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COLO B.CO - Q1 2018 Coloplast A/S Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Coloplast Q1 2017/'18 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Lars Rasmussen, CEO. Please go ahead, sir.

Lars Rasmussen - Coloplast A/S - CEO and President

Thank you very much. Good afternoon, and welcome to our Q1 '17/'18 conference call. My name is Lars Rasmussen. I am CEO of Coloplast, and I'm joined by CFO, Anders Lonning-Skovgaard, and our investor relations team. We will start with a short presentation by Anders and myself, and then we will open up for questions.

Please turn to Slide #3. Today, Coloplast delivered yet another strong quarter with 8% organic growth, which I'm very pleased with. Despite last year's low comparison based in Q1, in the U.S., we can see solid underlying performance across most parts of the business, and we continue to take market shares. I remain excited about the prospects of the U.S. business. The underlying demand for our products is solid, and we are clearly driving the shift in the market towards more advanced hydrophilic catheters.

Today, I'm also happy to announce that we have kicked off the launch of a new ostomy appliance within our SenSura Mio portfolio. The product is called SenSura Mio Concave, and it is the first product on the market, specifically designed for people with hernias and curves. The product has been prelaunched in 7 markets, and the feedback from nurses is positive.



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In November, we communicated a new long-term guidance to the market based on an ambition to accelerate our organic investments to drive further growth. In Q1, we have increased our investments in the U.S., several emerging markets, Urology Care and Comfort Medical. We have also decided to establish our own organization and direct sales in Ostomy and Continence Care in Portugal. Further linked to our strategic update in November, we recently completed the acquisition of a small direct-to-consumer business in France to strengthen our service offering towards consumers.

Our results are negatively impacted by significant health care reform in Greece, which had a particularly large negative impact on our Wound Care division this quarter. For the year, we expect Wound Care to grow in line with the market, driven by improving momentum in emerging markets. We also saw a significant negative currency impact in the quarter.

Our organic revenue guidance for '17/'18 is unchanged, with a growth of around 7%, whereas our growth in Danish kroner is now 1 percentage points lower at around 5% to 6% due to the continued depreciation of the U.S. dollars against the Danish kroner. Our EBIT margin guidance is in fixed currencies and in Danish currencies -- Danish kroner is unchanged at 31% to 32% and around 31% respectively.

Please turn to Slide #4. Revenues grew 8% organically and 5% in Danish kroner and amounted to DKK 4 billion. In Ostomy Care, organic growth was 9% and growth in Danish kroner was 7%. Growth continues to be driven by the SenSura Mio and Brava accessories portfolios. The SenSura Mio portfolio saw a satisfactory growth in Europe and the U.S. In particular, SenSura Mio Convex continues to contribute to growth. The SenSura and Assura portfolio growth was driven by satisfactory performance in China, Argentina and Brazil.

In Continence Care, organic growth was 10% and growth in Danish kroner was 9%. The SpeediCath ready-to-use intermittent catheters continue to drive growth and especially the compact versions performed well. In the compact segment, we saw strong growth in the U.S. as well as satisfactory growth in U.K. and France.

We continue to see healthy growth rates in Japan, Australia and South Korea, following the introduction of reimbursement for intermittent catheters in these markets.

So far, we have seen limited impact from the expiry of the SpeediCath standard to ready -- standard ready-to-use patents. SpeediCath Flex have now been launched in 16 markets and continues to contribute strongly to growth. Our Conveen collecting device portfolio posted slightly positive growth due to satisfactory growth in France. And finally, sales growth for Peristeen products remains satisfactory.

In Urology Care, organic growth was 11% and growth in Danish kroner was 6%. The double-digit growth was primarily driven by sales of Titan penile implants and female pelvic health products in the U.S. We made large investments into the U.S. implant business last year, and we'll continue to invest this year. Our endourology business saw satisfactory growth in Europe, in particular, in France.

In Wound & Skin Care, organic growth was declined by 5% and growth in Danish kroner declined by 9%. Organic growth for Wound Care in isolation declined by 7%. The quarter was negatively impacted by price reforms in Wound Care in Greece. This negative development was reinforced by a strong Q1 last year due to inventory buildups at our Greek distributors due -- because of price reforms. Adjusted for Greece, Wound Care growth in the quarter was in line with the markets.

On a positive note, growth in the Biatain Silicone portfolio was double digit, driven by Europe and the launch of Biatain Silicone Sizes & Shapes. The U.S. Skin Care business contributed to growth in the quarter on the back of customer wins last year and during the quarter. We were successful in winning the skin care GPO contract with HealthTrust.

Contract manufacturing of Compeed contributed quite negatively to growth due to the inventory reductions in connection with the sale of the Compeed brand from Johnson & Johnson to HRA Pharma, and we expect a pickup in momentum over the next quarters.

Turning to our geographical segments. We saw organic growth of 4% in Q1 in our European markets. The growth continues to be satisfactory across the portfolio of countries driven by recent product launches. Organic revenue growth in other developed markets was 18% in Q1. The underlying growth in the U.S. in the Chronic Care business is strong and continues to be double digits.



