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COLO B.CO - Q1 2019 Coloplast A/S Earnings Call

EVENT DATE/TIME: FEBRUARY 05, 2019 / 2:00PM GMT

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Client Id: 77

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Nyeok Lee *Jefferies LLC, Research Division - Equity Associate*

Oliver Metzger *Commerzbank AG, Research Division - Analyst*

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

Virendra Chauhan *AlphaValue - Analyst*

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q1 2018/2019 Conference Call. (Operator Instructions) I must also advise you that today's conference is being recorded, Tuesday 5th of February 2019. And I'd now like to hand the conference over to your speaker for today, Kristian Villumsen. Thank you, please go ahead.

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

Thank you very much, operator, and good afternoon, and welcome to our Q1 '18/'19 conference call. My name is Kristian Villumsen, I'm the CEO of Coloplast, and I'm joined here in Humlebæk in Denmark by our CFO, Anders Skovgaard, and our Investor Relations team.

It's a pleasure to participate my first call as CEO of Coloplast. I know many of you have been following our company for many years and know it well. I look forward to spending time with all of you over the next coming months and quarters.

But before we take a closer look at today's results, I would like to share some initial thoughts after my first 2 months as CEO. We'll then come back to the quarter, and we will open up for questions.

Please turn to Slide #3. Coloplast is a fantastic company, and it's a company in excellent shape. It's a great honor to take over the CEO position of one of the best-performing and most profitable medtech companies in the world. Coloplast is also a company with a unique culture and a promising future.

The current growth momentum across all major markets shows the strength of our strategy, which continues to drive demand for our products and services across the globe. I'm really excited to take over the lead of a company that's doing so well because it gives me time to make certain that we take the right decisions for the future.

Going forward, it's our job to make this fantastic company even better and create more value for all our stakeholders, including our employees, shareholders, and most importantly, the consumers with intimate health care needs that we serve.

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The past few months have been busy. I really wanted to gain a holistic view of the entire company, so I've spent a lot of time in meetings. I've spent time reviewing our businesses with our leadership teams and asking a lot of questions and mainly listening. I've spent time learning about the business areas that I'm less familiar with, Urology Care, Wound & Skin Care, and also time with our global operations function. I have also assessed our R&D pipelines, and the headline is that I find them very encouraging.

Paul Marcun, our new EVP of Chronic Care joined the company a few weeks ago, and I'm working closely with him to handle with the day-to-day running of the Chronic Care business. In my previous role, I was part of developing our current LEAD20 strategy together with my colleagues in the executive management team. And I've spent the past 4 years leading the implementation of the strategy in the Chronic Care business.

You will certainly ask me, what my initial priorities as CEO are. Well, first and foremost, the immediate path forward for myself and the board and management team will be to focus on executing on our LEAD20 strategy and delivering on our long-term guidance of 7% to 9% organic growth and an EBIT margin of more than 30% in constant currencies.

As I mentioned, Coloplast is in great shape, and we will focus on execution and fine-tuning wherever and whenever needed to execute on LEAD20. But I also want to be clear that like any other company, there are also areas that we can and must improve. My job along with the rest of the management team is to make this company even better together with our employees.

The LEAD20 strategy takes us through 2020 and you can expect us to present our next strategy in the summer of 2020. We'll make sure that we remain a growth company. We'll continue to invest in building a strong consumer health care company, with a strong focus on innovation, clinical and consumer preference and a stronger voice with payers. I'll talk more about that in the future. We will initiate the strategy process for 2020 in the fall of this year. Right now, we're focused on executing the strategy we have.

Reflecting on our LEAD20 strategy, I'd like to share some thoughts around 3 different areas. First, our innovation agenda; second, our consumer agenda; and finally, our investments into regional growth opportunities.

Let me start with innovation. Back in 2014, I became responsible for the day-to-day running of the global commercial functions and the sales regions in Ostomy Care and Continence Care, as well as the innovation pipeline for both areas. Innovation remains the cornerstone of this company and key to attaining and maintaining category leadership and driving above-market growth.

I'm a big believer in the power of clinically relevant products backed by strong marketing. Over the last few years, we've launched several innovative products that fit that bill, and we've moved the needle in our categories. These products are SenSura Mio Convex and SpeediCath Flex to name a few.

