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COLO B.CO - Q3 2019 Coloplast A/S Earnings Call

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AUGUST 14, 2019 / 1:00PM, COLO B.CO - Q3 2019 Coloplast A/S Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to today's interim financial statements for 9 months 2018-2019 conference call. (Operator Instructions) I must advise you this conference is being recorded today, Wednesday, the 14th of August 2019. I would now like to turn the conference over to your first speaker today, Kristian Villumsen. Thank you, and please go ahead, sir.

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### Kristian Villumsen - Coloplast A/S - President & CEO

Good afternoon, and welcome to our third quarter call of 2018-'19. My name is Kristian Villumsen. I'm the CEO of Coloplast. I'm joined here by our CFO, Anders Lonning-Skovgaard; and our Investor Relations team. The agenda is: I'll take you through the business highlights; Anders will take you through the financial items and outlook; and then Anders and I will take the questions you might have.

Please turn to Slide 3. I'm very pleased with today's results. We delivered another quarter with 8% organic growth in a market that's growing 4% to 5%. EBIT grew 13% in the third quarter, and our return on invested capital was 46%. These numbers speak to the solid underlying performance across the business and our ability to consistently take market share and drive profitable growth. Growth continues to be driven by the launch of new innovative products like SenSura Mio Convex, SpeediCath Flex, Biatain Silicone and also strong commercial execution. We maintain our organic growth guidance for the year of around 8%, and our guidance in Danish kroner is also unchanged at around 9%. Our EBIT margin guidance is unchanged in fixed currencies at 30% to 31%, and in Danish kroner at around 31%.

Over the summer, the French price reform reached a conclusion. For Coloplast, the price reform translates into a reduction of Ostomy and Continence prices of around 9% as of July 1, and around 2% for Wound Care as of June 1. We're working on mitigating activities, which include sharing some of the impact with the distribution channel. As announced in June, we're conducting an unconditional strategic review of our Interventional Urology business. The review is underway and is expected to be concluded at the latest by the end of 2019.

Our group strategy is centered around delivering profitable growth. We continue to make good progress on our unparalleled efficiency agenda. And this quarter, we completed our plan to reduce the number of production employees in Denmark from 700 to 200 with the closure of our Thisted factory.



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In Denmark, close to our headquarters, we have a fully dedicated innovation facility, and factory and all volume production is now located in low-cost countries. Next week, we will host our meet-the-management event in London, and the event will provide an update on our progress with the LEAD20 strategy as it moves into its final year. It will also be an opportunity to meet with the wider management team at Coloplast, and we all look forward to meeting many of you in London.

Please turn to Slide 4. Revenues for the first 9 months grew 9% in Danish kroner and amounted to DKK 13.3 billion. In Ostomy Care, organic growth was 7% for the first 9 months, and growth in Danish Kroner was 8%. Q3 organic growth was 8%. Growth continues to be driven by our SenSura Mio and Brava, supporting products in larger markets like the U.K., France and Germany, and at the product level, SenSura Mio Convex continues to be the main contributor to growth.

Our new Ostomy appliance, SenSura Mio Concave, is now launched across 16 markets, and the portfolio is increasingly contributing to growth. We continued to receive very positive feedback on the product. And given that this is a new product category for the Ostomy market, we expect that the ramp-up will be slower compared to SenSura Mio Convex. Our new SenSura Mio Baby & Kids portfolio has now been launched in 11 countries and is expected to strengthen our position when competing for tenders and contracts. Our growth in the older SenSura and Assura portfolio was driven by satisfactory performance in Emerging Markets, with China as the key driver. From a geographical perspective, we continue to see solid growth in Europe, the U.S. and China. Growth in Q3 was lifted by improved tender activity in Russia as expected.

In Continence Care, organic growth was 8% for the first 9 months, and growth in Danish kroner was 9%. Q3 organic growth was 7%. The SpeediCath ready-to-use intermittent catheters continue to drive growth and especially the compact catheters performed well in France, the U.K. and the U.S. SpeediCath Flex continues to contribute to growth in both Europe and the U.S. We also continue to see good growth on the SpeediCath standard portfolio driven mainly by the U.S.