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Revenue in emerging markets grew organically by 10% in Q1. The growth was driven by China, Argentina and several smaller emerging markets countries, but growth was significantly negatively impacted by Greece, as explained earlier.

With this, I'll now give the word to Anders. Please turn to Slide #5.

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Thank you, Lars, and good afternoon, everyone. Gross profit was up by 3% to around DKK 2.7 billion. This equals a gross margin of 67% compared to 69% last year. In constant currencies, the gross margin was 68% compared to 69% last year. The gross margin was negatively impacted by the launch of new products, where the production economy is not yet fully optimized as well as increasing depreciation levels and costs associated with the relocation of production to Hungary.

On a positive note, we continue to see improvements in production efficiency at our volume sites and the positive impact from the relocation of SenSura Mio to Hungary. The distribution-to-sales ratio came in at 30% compared to 28% last year. The 10% increase is in line with our newly communicated long-term guidance of increased investments to drive further growth over the next couple of years.

As mentioned earlier, we approved new investment cases in Q1 across our business areas and regions. The admin-to-sales ratio came in at 4% of sales, on par with the recent trend. The R&D-to-sales ratio came in at 4% of sales in line with last year. The 14% increase in R&D cost reflects a higher general activity level. Overall, this resulted in an increase in operating profit in fixed currencies of 4% and a decline of 2% in actual currencies corresponding to an EBIT margin of 31% in both fixed and actual currencies.

Operating cash flow amounted to DKK 1 billion compared to DKK 254 million last year. The increase is primarily explained by higher missed payments last year compared to this year. Total missed payments to date amount to DKK 4.2 billion. Cash flow from investing activities was impacted by the site expansion in Nyírbátor in Hungary and capacity expansion in machines to produce new and existing products. Investments in intangible assets and property, plant and equipment amounted to DKK 196 million for the quarter, up DKK 75 million compared to last year.

Adjusted for payments made in connection with the mesh litigation and the acquisition of Comfort Medical, the free cash flow amounted to approximately DKK 947 million compared to DKK 1.4 billion last year. Adjusted for timing of tax payments, the free cash flow was in line with last year. Our cash conversion in Q1 calculated as a 12-month trading average was 99%.

With respect to the mesh litigation in the U.S., we have settled more than 95% of the known cases. We still view the provision as sufficient, and we are in the final phase of the mesh litigation. In '17/'18, we still expect to pay out the remaining DKK 1 billion of the DKK 5.25 billion provision. We have reviewed and analyzed the impact of the U.S. tax reform passed in December. And our view is that it will not have a material impact in the current and subsequent financial years.

Finally, the board has today approved a new share buyback program of DKK 1 billion over the next 2 years. The first part of the program of DKK 500 million will be initiated in Q2 and is expected to be completed in Q4.

Please turn to Slide 6. Our organic revenue guidance for '17/'18 is unchanged with a growth of around 7%. Our growth in Danish kroner is now expected to be 1 percentage point lower at 5% to 6%, primarily due to the depreciation of the U.S. dollar and dollar-related currencies against the Danish kroner.

Our guidance still assumes a negative impact of DKK 100 million from the patent expiry on SpeediCath standard catheters. Further, for '17/'18, we continue to expect negative pricing pressure of more than 1 percentage point on our top line due to health care reforms in Greece. In October, price cuts of around 25% were implemented for Ostomy Care, Continence Care and Wound Care at the distributor level. Since then, we have appealed to the Ministry of Health. Hence, the actual reform outcome and impact still remains highly uncertain. We continue to assume an impact of DKK 100 million in our guidance.

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Aside from the impact of the patent expiry and the health care reforms in Greece, our guidance assumes stable underlying growth trends across all regions. The guidance in Danish kroner is significantly impacted by the depreciation of the U.S. dollar as well as dollar-related currencies against the Danish kroner. The currency impact is based on spot rate as of January 24.

For '17/'18, we continue to expect an EBIT margin of 31% to 32% in constant currencies and around 31% in Danish kroner. The EBIT margin guidance includes the impact of our assumptions around the SpeediCath patent expiry and health care reforms in Greece as well as acquisitions.

On our operating expenses, we expect broadly stable trends since -- in '17/'18. This year, we will invest up to 2% of sales-enhancing initiatives. Higher growth from our new product launches still means pressure on the gross margin. But as previously communicated, we continue to relocate manufacturing out of Denmark to Hungary, and we will reduce a number of production workers in Denmark by additional 100 people in '17/'18. We expect the benefits to be absorbed by the cost of relocation and restructuring cost of approximately DKK 20 million in '17/'18.

We expect high single-digit wage inflation in Hungary in '17/'18. We also expect depreciation to increase at the same level as last year as a consequence of the last couple of years increase in CapEx.

In summary, the EBIT margin guidance is negatively impacted by health care reforms in Greece as well as the patent expiry. Despite the downward pressure on the EBIT margin, from these factors we are in accordance with our new long-term guidance accelerating our commercial investments to drive growth.

We currently expect our net financials to end the financial year '17/'18 at plus DKK 25 million, primarily due to hedging gains on the U.S. dollar and the British pound.

CapEx guidance for '17/'18 is expected to be around DKK 700 million and is driven particularly by investments in more capacity for new and existing products as well as the Nyírbátor expansion, which is expected to be operational during the first half of '17/'18. Finally, our effective tax rate is expected to be around 23%.