This quarter, I'm very proud to launch SpeediCath Navi. SpeediCath Navi is our first dedicated Emerging Markets innovation. SpeediCath Navi is a single-use hydrophilic male catheter with a flexible tip and insertion grip. The product has been specifically designed for our Emerging Markets region where reimbursement is lower compared to our mature markets. The standard of care in Emerging Markets today is on CAUTIs and reusable catheters, and with the launch of SpeediCath Navi, we're increasing our efforts to raise the standard of care to hydrophilic catheters in Emerging Markets much like we're doing elsewhere in the world.

We sell our SpeediCath standard catheters in Emerging Markets today, but there's a clear preference with some customers for so-called soft catheters, and SpeediCath Navi addresses this preference head-on. We will launch the product in half-a-dozen markets starting this year, and our strategic goal is to drive patient uptick at a cost that supports full-time use.

At our Capital Markets Day in September, we spoke about our clinical performance program and our ambition to significantly raise the standard of care through clinically superior innovation. To achieve this, we're investing in new technologies, we're investing in digital health care, we're investing in market access and clinical trials to show improved clinical outcomes, all with the aim of obtaining price premiums for our new innovations.

We believe, we have a well-balanced innovation pipeline that can drive growth, short, medium and long term. One of the important decisions I've made in my first 2 months as CEO has been to postpone the launch of SpeediCath BBT, a version of SpeediCath with a new coding technology

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called Bacteria Barrier Technology, which reduces the risk of inserting viable bacteria into the urethra and bladder. We originally planned to launch BBT because of the SpeediCath patent expiry in September 2017 as a mitigating action. However, the SpeediCath patent expiry did not have the negative impact on growth that we expected. On the contrary, we've continued to see solid growth on the SpeediCath standard product portfolio driven, in particular, by the U.S. and Emerging Markets.

I've, therefore, decided to include the BBT technology in our next generation catheter platform, which includes other technologies that we're working on as part of our clinical performance program instead of launching now. We have a number of exciting innovations in the next platform, and I would like to bundle the new coding technology with these innovations to maximize our probability of clinical success, and therefore, also reimbursement success.

We aim to deliver and document significant improvement in health outcomes and our ambition is to prove a reduction in urinary tract infections, which would be a key breakthrough for our industry. I firmly believe that this reprioritization of the pipeline will result in better outcomes for users and more business impacts by a later launch. We plan to launch in our next strategic period.

Within the clinical performance program for Ostomy Care, we're pushing ahead with pilot studies on new technologies, like we explained at the last Capital Markets Day. All this to say, we remain committed to innovation and we remain committed to building superior products, and we're making good progress.

Let me now move to my next point, our consumer model. Through our global Coloplast Care and direct-to-consumer presence, we now have a consumer set up in over 30 countries and more than 1 million users in our database. Our consumer-centric approach has increased our relevance with consumers and the impact of new launches, and you can see this in our numbers and market share gains across categories and across markets. We've strengthened our position as a consumer health care company further by establishing direct distribution in more markets. We now have direct distribution in our top 5 markets, and we are focused on combining superior products and services to create a better experience for our customers.

In the U.K., for example, we've integrated our home delivery services in Charter with a Coloplast Care service and now offer this to provide more value for consumers, health care professionals and the NHS. This strategy is already yielding good results. In the long run, we firmly believe that we can increase our competitiveness further by combining superior products and services to a greater extent to create more value for the system as a whole and for each of our customer groups.

This brings me to my third and final point, our investments and regional growth opportunities. In November 2017, we issued a new long-term guidance to the market aimed at accelerating our organic investments to drive further growth. Last year was an investment year; and in Q1 this year, we've initiated a new wave of incremental investments. Innovation takes up a significant share of our investments, but we've also increased our commercial investments across business areas, with a focus on key markets, such as the U.S., China and U.K. Similar to last year, the incremental investments are balanced between initiatives that will drive growth in the short term and investments that aim to secure our competitiveness over the medium and long term.

Looking at our geographical regions, Europe continues to drive a large share of our growth. We continue to invest in pockets of growth in Europe, but the bulk of our investments are going into the U.S. and Emerging Markets.

Let me focus on the U.S. for a minute. This is the region where we have our largest growth opportunities. In Ostomy Care, the U.S. is an outlier in terms of market share. With SenSura Mio, we now have the broadest and strongest product portfolio ever. More and more hospitals recognize the technology, and we continue to see good wins. I'm encouraged by another key sole-source win this quarter with The University of Chicago. While this is not as big as Cleveland Clinic, they have similar prestige as an academic center and the colorectal surgery specialty is ranked at the very top in the U.S.