The third quarter was negatively impacted by a weaker quarter in Emerging Markets due to softness in the North Africa region. Last year, in the second half of the year, we delivered on tenders in this region in Ostomy and Continence Care, and we have not seen this demand return. The new SpeediCath Navi hydrophilic catheter, which is specifically designed for Emerging Markets and lower-priced mature markets, has now been launched in Japan, Spain and South Africa. Early customer feedback remains encouraging.

Our Conveen collecting device portfolio posted positive growth due to satisfactory growth in both France and the U.S.

And finally, sales growth of our Peristeen products remains satisfactory driven by both Europe and the U.S.

In Interventional Urology, organic growth was 10% for the first 9 months and growth in Danish kroner was 13%. Q3 organic growth was 10%. The growth was driven by the sales of Titan penile implants and Altis single incision slings in the U.S. as well as our Axis Biologics portfolio. In Q3, the main driver of growth was the Axis Biologics portfolio, which is a substitute portfolio for the Restorelle DirectFix interior products that the FDA ordered us to stop selling and distributing earlier this year.

In Wound & Skin Care, organic growth was 9% for the first 9 months and growth in Danish kroner was 10%. Organic growth for Wound Care in isolation was 8%. Q3 organic growth for Wound Care was 6%. The growth in Wound Care continues to be driven by the Biatain Silicone portfolio in Europe, where Coloplast continues to take market share. Markets like the U.K. and France posted solid growth, and the newly launched Biatain Silicone Sizes & Shapes portfolio continues to contribute meaningfully to growth. China also continues to see good momentum driven by the Biatain foam-dressing portfolio. The U.S. Skin Care business contributed to growth in the first 9 months driven by the InterDry portfolio. Contract manufacturing of Compeed also contributed positively to growth, helped by low comparative numbers in the first half of last year, which followed inventory reductions in connection with the sale of the Compeed brand from Johnson & Johnson to HRA Pharma.

Turning to our geographical segments. We saw organic growth of 6% for the first 9 months in our European markets. The growth continues to be satisfactory across the portfolio of countries and business areas, and in particular in key markets like the U.K. and France. Organic revenue growth in other developed markets was 11% for the first 9 months, and we continue to see satisfactory growth in the U.S. driven by all business areas. Growth rates in Japan, Canada and Australia also remain satisfactory.



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Revenue in Emerging Markets grew organically by 13% for the first 9 months. Growth was driven by markets like China, Brazil and Argentina as well as several smaller markets in, for example, Central and Eastern Europe. As explained earlier, growth in our third quarter was positively impacted by improved tender activity in Russia. Softer demand in our North Africa region as well as the strong baseline impacted Ostomy Care negatively in Q2 and Continence Care in Q3. We expect this to continue into Q4. With this, I'll now hand over to Anders. Please turn to Slide 5.

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

Thank you, Kristian, and good afternoon, everyone. As Kristian mentioned, reported revenue for the first 9 months increased by 9% compared to the same period last year. Most of the growth was driven by organic growth, which contributed 8% to reported revenue. Acquisitions contributed 0.5% to revenue resulting from the acquisitions of Lilial and IncoCare in Q2 last year. Foreign exchange rate had a positive impact of 1 percentage point on reported revenue, primarily due to favorable development in U.S. dollar against the Danish kroner, which was partly offset by the depreciation of the Argentinian peso against the Danish kroner.

Please turn to Slide 6. Gross profit was up by 10% to around DKK 9 billion. This equals a gross margin of 67%, which was in line with last year. The gross margin was positively impacted by operating leverage driven by revenue growth as well as improvements in production efficiency. The gross margin was negatively impacted by product mix, high single-digit wage inflation in Hungary, restructuring costs and acquisitions. Restructuring costs for the first 9 months amounted to DKK 43 million, which is slightly more than expected. There will, however, be no more restructuring costs related to the closure of the Thisted factory. The currency impact on the gross margin was neutral.