This concludes our presentation. Thank you very much. Operator, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Lisa Clive from Bernstein.

Elisabeth Decou Bedell Clive - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Three questions. First, what was the issue in China for Wound & Skin Care? I'd just like to know whether this is a Coloplast-specific issue or represents a broader market slowdown in this category. Second, if you could just give us a global figure for wound care growth ex Greece? And then third, on the Greece impact, from the commentary and the press release, it sounds like Wound Care was really the main division that was hit but you do continue to expect it to hit all the businesses. Is there a delay in the impact on Ostomy and Continence Care? Will that come through in Q2? Or is it just a much smaller proportion of the business for those 2 divisions and so it's not really as material?

Lars Rasmussen - Coloplast A/S - CEO and President

Take the last one again. What was that?

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Elisabeth Decou Bedell Clive - *Sanford C. Bernstein & Co., LLC, Research Division - Senior Analyst*

On Greece, it was a Wound Care issue, rather it hit Wound Care rather severely, but really didn't seem to have an impact on Ostomy and Continence Care. Is that just because it's a much, much smaller portion of the business? Or is there some sort of delay and we'll see that hit later?

Lars Rasmussen - *Coloplast A/S - CEO and President*

Okay. All right. So the issue in China Wound Care basically is that, that we had in some hospitals they were not that much money in the last couple of months of the year. So there was some holding back on purchase in some of the accounts that we have. I remind you that we have very, very, very strong growth in Ostomy Care in China, but that's an out-of-pocket market. We are very much selling most of our products in Wound Care directly to hospitals, and they purchase directly from us. So I would expect that most that are in the market would also have seen that if they're present in the same channel.

The Wound Care growth ex -- if we take the Greece out of the comparison numbers, that would place us within the range of the 2% to 4%, which is the market growth as we see it right now in Wound Care but at the lower end of the range, but it does have a very significant impact. Actually, just to give you guidance on how much this is, if you take the impact that we have seen on Greece and then the -- what we talked about on Compeed, those 2 things alone deducts more than a full point of growth in the quarter from the business. And it's something that comes back to us -- that will come back later on because we actually expect Wound Care to grow in line with the market for the full year, and we also expect to get back to formal [areas] that we had on Compeed in the rest of the year.

And your assumptions on your last question about the impact on Wound Care from Greece, it is because it's -- if you take it on -- if you take the Greek sales as a total percentage of the total sales of Wound Care, it's much more influential that we would see in the other markets.

Operator

(Operator Instructions) We'll now take our next question from Veronika Dubajova from Goldman Sachs.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Apologies if I missed this in the prepared remarks. I joined the call a little bit later. But I just want to understand, I guess, at what point in time, if you don't hear back from the government or if the appeal is unsuccessful will you resume the normal course of business in a Greece? And kind of as we think about this DKK 200 million of revenues that you generate or DKK 250 million in Greece in totality, just what are you thinking? At what point in time are we going to end up below the DKK 100 million that you've guided for? And what's the probability that we end up at the DKK 100 million, I guess, is maybe a fair question to -- fair way to ask the question.

And then my second question is on the full year guidance. If I look at the margin this quarter, it's certainly fallen below the 31% that you're targeting for the first year -- for the full year. And what would be great to understand is, what are the some of the levers that you have in the business to get you to 31% for the year? And what's your degree of confidence with that?

Lars Rasmussen - *Coloplast A/S - CEO and President*

Yes. So I think I'll take the first part of the question and let Anders have the second part of it. When it comes to Greece, it is as you're also alluding to, a negotiation process. We are, however, have getting some little bit of tailwinds since we spoke last time because of the situation in Greece, Hollister have decided to withdraw from the market, and they're not -- no longer going to serve the market. And that means that a number of patients will have to find themselves a new supplier. So that works in a positive way.

And I think that we will be able to contain the total damage increase within the amount that we have guided at the beginning of the year, and we didn't mention it that much, but we have had a very good start if you take the total picture on catheters and on continence care because we have



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not really seen an impact from the expiry of the patents. So all in all, the thought of the red flags that we went into the year with, we feel that we can definitely stay within them.

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Yes. And in terms of your EBIT margin question, Veronica, I'm confident that we will deliver an EBIT margin in constant currencies of the 31% to 32% level and around 31% level in Danish kroner. The main drivers are higher nominal sales in the coming quarters, plus that we have already included the sales and marketing investments from the first quarter. So I'm confident that we will deliver on the EBIT margin for the full year.

Veronika Dubajova - Goldman Sachs Group Inc., Research Division - Equity Analyst

So just a follow-up on that, Anders. You wouldn't expect selling and marketing to accelerate dramatically from the level that you saw in Q1?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

So I see that for the first quarter, our distribution cost and percentage of revenue was around 30%. And I expect that we'll be at that level for the coming quarters as well.

