultation. So, we didn't foresee that when we changed the contracts that cost us quite a while ago. So, at least we do not have two things coming in at the same point in time, but you are right. Of course, you will see consolidation.

I think that we can only do going forward what we are doing right now with the prices. We are very -- we have a very strong adherence to the price points for each of our product. We are running with a number of product portfolios to serve the market, so it means that for example, in -- to give an example, in the U.S., in catheters, we have non-coated catheters which come in at a certain price point which is very low. Where we actually have a very huge stake in the markets, and we also -- winning with the high value modern products.

So, in the same category, we are actually handling two, sometimes three or four different product types with different price points attached to them. I think we need to be able to handle this complexity in the market because that's how the market is set up. It's where you -- very often in Europe, see that the market is driven clinically. The market is driven (most of all) by a financial (market) in the U.S. and I think we're set up to do that to run that game. And actually, if I look at our underlying growth, it just confirms that we have -- actually able to both grow and also be profitable in the setup that we have.

(Monica Deleova): That's great. Thank you both.

Operator: Thank you. Your next question comes from the line of (Anna Silver). Please go ahead.

(Anna Silver): Hi, thank you so much for taking my questions. I just have to -- first of all I was just wondering if you could help us with your guidance in terms of currency impacts on margins for next year. If you could break down or just order by importance which currencies, which is they're looking at? And secondly, could you quantify how much was the impact of the changes in reimbursement in France for wound care? Thank you.

Anders Lonning-Skovgaard: So in terms of our guidance in '16/'17 in Danish Krone, we have guided a growth of 5 percent to 6 percent. And an EBIT margin of 33 percent. That is based on the currencies -- or the spot rates of the 26th of October, and that is based on an organic growth in fixed currencies of 7 percent to 8 percent and an EBIT margin of 33 percent to 34 percent.

So, it is, as we normally are doing, a mathematical calculation based on the exchange rates of the 26th of October.

Lars Rasmussen: And when it comes to the reimbursement on wound care, maybe you were not at the call at the point in time we got the (Christian) (before one). And it's such a small part of the total picture. So, we can't quantify that specific one, but the fact is that we are guiding a negative price pressure, or we're expecting a negative price pressure or approximately 1 percent per year. And that is including -- that is included in our guidance for this year and that also include the reimbursement reform on wound care in France.

(Anna Silver): OK, thank you. Just a followup on the FX impact on the margins. I was just trying to understand which currencies exactly are you including your calculations, specifically in emerging markets in terms of positives and negatives? I assume for negatives, the most important would be the Pound.

Anders Lonning-Skovgaard: Yes. So in terms of -- we have also been normally mentioned in our stock announcement and you can see that the biggest impact from the currencies we have in there, that's is from the British Pound. So, that is, by far, the biggest impact compared to '15/'16.

(Anna Silver): Thank you.

Operator: Thank you. Your next question comes from the line of (Kit Sleeve). Please go ahead.

(Kit Sleeve): Hi there. Thank you both for taking my questions. I have three, please. Firstly, just on the premier GPO, could you please give us any feedback on why you have not been successful again in securing a GPO contract? And secondly, just on the mesh litigation provision. What was the reason for the additional DKK750 million? Is it because of more cases than expected coming forward, or is it because the average (customer figures) has been increasing? Maybe more color on that would be very helpful.

And thirdly, just on the proposal to include ostomy and urological supplies in the Medicare competitive bidding program. Would you please provide us with the latest updates. Thank you.

Lars Rasmussen: It's a good question, I didn't make it to the premier. So that premier, the GPO contract, because it's not -- it's not because of quality of the products, because actually, if we look at -- if we look at our pickup in the hospitals, it's much stronger now than it was a year ago and much stronger than it was two years ago. So, we are able to sell our products in hospitals. You have to remember that we have a high global market share in ostomy care, but we have a low one when it comes to ostomy care in the U.S. We grew our market share in the community markets from 10 percent to 15 percent over the last three years, and we have also a very nice pickup when it comes to hospitals.