In Q3, the gross margin was positively impacted by operating leverage and the positive product mix from good growth in Chronic Care in Europe and U.S. as well as improved profitability on new products, including SenSura Mio Convex and SpeediCath Flex. The margin was also helped by an easier comps. The distribution to sales ratio for the first 9 months came in at 29%, which was on par with last year. The 9% increase reflects increased investments across business areas and several markets. The admin to sales ratio for the first 9 months came in at 4% of sales, on par with the recent trend. The 14% increase was mainly related to an increase in expenses within IT and legal. My expectation for the full year is that the admin to sales ratio will be around 4%.

The R&D to sales ratio for the first 9 months came in at 4% of sales, in line with last year. The 10% increase in R&D cost reflects a higher general activity level and investments into the MDR preparations.

Other operating income and expenses amounted to a net income of DKK 44 million in the first 9 months against DKK 35 million last year. The increase was mainly related to DKK 16 million gain from the sale of former production facilities in Denmark.

Overall, this resulted in an increase in operating profit of 11% for the first 9 months, corresponding to an EBIT margin of 31% against 30% last year. The currency impact on the EBIT margin was neutral.

Operating cash flow amounted to DKK 2.6 billion compared to DKK 2.8 billion last year. The decrease is primarily explained by an increase in working capital due to higher inventory levels on strategic products as well as an increase in tax payments due to lower tax deductions this year in connection with the U.S. Mesh litigation.

My expectation for the full year is that the working capital to sales ratio will be around 24%. Cash flow from investing activities included capacity expansion in machines to produce new and existing products. CapEx investments amounted to DKK 414 million for the first 9 months, down DKK 107 million compared to last year due to timing of investments. As a result, the free cash flow was an inflow of around DKK 2.2 billion against around DKK 2 billion last year. Our cash conversion in Q3 calculated as 12 months trailing average was 93%.

I would also like to mention that the second part of the approved share buyback program of DKK 500 million was initiated in Q2 and is expected to be completed in Q4.



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Please turn to Slide 7. For '18-'19, we continue to expect revenues to grow around 8% organically and around 9% in Danish kroner. Acquisitions are expected to contribute 0.4 percentage points to reported growth. Our guidance assumes largely stable growth trends across our regions as well as continued positive impact from new product launches and commercial investments.

For the full year, we still expect Emerging Markets growth to be just under 15%. This is due to lower-than-expected demand in our North Africa region and a strong comparison period in this region in the second half of the year. We continue to expect mid- to high single-digit growth for Wound Care for the full year. Our guidance assumes an annual negative pricing pressure of up to 1 percentage point. As Kristian explained earlier, the reimbursement revenue in France in Ostomy Care, Continence Care and Wound Care is now concluded and will impact our fourth quarter this year. The bulk of the impact will be in our next financial year. We've also seen a smaller reform in Switzerland and pricing pressure among health insurance companies in Holland. For '18-'19, we continue to expect an EBIT margin of 30% to 31% in constant currencies and around 31% in Danish kroner. The revenue and EBIT guidance in Danish kroner is impacted by the appreciation of the U.S. dollar against the Danish kroner and depreciation of the British pound and the Argentinian peso against the Danish kroner. The currency impact is based on spot rates as of August 13.

On our operating expenses, we expect broadly stable trends into our fourth quarter. This year, we have invested between 1% to 2% of sales incremental investments into innovation and sales in marketing initiatives in the U.K., Emerging Markets and the U.S. across all business areas. Most of the incremental investments were initiated in Q1. Higher growth from our new product launches still means pressure on the gross margin. But as previously communicated, we have relocated manufacturing out of Denmark to Hungary, and the closure of our Thisted factory in Denmark is now completed. Restructuring cost came in at DKK 43 million compared to DKK 50 million last year. We expect high single-digit wage inflation in Hungary in '18-'19. Overall, our expectation is that the gross margin will be in line with '17-'18.

The Global Operations Plan 4 is on track and is still expected to deliver an EBIT margin improvement of 100 basis points in '19-'20 and 150 basis points in '20-'21. We still expect our net financials to end the financial year 2018-'19 at minus DKK 100 million, primarily due to hedging losses on the U.S. dollar against Danish kroner as a result of the appreciation of the U.S. dollar against the Danish kroner.