Veronika Dubajova - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay, okay. And any comment on the gross margin that you'd make in the kind of commitment that you had hoped for it to be flat year-on-year? Does that still hold do you think on a full year basis?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Yes, for the full year basis, I still assume that we will have a gross margin in fixed currencies at a flat level compared to last year. We are negatively impacted, as I said earlier, from the new launches, especially from good growth on SenSura Mio Convex, but for the full year I'm still expecting that our gross margin will be in line with last year in the constant currency.

Veronika Dubajova - Goldman Sachs Group Inc., Research Division - Equity Analyst

Fantastic. And my last question is, a competitor of yours, obviously, has been having some issues manufacturing. If I look at your growth rate, it seems -- in ostomy, it seems to have picked up sequentially just a tiny little bit. Is this you starting to see some benefit from that competitive situation or anything else going on?

Lars Rasmussen - Coloplast A/S - CEO and President

That's very hard to judge where the marketshare gains are coming from. But the majority of the growth that we are seeing is coming out of the new products that we're having and picking up new patients and then from -- also from (inaudible), but it's very hard to say, Veronika.

Operator

Our next question comes from Annette Lykke from Handelsbanken.



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Annette Lykke - Handelsbanken Capital Markets AB, Research Division - Medtech Analyst

My first question is on the Wound Care, where you said that adjusted for the Greek reform, you're probably in maybe 2% growth or so. It's just 1.5 years ago, you had very high ambitions for this segment with completely different growth rates targets. What has changed? And what is needed to do just to get into, I would say, average of quarter's growth? That's my first question.

My second question is on the concave ostomy bags. It looks really interesting. But if we look at the incident rate for people having hernia, it's maybe in the region of 1.5% to 2% in average and maybe it's significantly higher in the ostomy area. Could you share a little bit on that?

Lars Rasmussen - Coloplast A/S - CEO and President

Yes. So for Wound Care to grow in line with and more than the rest of the company, of course, you need higher growth than what you had in the first quarter in China. But we've also been holdback in the period that we talk about from a quite severe health care reform in France. So I expect that will help us.

Annette Lykke - Handelsbanken Capital Markets AB, Research Division - Medtech Analyst

Yes, but is it even corrected?

Lars Rasmussen - Coloplast A/S - CEO and President

Yes. But if we correct for that, then you start to get up to where the rest of Coloplast is, but that's not our ambition. Our ambition is actually to grow 15% per year. So in that sense, we need to grow more, and we need to invest more. And with the investments that we are taking right now, we are also investing to grow quite significantly, for example, in the U.S. And as I mentioned in the opening remarks, we just got a contract with one of the bigger purchase organizations in the U.S. HPT, and that will, of course, help us accelerate in that path of the country going forward, but we're also investing into emerging markets. But it is right that we need more growth. I just have to say that flat out, of course.

Annette Lykke - Handelsbanken Capital Markets AB, Research Division - Medtech Analyst

Do you like critical size? I mean, is...

Lars Rasmussen - Coloplast A/S - CEO and President

Yes, we like critical size but not to grow, more to have the profitability that we need to have in that business area.

Annette Lykke - Handelsbanken Capital Markets AB, Research Division - Medtech Analyst

Any acquisitions is relevant there?

Lars Rasmussen - Coloplast A/S - CEO and President

We'll definitely come back to you if the right things pops up. That's for sure. But it's no secret that we're looking at what we can do to also strengthen the company in an inorganic way. But as you know, we are also quite concerned that it should be value creative so not at any price.

On the Concave side, yes, the incidence of hernias is somewhat bigger when it comes to ostomy patients. But this is not only hernias. It is also if you have arcuate, an outward body shape, during the course of the time when you're having an ostomy, and it is a known fact that many ostomy



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patients, they will gain weight after surgery, and therefore, this is a real problem. And what we have developed here is a problem solver. And we are also going to launch it at a price that problem solvers are getting.

So we have another problem solver in the portfolio, which is, for example, Concave which is on average -- sorry, Convex, which is on average sold at a 50% premium to flat appliances. So that's what we are talking about.

Operator

Our next question comes from Michael Jungling from Morgan Stanley.

Michael Klaus Jungling - *Morgan Stanley, Research Division - MD, Head of MedTech and Services and Analyst*

Three questions, please. Firstly on the SpeediCath patent expiry, can you comment on what you've seen so far in the quarter, if you like, year-to-date? And perhaps you can also comment on how many competitors you may have seen even if they're quite small? And secondly, on U.S. tax reform, what is the main reason why you think the tax reform will not have a material impact? And at the margin, is it going to be more positive or negative? And then thirdly, on distribution costs, how long does the step-up in investment in the first quarter take before you start seeing an impact on sales? Are you sort of thinking 6 months' lag or 9 months' lag? Or is it even a bit longer than that?

Lars Rasmussen - *Coloplast A/S - CEO and President*

So on the SpeediCath side, well, there are quite a number of competitors in the market already. And yes, we have seen new competitors also being listed, not a big number. But it's not really had a major impact on or any -- really any impact on the sales growth that we're having. So it's not like we see something, which we did not expect to see in the market, maybe a little bit less than what we expected to see. And if I think about what time the investments that we are taking now, what is the time for them to have an impact, this is our third quarter where we are growing 8% organically.