So, we can grow without being on the contracts and maybe I should just add a little bit more flavor on that because historically, the TPO contracts that we -- the real part of (FM Revision) was -- oh, not part of what the (Vision) -- the two contracts was limited so that the hospital systems could only buy 20 percent outside of the contract. Otherwise, they would be -- if they bought more, they would have some kind of buying a (test to that).

That's not how it is anymore, so when they enter into a contract, they actually get a fixed price payment for the products, but they are free to go and make contacts with other companies if they want to do that, and we actually feel that quite a lot.

And that was the reason why the -- at the capital markets data, some of you made a total go through of this. And at that point in time, we also gave a kind of statement or guidance in connection to the U.S. hospital assistance that we, for the time being, have access to more than 50 percent of the total number of hospitals in the U.S. And for the current market share, we have -- that gives us plenty of opportunities to grow our business, and we also do that. But I think that the reason why we haven't made it to the premier contract is not quality of products, probably made of our current market share.

Anders Lonning-Skovgaard: And in terms of your question related to the mesh provision, so we have a total provision now of DKK5.2 billion, and it is our best estimate as it includes potential cost related to existing settlements, future potential settlements as well as the legal costs. On the positive note, we have also set today that we have settled 90 percent of the claims we know.

(Keith Lee): OK. And just on the Medicare Competitive Bidding Program, any update on that?

Lars Rasmussen: That's a -- you know, that's a proposed expansion, but we cannot predict the outcome or timing because, at this point in time, it's just a proposal by the Obama administration.

(Keith Lee): Yes, yes, OK, OK, very helpful. Thank you.

Lars Rasmussen: OK.

Operator: Thank you. Your next question comes from the line of Niels Leth. Please go ahead.

Niels Leth: Good afternoon. Could you please repeat the timing of the cash payments related to the missed settlements for the next -- well, for the reminder of your provision? And then my second question would be that if I look at your F.X. sensitivity table, it seems like your sensitivity towards the U.S. dollar has increased quite a bit. Could you just explain that? Thank you.

Anders Lonning-Skovgaard: Yes. So in terms of the payments for mesh, we are estimating payments in regard to mesh in '16 to '17 of DKK2.4 billion and additional DKK0.4 billion in '17 and '18. So that's the expected cash flow impact from the mesh.

In terms of your sensitivity question, Niels, it's increased a bit also because we have had a larger sales in U.S. dollar outside of U.S., so through our export region.

Niels Leth: OK, understood. Thank you.

Operator: Thank you. Your next question comes from the line of David Adlington. Please go ahead.

David Adlington: Thanks for the question, guys. First one, I just wanted to just clarify that you said that your net financials this year are expected to be zero. And if so I just wonder what was happening to hedging because I would have expected some positive moves there given the change in F.X.

And then secondly, just in terms of with the devaluation of sterling, I just wondered if you have any discussions with any of the payers of our adjusting prices given sterling devaluation. Thank you.

Anders Lonning-Skovgaard: So in regards to our financial items for ’16, ’17, my estimate is zero as I mentioned earlier. And yes, we will have a gain on the hedges on the sterling, but I also need to use the credit facility to a large extent than I have originally expected. So there will be a bigger interest payment, so overall, the current exchange rate we are estimating a level of DKK2 million.

The second question, can you please repeat that?

David Adlington: Yes, so I just wonder if you had any discussions with payers. Obviously, you know -- in terms of, you know, adjusting for the fact that sterling has fallen so much.

Lars Rasmussen: No, we haven’t -- we haven’t had that. It’s a -- it’s a bit more tricky when you’re in (our trade) to ask for this, and we didn’t -- we didn’t have a negotiation to lower the price when the count was strong either so…

David Adlington: Fair enough. Great. Thank you.

Operator: Thank you. Your next question comes from the line of Oliver Metzger. Please go ahead.

Oliver Metzger: Yes, hi. Thanks a lot for taking my questions, two I have. The first one is on the wound and skin care business, so last quarter you mentioned that’s a high (basic tool) what basically the reason for slower growth. Now the base in Q3 was already low, but you've mentioned some other negative effects. So has the low base of a previous quarter still help you to a certain extent and hosted you on the quarter-on-quarter performances on that going forward.