CapEx guidance for '18-'19 is expected to be around DKK 700 million and is driven by investments in more capacity from new and existing products as well as the new distribution center in the U.K. Finally, our effective tax rate is expected to be around 23%.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Kate Kalashnikova of Citi.

### Kate Kalashnikova - Citigroup Inc, Research Division - VP

This is Kate Kalashnikova from Citigroup. I've got 2 questions. First, could you comment on why the growth in Continence in Emerging Markets was softer this quarter? And also, could you share some color on Navi launches this quarter in Spain, Japan and South Africa? How has this product been received by users? And then my second question is on the French reform again. How do you expect the headwind from the French reimbursement reform to be shared with distributors? During the last reform in 2014, the headwind was evenly shared with distributors. Is this still a reasonable assumption this time around?

### Kristian Villumsen - Coloplast A/S - President & CEO

Thank you, Kate. To your first question about the Continence growth, we are impacted by the comparisons that we have with business in North Africa from last year, where we had a number of tenders that we delivered to, and basically there is no demand that we're seeing back this year,

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which impacts the numbers in Continence. And I'd also say, in general, the Continence numbers were somewhat tough comps. The Navi launch is going well and users liked the product. It's now in markets where we also have at least for Japan and for Spain, we also have a SpeediCath product available, so clinicians and customers can choose between a more stiff product and a soft product, and we're finding good reception so, so far so good. Anders, do you want to comment on the reform?

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

Yes. So in terms of the French health care reform. So we are still working on this. So we are still working on the mitigating activities. As we have communicated earlier, last time, the impact was shared 50-50. That is still our aim. But this time, please keep in mind that we are now in the channel with our acquisitions of Liliat. But our aim is to get at the same level as we had last time, 50-50 percent share, but we are in the channel through the Liliat acquisition.

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**Kate Kalashnikova** - *Citigroup Inc, Research Division - VP*

Okay. Perfect. So the weakness in Continence is mainly due to North Africa. You're not seeing any softness in other markets -- Emerging Markets?

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**Kristian Villumsen** - *Coloplast A/S - President & CEO*

Not really.

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**Operator**

And your next question comes from the line of Veronika Dubajova from Goldman Sachs.

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

I will keep it to 2. My first one is actually a follow-up on Emerging Markets. Just look at the growth rate. When you had a much easier comparison this quarter, you have a tougher comparison as you think about Q4. Just curious with your degree of confidence to hitting this just shy of 15% number for the year. And as you kind of reflect on Q3, did everything go to plan or were there some new headwinds that you saw emerge in the quarter? That's my first question. My second question is, looking at the divisional margins, the Chronic Care EBIT steps down quite significantly in Q3. Just curious, Anders, if you can give us a little bit of color on that? And what you are seeing from an underlying profitability perspective for the Chronic Care business?

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**Kristian Villumsen** - *Coloplast A/S - President & CEO*

So for EM, Veronica, I'd say that Ostomy went to plan. I think you probably recall that we talked about the timing of tenders in Russia and when they would actually come in. We're seeing them come in. So the softness really relates to North Africa and hits us this quarter mainly on Continence. But I want to stress that when we say we have these problems in North Africa, you look to Latin America, we look to Central and Eastern Europe and we look to Asia and China, we're seeing very good momentum. So we're confident that we'll get in just below our target range.

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

Yes. And in terms of the second question around the Chronic Care. Segment operating profit, I assume that that's what you are referring to. We are, this year, as you know, investing quite significantly into the business and we are also allocating more investments into the Chronic Care business, and that is one of the reasons why we are seeing a slight drop in the segment operating profit in Q3 versus the previous quarters. So it's primarily due to the investment activities.



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

So you're not seeing some underlying changes in profitability on a gross margin level or ASP. This is purely the phasing of investments that you're making?

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

Yes. So -- yes, correct. So we are seeing -- it's driven by the investments. So that's correct.

**Operator**

Your next question comes from the line of Michael Jungling of Morgan Stanley.