So actually, a lot of the things that we have done are having an impact on the growth rate in the company. And the investments that we take now, I expect them to come within the time period that we have, up to 2020. But I can -- it's very hard for me to be very specific on whether it's in 6 or 9 or 12 months period for that they will come in. But we are investing and quite consciously so investing to get short-term growth up also. So it's -- but I can't be more specific than that.

On the tax reform, would you like to add something, Anders?

Anders Lonning-Skovgaard - *Coloplast A/S - Executive VP & CFO*

Yes. So in terms of the U.S. tax reform today, around 80% of our taxes are paid out of Denmark. So the reduction in the corporate tax rate in the U.S. is not having a significant impact on our tax rate guidance. So I still believe that we will deliver a tax rate of around 23% for this year and also for the coming years.

Michael Klaus Jungling - *Morgan Stanley, Research Division - MD, Head of MedTech and Services and Analyst*

Okay. And briefly, a follow-up question on SpeediCath patent. Are you surprised that some of your major competitors, that ConvaTec has not yet launched a product, which is compatible on a self-lubricated basis? And therefore, is the DKK 100 million that you've guided to now too high, is the impact going to be less than DKK 100 million?



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Lars Rasmussen - Coloplast A/S - CEO and President

That's obviously too -- a little bit too early to say. But if we don't see further impact in the coming quarters, then what we see in the first quarter is definitely too high.

Operator

Our next question comes from Inês Silva from Bank of America Merrill Lynch.

Inês Duarte da Silva - BofA Merrill Lynch, Research Division - Associate

Two questions on the EBIT margins, please. First of all, on the gross margin, can you explain your path to the flat gross margin by the end of the year? And I'm just asking this question because it seems like the headwinds in the mix came from new products but also your growth is being driven by the new launches. So I just wanted to understand how is this going to not happen going forward?

And then my second question is just on operating income. You booked some operating income here. And I was just wondering if you could give us an outlook for the full year?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

So the first question related to the gross margin, as I said earlier, I am expecting for the full year that it will be in line with last year. I'm expecting that we will see high nominal sales in the coming quarters and that will also have an impact on the gross margin. We are currently also relocating production from Denmark to Hungary. So we are moving machines from Denmark to Hungary, and I also expect that, that will contribute. And finally, we are reducing the number of FTEs in Denmark as a consequence of the Innovation Excellence one program. And I also expect that, that throughout the year will contribute to the gross margin development.

In terms of the other question around other income, I'm not giving you a specific -- it was around the net financials. Yes. So -- but in terms of the net financials, as I said earlier, I'm expecting for the year to have a plus DKK 25 million impact on our net financials. So that's how I see it right now.

Inês Duarte da Silva - BofA Merrill Lynch, Research Division - Associate

I was asking about other operating income, which you book inside the EBIT?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

So other operating income, it's something I'm not specifically guiding on. We have had a patent -- or a patent settlement in the first quarter that impacted the first quarter. But I'm not giving you my full year perspective on that. That is included in my EBIT margin, the guidance of 31% to 32% in standard currencies.

Operator

(Operator Instructions) We will now take our next question from Sebastian Walker from UBS.



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Sebastian Walker - *UBS Investment Bank, Research Division - Associate Analyst*

Just two, please. So first, going back to profitability. I mean, I'm surprised, given the strong growth we saw within Chronic Care that we didn't see a more positive mix impact in the margin. So I was wondering if there was some kind of phasing in terms of the investments that you're planning on making this year, any indication on timing there would be helpful.

The second one as well, it would be great if we could get some more detail on the Portuguese reimbursement reform, I believe that caused you to make your changes there? What proportion of sales is that region as well for you?

Anders Lonning-Skovgaard - *Coloplast A/S - Executive VP & CFO*

In terms of the investments into our sales and marketing organization, so we have initiated a number of investments already now from Q1 across the businesses. So we have initiated a number of investments in the U.S., in emerging markets, and also -- we have also increased our R&D ratio, and I expect that the levels we have seen in percentage of revenue that will continue throughout the year. And therefore, I'm also confident that we will deliver on the EBIT margin guidance. As I said earlier, I'm comfortable that we will deliver in standard currencies an EBIT margin in the level of 31% to 32% and also around 31% in Danish kroner. And then the Portuguese?

Lars Rasmussen - *Coloplast A/S - CEO and President*

On the Portuguese side, the -- because of higher reimbursement, higher coverage in Portugal, there is an opportunity now to remove the co-pay, which we have seen in the market. That means that, that market will start to work as a normal market in Ostomy Care. And then on the catheter side, there have historically been no reimbursement, and that is now being changed. So there is actually a really good reimbursement there, and that is what we want to address.

We have actually early on been in a similar situation where when we started to serve the French market with catheters, there was no reimbursement. And today, we have a significant amount of 50% market share in France. So we have some experience on how to build a strong market share first and that experience we are going to bring to Portugal also. So it means that the potential value of the Portuguese market have increased manufacturers since this change, and that's also why we are establishing -- or have established our own organization there.

Sebastian Walker - *UBS Investment Bank, Research Division - Associate Analyst*

Just to follow up on that, how big is Portugal today in terms of sales?

Lars Rasmussen - *Coloplast A/S - CEO and President*

Very small.

Operator

Our next question comes from Patrick Wood of Citi.