My second question is also in addition to the previous SpeediCath Flex question, so we launched here a very attractive so it provides a higher compliance to patients. So would you already describe that SpeediCath Flex might create a new standard in continence care in catheters. And in addition, how long do we have patent protection for them? So basically, what are your expectations on a -- not only on a -- not only on a shortened view, but more on a multi-year -- years review?

Lars Rasmussen: If I take the last question first, and believe it or not it's -- it can't be tricky to understand how any part of performance in the markets. And I think the best current example of that is the economics because if we have known how well-received it would be in the markets, then we would have meet the different capacity from the outset because right now we are running (index) 220 compared to original forecast.

So therefore, it's extremely hard to answer your question. Yes, we have had -- we have had a very, very positive receivable of SpeediCath Flex. But if this means that that is the new standard and this is how a product works and so on because if it does have different features then what you find in the market today it's just too (early for us) to say. I hope it will be great. But, you know, I wouldn't be able to say that, but it's in the -- you know, it's a product and we have -- we -- you know, we are very, very excited to see how that pans out.

Oliver Metzger: Yes.

Lars Rasmussen: For wound and skin care, it's primarily China that we -- where we feel the pain. And as I explained to you in the call, we have -- last quarter we spent some time understanding what are we going to do going forward. Where we are now, we know that we have to be much stronger in the efforts with the account that you already have taken care of. We are covering the biggest -- by far biggest hospitals in the U.S. -- in China.

We have a -- we have a very big coverage already, and so this year we are pausing. We are not hiring more sales reps, but we are -- we are definitely going very hard on getting growth and performance out of the investments that we have already taken in China. And I think with the current growth rates in the market in China, that's a very appropriate way to go about it.

Oliver Metzger: OK. Just on the SpeediCath Flex one question because I also asked for patent protection, so how long do you have this patent protection?

Lars Rasmussen: Oh, yes, we have -- you know, the norm is that you file for a patent when you discover the new -- the new features of a product. And with the development time, we have -- typically when we come out, the patent expectations would be 15 and years after launch.

Oliver Metzger: Yes.

Lars Rasmussen: But then you come back to, of course, how strong is your patent protection in that period and how much does it keep other companies' (outage). It's quite rare that you see as strong a patent protection like we have seen it at the -- at the regular SpeediCath product, so that will have to be tested and that's what happens when you -- when you go into the process afterwards.

Oliver Metzger: OK, that's helpful. Thank you very much.

Operator: Thank you. Your next question comes from the line of Scott Bardo. Please go ahead.

Scott Bardo: Yes, thanks very much for taking my questions.

So, firstly, I think you mentioned that you still got access to around 50 percent or so (of hospitals) in North America…

Lars Rasmussen: Yes.

Scott Bardo: …for ostomy, which I think you've highlighted in the past. I just wondered if you could give us a bit of an update, Lars, as to the -- where we are with this advanced technology contracts from (Vision) because it is my understanding that there should be some clarity on that around this time of year, so is it possible to share some thoughts related to the outcome of that and how that might potentially change the access that you described. So that's question number one please.

And the second question is, well, obviously, we've seen quite a bit of stocking and that's a little out of your hands, but by and large, it certainly seems that some larger distributors are having some pain in this environment of lower drug prices. And so the question I have is that is it your expectation or are you seeing any signs that they're looking to share some of that burden and pain with medical technology supply such as Coloplast and if things are getting a little bit more tougher in terms of some of the procurement prices they're willing to pay.

Lars Rasmussen: I'm sorry, Scott. For some reason, you broke up a little bit on the last question. Could you repeat that because I'm not sure that we got it?

Scott Bardo: Oh, sorry, Lars, yes. The question was related to some of the pain that the distributors seem to be having, particularly in North America surrounding drug prices, which has already been quite evident thus far and expect to continue into '17. So the question was are you feeling any indirect (knock on) effects from that or any discussions about potential procurement prices for medical device companies into Coloplast?