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

I have three. Firstly, on the gross margin development in the third quarter. Is this greater gross margin improvement in Q3 a sustainable improvement if we look at the next sort of rolling 12 months? I'm talking about the sort of 100 basis points of margin improvement. Secondly, on France, have you decided whether you will change the types of products that you'll be selling into France? And what have you seen your competitors do? Are they moving towards lower or less sophisticated products? And then thirdly, on urology. Once the strategic review is completed and let's hypothetically assume you do dispose the business, the proceeds are likely to be significant. What do you intend to do with those proceeds should you dispose of that business?

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

So if I start with the gross margin question, Michael. So yes, the gross margin in Q3 was stronger than in the previous quarters. It's driven by a couple of things. One thing is that we are continuing to see a leverage effect across our fixed cost within production. And we also are starting to see efficiency improvements. We also had a slight positive impact from FX. And finally, our comps compared to last year third quarter was an easier comps. So that's some of the main reasons for the gross margin development in the third quarter. If we look a bit ahead, we are expecting that the impact from the Global Operations Plan 4 will start to impact our EBIT margin and especially our gross margin. And into our fourth quarter, we will start to see that my expectation impact from the closure of Thisted and also that we are not expecting a more restructuring cost, and my expectation that, that will also go into next financial year.

**Kristian Villumsen** - *Coloplast A/S - President & CEO*

All right, Michael, if I should comment to your questions on France and Urology. One of the worries that we had about the French reform was whether it would land with a conclusion where we couldn't sustain the product portfolio that we go to market with today. France is already before the discussions of this reform began, a country where we don't have all the newest technology in, in particular on the Ostomy side. So we were quite worried about that. I think the way that it's landed now that we can maintain the portfolio. And I don't really have a good perspective on whether our -- any of our competitors are coming to a different conclusion, but we're maintaining a portfolio. There will probably be some minor changes around the packaging of product and things like that, but that's all just small operational stuff; the brands in the market will not change. On the review of Interventional Urology, not too much comment. But, if you will, hypothetically, in the scenario that you described, we pay out all excess cash through dividends and share buybacks.

**Operator**

And your next question comes from the line of Annette Lykke of Handelsbanken.



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

First of all, if we look behind some of the negative elements from North Africa, how is the Continence performance for the SpeediCath family, Flex Coudé and Compact? Also as well, on the concave Ostomy uptake, if you could fill us in there a little bit. And then I'm just wondering, on the pipeline, how the status of the Continence product decreasing urinary tract infections and if the e-solution's still the main feature for your new Ostomy products?

**Kristian Villumsen** - *Coloplast A/S - President & CEO*

So Annette, thanks for your questions. So how's Continence doing? I'm quite satisfied with where our Continence business is. The new products are pulling growth, so SpeediCath Flex is doing well both in Europe and the U.S. Of course, the product is growing bigger. So the relative growth rate against the higher level of comps is a little bit smaller, but the overall growth picture is strong. Concave, I'm very pleased with. It's increasing its contribution to growth. We're getting raving reviews from customers. If say -- we've said this many times, but this is not a hospital discharge product, so the combination of that and the fact that this is a new category also means that this is a category that's going to have a longer uptake profile, but I believe we're going to have a long run with the Concave. The product works, customers love it and we can see that in -- we see that in the numbers. Now we get to the pipeline. Most of the stuff that we do with the pipeline, of course, is secret. So we don't talk too much about that in public, but I hope that you'll be coming to London next week. Part of the -- a big part actually of what we will be talking about next week is how we think about innovation, how we think about shaping reimbursement categories and funding for innovation. And we'll also share some of the progress mainly focused though on where we are with Ostomy, which is not "just", if you will, and I put just in quotation marks, digital, it's more than that. So we -- for all of the new generation products, there is new technology in the product and there is a clinical ambition related to that, that kind of powers the idea behind each of them. We won't be saying too much about the Continence innovation pipeline next week, but there is some news on that. But I can say that we're making good progress. And I'll reiterate, like I've done in all my conversations when I met the people one-on-one or on different forums. These are -- this is a new level of innovation. All of the projects carry new technology and, therefore, also carry different risk. But all the more exciting if we succeed, and we look forward to talking about it next week.

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

Okay. You're in London, then?

**Kristian Villumsen** - *Coloplast A/S - President & CEO*

Yes, you bet. I'll be in London.