Patrick Andrew Robert Wood - *Citigroup Inc, Research Division - Head of EMEA Medical Technology and VP*

I have two remaining, please. The first would be in Greece. Could you give us a sense of who the other competitors on the Wound Care side are there? Is it the usual sort of collection of people within that market? And roughly, how competitive is your position versus theirs within that market? Whether you want to define that as market share or whether you sort of give a numeric ranking?



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And then the other question is on the M&A side. On the Wound Care side, again, historically, it's been a bit of a problem with a lack of assets up for sale. Now it sounds like there's, obviously, things on the market. I guess, the question is how many more reimbursement shocks like the one we saw in Greece do you think you need before you get an acceptable price for the assets that you're clearly trying to court? That will be helpful to get a sense on timing on that sort of thing.

Lars Rasmussen - Coloplast A/S - CEO and President

Well, it's -- this is a very bold statement, but I say it anyways. If you look at the competitive situation in Greece, it is very different than what you see most of the markets because there's hardly any real competition in the market. We serve Greece through a distributor who only have -- who only deals with Coloplast. And they have managed to get a very, very significant market share. And that's, of course, also why it's meaningful numbers in our portfolio. And therefore, this is -- the impact that we see in Greece on the pricing is not due to a competitive situation, which have escalated or anything else. It is really only down to a price reform, which is driven out of the overall financial situation in Greece.

So -- and then to your second question, Wound Care is the biggest market we are serving. It's a market where we think that the growth rate is 2% to 4% for the time being. And it's not because of low volume growth, but it is because of price pressure in the markets, which we see that this market continues to be an interesting market. But it is also a very competitive market to be in, and therefore, of course, there is a limit to what kind of value you can put on a Wound Care target.

But there is no doubt, and you can sort of assure yourself on that statement. But there is no doubt that if you get to a certain scale, it is a very profitable business area, and you can look at, for example, [Melsungen] and look at their numbers. They have EBIT margins that they always resembles the EBIT margins that Coloplast is having. And that's nowhere near where we are for the time being with our Wound Care business because we are subscale. So hence the interest for us from our side to scale that business because it's a business with pretty nice gross margins, but the cost to serve is quite significant, and that's the reason why scale really matters in this market. I don't know if that answers your questions, but that's...

Operator

Our next question comes from Christian Ryom of Nordea.

Christian Sørup Ryom - Nordea Markets, Research Division - Senior Analyst

This is Christian from Nordea. I have a couple of questions. First, on products. You've previously said that you intended to introduce a new version of your SpeediCath Flex product for the U.S. market that specifically address the higher reimbursement (inaudible) category. Has that been launched? And has it had any effect in this quarter?

Lars Rasmussen - Coloplast A/S - CEO and President

No. It has not been launched. It will be launched in the second half. It's a -- yes -- but it's -- everything is progressing as we expected it to, and it is following the plan completely.

Christian Sørup Ryom - Nordea Markets, Research Division - Senior Analyst

Okay. And then secondly, on the Concave product that you are now introducing to the market, can you give us some sort of idea on what your production ramp and what your market assessment is for this product? Because we, of course, recall that you introduced your Convex product a couple of years ago, where you were surprised by the demand. Is there a chance of a similar situation developing here? Or how are you going to market with this product?



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Lars Rasmussen - Coloplast A/S - CEO and President

Yes. I would almost say I hope so because we completely blew the budget at that point in time and had to pause the launch to build more capacity. Even though we had capacity for an extra 200 compared to our launch forecast. But this is a little bit of a different situation because there are no other similar products in the market, and that means that we also have to -- we have taken into consideration that we are creating a new segment within the market with this. And therefore, we don't expect to have the same kind of pick up as we saw on the Convex.

But what I think is important to note here because sometimes we tend to, of course, to be focused on this quarter and the next quarter, but that is that every time a person switches from a flat appliance to one of these products, either Convex or Concave, the value per patient goes up by approximately 50%, and that is the real underlying driver for this because these are problem solvers. They help people live a fuller life, but they also pay for in a different sense and that's really important in a market where values are not going up per product area then and a value upgrade is really important to us.

Christian Sørup Ryom - Nordea Markets, Research Division - Senior Analyst

That's helpful. And just one question for clarification. I think you mentioned to one of the first questions that Greece and Compeed have deducted around 1 percentage point of growth from your business. Is that to be understood as from the group? Or how should we understand that?

Lars Rasmussen - Coloplast A/S - CEO and President

That's from the group numbers in Q1. So just -- it's just to make sure that you understand how big the impact is. And also the fact that we expect to come back to normal growth in both areas for the rest of the year and actually also to gain some of the loss from the first quarter, which means -- that's why I'm saying we are going to -- we expect to grow within the market growth for the full year in Wound Care, and we expect that Compeed will contribute with more or less what it did last year at least.

Operator

Our next question comes from Yi-Dan Wang from Deutsche Bank.

Yi-Dan Wang - Deutsche Bank AG, Research Division - Research Analyst

I have several questions. So I'll start with the Concave question. Just want to clarify. Given that it's a new category and presumably you would need to restart -- establish reimbursement for that, are you saying that the 50% premium that you're getting for that is from the work that you've done on this reimbursement work. So this is essentially the first premium-priced product that is coming out of your pipeline. And then what proportion of the patient population would you expect to convert to -- or to convert to Concave?