Lars Rasmussen: Yes, OK. On the advanced technology agreements with innovations, (Vision), it will expire in -- at the 31st of December this year. And we have moved all the customers accessing Coloplast products through the advanced technology agreement into local contracts. And as we explain that the at the Capital Markets Day, the -- we don't think that they will have to use advanced technology agreements within Ostomy Care anymore because their contracts are no longer standardized. And that means that if hospitals want to buy our products, they can just go do it. There's no fine or punishments or anything attached to them buying even 100 percent of the -- of the volume from us.

oS in that sense, you know, standardize just means that in the old -- in the old world way for standardized contracts, if you -- if you're buying more than 20 percent off your -- off your value, outside of the -- of the TPO contract you would get a fine for that, it doesn't apply anymore to this -- to this category. So therefore, it does make sense to have advanced technology agreement, so we don't expect it to be renewed when it runs out because that is free access for everybody in that hospital system who wants to buy our products.

I don't know if that answers your question.

Scott Bardo: So you wouldn't expect access to change as a result of not being on this, but presumably you need all of those customers that were on that contract to recommit with you. I mean, is that potentially a risk?

Lars Rasmussen: No, we have done -- we have done this.

Scott Bardo: Yes.

Lars Rasmussen: Everybody who are there, we have done this, but yes, on a local contract.

Scott Bardo: Yes.

Lars Rasmussen: But also going forward, they -- there's no -- the hospitals under the (Vision) TPO, there would be no -- they would have no problems in accessing whatever product they want to access in our portfolio because they're free to do that under the new contract that they have been set-up.

Scott Bardo: Thanks, Lars. Great.

Lars Rasmussen: And with regards to distributors, yes, of course, we have discussions all the time with distributors, but we have not had any issues or -- yes, but we have not had any reason to change our pricing in this regard. We are -- many of our distributions -- well, many of our distributors are not pharma distributors, but for those who are, we are probably not resourceful for (income for)...

Scott Bardo: OK. Thanks very much for taking my question.

Lars Rasmussen: All right. So I think…

Anders Lonning-Skovgaard: Yes.

Lars Rasmussen: …we go for the last question now.

Operator: I can see one more question from the line of Ian Douglas-Pennant. Please go ahead.

Ian Douglas-Pennant: Thanks very much for squeezing me in at the end. Just a question on the -- on the destocking you're seeing from McKesson and (Connell) in the U.S., it seems to be dragging on longer than even you thought from what -- from what I am gleaning from this call. And have you worked out why there was quite so much inventory in the channel in the first place. It seems to me like given my understanding of the market structure, they shouldn't actually have needed that much inventory, but maybe I'm missing something.

And the second one is on the urology margin, we saw a pretty good improvement this quarter and indeed this year from urology and relatively little elsewhere. Can you help us to explain what drove this? Was it just operating leverage and how high do you think those margins can go over the medium term or do you not think about it this way?

Lars Rasmussen: If we're thinking margin, you bet. OK. So why do we have this inventories in the U.S.? It's -- it is because we had a wrong contract set-up so, of course, it's not correct to have a set-up where you pay bonuses or rebates based on what distributors buy from you. It needs to be based on what the settlement and this market changed to.

So I think we pay the price for that. And, of course, by this change of contract, we are also in a position where there is an incentive from the distributors because many of the distributors also have a muscle where they can (sell stuff), right? They are not just (inaudible).

That gives them an incentive to use the (setting) more often than anybody else and that incentive was not completely aligned historically. So I think that's part of the explanation. But the other part of it is that there is a strong consultation going on in the U.S. and with distributors. And that have been more than what we was able -- we were not able to foresee that, so that's the -- that's the main part of it.

And when it comes to margins in Urology Care, there's a lot of scale effectiveness. There's no doubt about that especially inside of the -- of the female health. It's growing pretty strongly that helps us. We are very satisfied with that.

Thank you very much, and we're looking forward to seeing you all over the next weeks.

Operator: Thanks. That does conclude our conference for today. Thanks for participating. You may disconnect.

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