**Operator**

Your next question comes from the line of Hassan Al-Wakeel of Barclays.

**Hassan Al-Wakeel** - *Barclays Bank PLC, Research Division - Research Analyst*

I have three, please. Firstly, can you talk about whether you're seeing any impact from some of the recent continence launches at some of your competitors, notably Hollister, which seem to be progressing well? Secondly, in Ostomy, could you talk about how new patient capture is trending in the U.S.? Is this improving sequentially? And if you could also please confirm where this fits relative to your community market share? And then finally, if you could provide your expectations for the finance charges for the full year, that would be very helpful.



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**Kristian Villumsen** - Coloplast A/S - President & CEO

So let me start with your first question related to competitor launches of Continence products. We, of course, follow all new products that get into the market very closely. We look at all the products that come into the market. We tear them apart to understand how they were built, test them, look at how they perform and we use that in how we train our salespeople on how to look at each of them. So we are effective against them. We're not seeing any major impact from these launches on our momentum, but it's probably also a little bit too early, but we are keeping a very close eye on all of them. On Ostomy and new patient discharge, we're growing nicely, as you know, in the U.S. with double digit; market is growing around 4%. We continue to take good share in acute driven by wins that we've been talking to about, both Cleveland Clinic and University of Chicago. We've also -- we also see good traction in our sales to home health where we won Kindred and Encompass. And our new patient capture continues to be significantly above our overall market share of 15%. So we still regard this as a big opportunity that we keep pushing. On finance charges, you want to comment on that, Anders?

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

Yes. So in terms of your third question, our expectations to the financial items for the full year, my expectation is around minus DKK 100 million. It's driven by hedging losses on the U.S. dollar and also losses on the Argentinian peso as a consequence of the devaluation we have seen earlier this week. So that's my expectation.

**Operator**

(Operator Instructions) Your next question comes from the line of David Adlington of JPMorgan.

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

One bigger picture one, which is a couple of years now since you elucidated this with a new strategy of investing more on the cost side to try to accelerate top line. We've seen a little bit of acceleration in the top line, but maybe not as much as we had hoped. Just wondered if -- how you're feeling about that, whether you can see scope for further acceleration from here as we move into next year and the year beyond. And the second question is just on Wound. I think you said mid- to high single digit for the full year. That implies a bit of a slowdown in Q4. Just wondering if you could add some more color around that.

**Kristian Villumsen** - Coloplast A/S - President & CEO

So why don't I take that? We changed the guidance back in November of '17 to basically get ourselves into a position where we could invest more into top line growth, basically because we saw a number of good opportunities. We've done that and growth has also picked up. This is, I think, the ninth quarter that we report 8% growth. And I'm pretty happy with that number. So I -- remember, the market is growing at about half that rate. So this means that our company is in good shape, customers like the products that we go to market with and the solutions that we present them with, and we have a team in our markets that are doing a good job. Now would I like more? Definitely, definitely. But getting more in the business as we run it now means that we need all of our geographies to pull at the ambition level that we have. And we are seeing EM a bit subdued and also for a bit longer than I would have liked, but there's more volatility in that region. We also want more growth out of the U.S. where we have invested. Now we've got a good quarter here, and -- but we want many more really strong quarters out of the U.S. And then, of course, things happen when you run a business like ours. And so the French price reform happened. And so -- as much as I wish that I could just wish the 9% price cut away, it's going to be there for the better part of next year and also going to produce some headwind for us. But by and large, if I think about, do we have good momentum and is the company performing? I think my answer is a resounding yes. It's also a resounding yes to your question if whether I'd want more. And we'll, of course, use the opportunity with our new strategy process to talk about how does the value creation path look for the coming strategy period when we announced that in spring, summer of next year. I think we've got a good balanced portfolio of investments as I look at it now with both short-term investments that are pretty pragmatic in sales force expansion and more meaningful investments, medium and long term that are related to access and innovation. So I'm pretty happy with it. I forgot the second question. What was the second question?



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

Wound care, just in terms of any implied slowdown in the fourth quarter?