And my second question is moving down the page. So the -- in terms of the gross margin, I fully understand the constant currency indications, but can you give us what the as-reported gross margin would be, if currency stays where it is, given that there is potentially a decent amount of additional pressure from FX coming through?

And then finally on the EBIT margin. I'm slightly surprised that you are maintaining the 31% guidance. I suppose, mathematically, it would be 30.5% to 31.4% would be the range that we're looking at. And the surprise is really that the Liliac acquisition that you've made is dilutive, is relatively, well, a big one in terms of the impact on EBIT margin. And then FX has become even more negative. So just if you could reconcile -- or if you can where along that range, you would -- we should be looking at? That will be helpful.



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Lars Rasmussen - Coloplast A/S - CEO and President

So if we -- let me start out with the Concave and then Anders will come back to your more financial questions. So I don't have a number, which I want to state publicly on how many people can we think would be using the Concave products, but this is a new category. It means that we have to go country-by-country and get a reimbursement class for these products. So we have, of course, gotten the first ones. But we have to establish that market-by-market. So -- and it's obvious because it's also a product as I named it a problem solver before, which also means that we are asking for a higher payment for it. But it is a product that is significantly helping out people who have what we call an outward body profile. And that is many people. But I can't give you a fixed number, but it's not people that we've thought that this would be -- it would be worth creating a separate category for it.

It is not one of the products that we consider or that we mentioned at the first -- or at the Capital Markets Day that we had last year. Those products would be even more differentiated than this one. So that's not what we are talking about. But anyways, it's the same kind of thinking. It is a product that has a different clinical profile. And therefore, sort of product that -- which we are going to ask more for a higher payment for. And it might take some patience in some markets, but that's how it has to be.

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

And in regard to the 2 other questions, so in terms of the EBIT margin, as I said earlier, we are expecting an EBIT margin in Danish kroner of around 31%. And you're correct, that is in the level of 30.5% to 31.5%. So that's the range around 31%. And it is including our acquisition of Liliat. For the gross margin, the impact on currency in the first quarter was around 0.5%, so negative impact in the level of 0.5%. And I would assume it's in that level for the full year.

Yi-Dan Wang - Deutsche Bank AG, Research Division - Research Analyst

Okay. Let me ask the EBIT margin question a different way. Consensus has you at 31.2% at the moment. Do you think you would be like around that number? Would you think that you can deliver that number?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

So for the full year, as I said earlier, in constant currencies, we have a guidance of 31% to 32%, and I'm confident that we'll deliver within that guidance.

Yi-Dan Wang - Deutsche Bank AG, Research Division - Research Analyst

Right. But you have FX, which is working against you and acquisition that's, sort of, against you. So -- but anyway, okay, I'll accept that answer. And then just one last question on the FX. That turned out to be sort of a more negative than expected. So just wondering, which of the dollar-related currencies has shifted compared to last quarter? So our model was relatively accurate up till Q1, so just wondering what proportion of your revenues is coming from the other basket of dollar-related currencies?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Yes, yes. So it's a number of emerging markets currencies. So it is especially the Brazilian Real, the Argentinian peso that has also impacted us negatively.



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Yi-Dan Wang - Deutsche Bank AG, Research Division - Research Analyst

And the proportion of your revenue from that whole basket I don't expect by percentage by currency, but just aggregate, what proportion of your revenue do they represent?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

It's something that I'm not going to guide you specifically on, but overall, it's having in the level of same impact as the dollar.

Yi-Dan Wang - Deutsche Bank AG, Research Division - Research Analyst

Okay. So it's all dollar-related ones that's moved, that's created this difference?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Yes. Yes, it is.

Operator

Our next question comes from Maja Pataki from Kepler.

Maja Pataki - Kepler Cheuvreux, Research Division - Head of Med Tech Devices Sector

I actually have just one more question, everything else has been answered. Lars, would it be possible to give us a bit of an indication on what the impact was from the patent expiry? So we just get a bit of a feeling of what the full year impact could be if it [doesn't work] throughout the year?

Lars Rasmussen - Coloplast A/S - CEO and President

If you just calculate it, I think it's 0 at this point in time.

Maja Pataki - Kepler Cheuvreux, Research Division - Head of Med Tech Devices Sector

0 and that is okay. Is there anything upcoming, like tenders or anything where you think it's -- that are marking some point in time that could change that?

Lars Rasmussen - Coloplast A/S - CEO and President

On catheters or in general?

Maja Pataki - Kepler Cheuvreux, Research Division - Head of Med Tech Devices Sector

On catheters, no impacts on the catheters?



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Lars Rasmussen - Coloplast A/S - CEO and President

No. But most of -- the vast, vast majority of the sales of revenue that we have in catheters are -- is reimbursed. It's not a highly tendered business. It's tendered in the Nordics, but that's how it's been for the last 15 years, and it just continues to be like that.