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

So in terms of our Wound Care for the full year, we are expecting, as we said earlier, growth in the level of mid- to high single digit. And year-to-date, we are at...

**Kristian Villumsen** - *Coloplast A/S - President & CEO*

8%.

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

Year-to-date, we are around 8%. We are expecting into Q4 some headwinds from the health care reform in France. And please remember that our French subsidiary or our French business within Wound Care is one of our bigger ones. But overall, we are looking into mid- to high single-digit growth for our Wound Care business for the year, and that's something we are satisfied with in a market that is growing 2% to 4%.

#### Operator

Your next question comes from the line of Niels Leth of Carnegie.

**Niels Granholm-Leth** - *Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark & Financial Analyst*

My first question is about the effect of hyperinflation accounting. So is it correctly understood that the DKK 32 million you record in net financial item has a similar positive effect on your organic growth, so that if we adjust for that, the hyperinflation calculation would have affected your organic growth positively by around 0.25 percentage points in the first 9 months of this year? And my second question is on the French health care reform. So will distributors initially absorb the full price cut and then it will flow to manufacturers at a later point, or how fast you actually expect to see the effect on your P&L?

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

So in terms of the hyperinflation in Argentina. Yes, we continue to handle Argentina as a high inflation country. But you cannot, you can say, we call it the hyperinflation impact with the organic growth. The organic growth in Argentina, yes there is some price-related contribution, but we also see an underlying volume and we also see an underlying mix impacting our Argentinian business. When that is set in our fourth quarter, will be impacted by the development of the Argentinian peso we saw earlier this week, because it is -- we are treating it as a hyperinflation market and that means that we are using the currency rate at the end of the quarter. So that was Argentina.

**Niels Granholm-Leth** - *Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark & Financial Analyst*

So are you saying that the effect of the Argentinian hyperinflation accounting, is it bigger than the DKK 32 million that you mentioned in your statement?



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

On the organic growth?

**Niels Granholm-Leth** - Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark & Financial Analyst

Yes.

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

So I'm not going to comment specifically on how much we're growing in our Argentinian business, but we are this year having a good year from an organic growth point of view. So Argentina is contributing to our Emerging Markets growth. And as I said earlier, we are seeing it's also driven by underlying volume and it's driven by underlying mix impact. But -- and also price, as I said earlier. And then the other question, the French health care reform. So it was communicated early July with an impact for the manufacturers from July 1. So we are seeing the impact from July 1. And what we're working on is to mitigate that impact towards trade. And our aim is to have an impact of 50-50. But we are in the trade this time. So we have acquired Lilial. That means that impact this time will be bigger than we saw when we had the health care reform in France last time.

**Niels Granholm-Leth** - Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark & Financial Analyst

Okay. So it will be felt already from the coming quarter?

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

Yes. So the impact will be already here in the fourth quarter from July 1.

**Niels Granholm-Leth** - Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark & Financial Analyst

Okay. Then just a final, kind of, high-level question on your strategy. Why would you sell your Urology division? It's your fastest-growing business.

**Kristian Villumsen** - Coloplast A/S - President & CEO

So we haven't concluded anything like that. So what we are saying is that we're doing a review of it, much in line with how we've talked about the business as we move through the mass tort that we've been a part of in the U.S. We've said a number of times that as we get to the conclusion of that, that we would have a hard look at what role the Urology business should play in the portfolio and how we create value. And we'll -- I expect that we'll be able to conclude on the process before we get to the end of the year.

**Operator**

Your final question comes from the line of Sebastian Walker of UBS London.

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

Just one if I could. Has there been any update on the Premier GPO Contract? How the discussion is going on there?



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**Kristian Villumsen** - Coloplast A/S - President & CEO

So no, there's no conclusion on Premier. The process is ongoing. We expect that it will reach a conclusion in this fall, and -- with implementation by 1st of April contract start. So sometime this fall, we expect a conclusion.

**Operator**

There are no further questions. Please continue.

**Kristian Villumsen** - Coloplast A/S - President & CEO

Okay. But then from our side, thank you very much. And I'll see all of you in London next week hopefully. Have a good day.

**Operator**

Thank you, ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may now disconnect.

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