What we are going to do is that within this fiscal year, we are going to launch a -- sort of a bacterial barrier technology product, which is going to be a replacement product, which means that for people who are with the SpeediCath technology, the SpeediCath straight technology they will get a significant upgrade of the product for no cost. But that's the only thing that we have planned going forward. But that put us in a better position the few places where we have tenders. I think so. But it's unlikely that, that will hit us this year, it will help us this year. It's something that will come in the coming years.

Operator

Our next question comes from David Adlington from JPMorgan.

David James Adlington - JP Morgan Chase & Co, Research Division - Head of Medical Technology and Services Equity Research

Apologies if it was already been asked, but just with respect to the stocking, I just wondered how comfortable you are with your stocking patterns in Wound. Because you had a very, very strong Q4, but arguably, was the strength there allowed you to hit your full year guidance and now we've got a big unwind in Q1. So I just wondered if you're comfortable where the stocking levels are now and how any management incentives were paid out on hitting those numbers in Q4?

And then secondly, just with respect to Wound, if prices for assets are very high, I just wondered if anybody had approached you in terms of possibly divesting your assets?

Lars Rasmussen - Coloplast A/S - CEO and President

So if we look at the stocking for Wound Care, then the -- I don't know when you got into the call, but as I explained, the -- what really hits us this quarter is the Greek situation where we have this price reform, and that's very, very impactful on the numbers that we're looking at. But what we -- the reason why we had such a strong finish last year was primarily due to the skincare opportunities that we had in the U.S. where one of our big competitors in skin care were closed down by FDA and, therefore, the customers were seeking for a different solution, and that was helping us in that regard. But we had low building up of stocks with any of our business partners. So that's not what we see.

And the effect from Greece is so big that if we take that out of -- if you take Greece out of the numbers -- both the comparison numbers and this quarter, then we are in line with the market growth. So I don't know if that was what you were searching for?

David James Adlington - JP Morgan Chase & Co, Research Division - Head of Medical Technology and Services Equity Research

That's perfect. And just on the assets and whether you've been approached to with potentially disposing your assets?

Lars Rasmussen - Coloplast A/S - CEO and President

Well, we have not had those considerations.

Operator

Our next question comes from Oliver Metzger from Commerzbank.



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Oliver Metzger - Commerzbank AG, Research Division - Analyst

First question is on the growth in the U.S., which quite positive. Could you just comment also on your progress at IDN level and how far this has contributed to this strong regional growth? And my second question is just it should be very easy, could you just disclose your share of sales within Lilial.

Lars Rasmussen - Coloplast A/S - CEO and President

Yes, it's an easy question. It's just a matter if you want to talk about it. But for the U.S. growth, first of all, we had this stock issue in -- where we were reducing stock last year in the U.S. and that means we have some very easy comparison numbers this year and that was to the tune of DKK 70 million. And so in that sense, we have tailwind this year on the growth for the U.S. But even when we take that out of the numbers, then we are still growing double-digit in the U.S. So very strong growth -- stronger growth than -- significantly stronger growth than the market. And it comes from a broad source of -- of sources both from, of course, the direct channel and also from hospitals and we are seeing a very nice pick up in hospitals. And that is, of course, in the IDN network, but also in the DPO as we have talked about several times at quite good excess. Yes, when it comes to Lilial, maybe you have a comment on that, Anders?

Anders Lonning-Skovgaard - Coloplast A/S - Executive VP & CFO

Yes. So in terms of the Lilial and how much it will contribute, we're not disclosing specifically our sales to Lilial. But I mean, I haven't assumed that Lilial will contribute around 1% on our reported guidance in Danish kroner.

Operator

Our next question comes from Chris Gretler from Crédit Suisse.

Christoph Gretler - Crédit Suisse AG, Research Division - MD in Equity Research

Actually, I also had another question in the same direction with respect to Lilial. And maybe as a follow-up, could you help me in order to understand to know what prevented you from bringing innovative products and services to France before and why with Lilial that should help if I quote your press release? And then also basically you mentioned that you're basically getting more access to payers also here. Could you help me understand why that is so important with respect to the French market, in particular? And by the way, I'm impressed to see how quickly you got to an acquisition after announcing your strategy update.

Lars Rasmussen - Coloplast A/S - CEO and President

Thank you. We have very strong markets here in France in our business areas. And we have also built a patient support program, the Coloplast Care, in the French markets. But it is primarily when there are negotiations with the payers -- the public payer system in France, it is primarily a conversation between the dealers and the government. And it is very obvious that we have different interests, whether you are a manufacturer or whether you are a direct dealer. And we wanted to have a better insight to direct distribution, and we also wanted to have a stronger presence at the seat with the peers. That is what we are investing for.

But it is -- I have to say that we have had access with new products in France. We have one of the strongest market share countries in Europe, in France. So we are very well positioned. So therefore, you can see the French move both as an offensive move but also as a defensive move because we are fully embracing the value chain in France and that gives us, of course, stronger overall position in France, which helps us first to build our position but also to defend what we already have invested there. But it is very, very supplementary to the digital channels that we have built in the French market and helps us to get an even stronger foothold there.



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Lars Rasmussen - *Coloplast A/S - CEO and President*

I think that was the last question. Thank you very much for participating. We're looking forward to seeing all of you in the coming weeks.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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