In Continence Care, the underlying demand for our products is solid, and we're clearly driving the shift in the market towards more advanced hydrophilic catheters. Despite the progress that's been made on both business areas, we still have a lot more work to do in the U.S., and we want more from our investments there.

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In Emerging Markets, we initiated several new investments last financial year across a number of markets that have yield the results. China represents 4% to 5% of group sales today. In Ostomy Care in China, we have a very strong position, and we've begun expanding the sales force again to cover a larger share of hospitals. We're also investing to strengthen our direct-to-consumer business in China. And we now have a new SVP for the Emerging Markets region on board, and he has been tasked with developing the next plan for our next wave of investments in Emerging Markets.

In Wound Care, we're executing on an organic plan to drive scale based on investing more in innovation and sales and marketing initiatives in selected regions. The Advanced Wound Care market is one of our largest addressable markets, which I fundamentally find attractive. Silicone Foams is the largest subcategory with an attractive market growth of 5% to 7%. And in this category, we have a winning product with Biatain Silicone. The product's 3DFit technology continues to resonate well with health care professionals and it continues to drive market share gains, and it's a great result of how clinically relevant product innovation backed by strong marketing can drive growth and share.

In Interventional Urology, we're pushing ahead with our strategy to scale the business over time, while sustaining strong profitability. The business is posting solid growth, and we continue to invest in sales and marketing primarily in the U.S. where we have category leadership in women's health and in men's health.

On top of my agenda is securing that we create value every day. We track economic profit across all our business areas and markets to ensure that we're deploying resources in way -- in ways that enhance economic value and maximize shareholder returns, while we build a company that's strong for the medium and long term. We've built this discipline over many years, and it's part of our culture. I can say, this will not change.

I'm optimistic about our potential for future growth, and I believe that we have a great foundation in our people, processes and not least culture, which I believe that you see reflected in our performance. We'll have many more opportunities going forward for me to update you on our strategy and our ambitions, but let me now move to our financial results.

Please turn to Slide 4. Today, we delivered a solid start to the year with 8% organic growth and 8% growth in reported EBIT. Our full year guidance is unchanged. Revenues for the first quarter grew 9% in Danish kroner and amounted to DKK 4.3 billion. Acquisitions of distribution companies contributed approximately 1% to reported growth. Currency developments reduced revenue by less than 1%.

Please turn to Slide 5. In Ostomy Care, organic growth and growth in Danish kroner were both 8% for the first quarter. Growth continues to be driven by our SenSura Mio and Brava supporting products in larger markets like the U.K. and France, and SenSura Mio Convex continues to contribute solidly to our growth. We continue to receive positive feedback from health care professionals and users who've trialed our new ostomy appliance, SenSura Mio Concave, and we've now secured reimbursement and launched this product in 14 countries. We've begun launching the new SenSura Mio Baby & Kids portfolio, and the portfolio sets a new standard for pediatric ostomy care products in just like the new hospital assortment. This portfolio showed improved opposition when competing for tenders and contracts. Our SenSura and Assura portfolio growth was driven by satisfactory performance in Emerging Markets, particularly China and Brazil.

In Continence Care, organic growth was 8% for the first quarter and growth in Danish kroner was 10%. The SpeediCath ready-to-use intermittent catheters continue to drive growth, and especially the compact catheters performed well in countries, such as the U.S. and France. We continue to see healthy growth in the SpeediCath standard portfolio, in particular, in the U.S. and Emerging Markets.

SpeediCath Flex continues to contribute to growth in key markets, like the U.S., U.K. and France. And SpeediCath Flex Coudé Pro in the U.S. was the largest contributor to growth in the Flex portfolio this quarter. The products continue to be very well received, and it will be a key growth driver going forward.

We will launch an upgraded version of the SpeediCath Flex across all markets during 2019. In this upgraded version, we've improved the packaging to provide easier opening and reclose. We've also removed aluminum from the packaging, allowing us to reduce our environmental footprint, and we're now offering the product in 2 different sizes.

Our Conveen collecting device portfolio posted positive growth due to satisfactory growth in France and the U.S. Finally, sales growth for Peristeen products remains satisfactory, driven by U.S. and France.

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In Interventional Urology, organic growth was 9% for the first quarter and growth in Danish kroner was 11%. The growth was driven by sales of Titan penile implants and Altis single-incision slings in the U.S. We see a satisfactory return on the large sales investments we've made into the U.S. urology business last year, and we continue to invest also this year.

Our Endourology business saw satisfactory growth in especially France and Germany. In Wound & Skin Care, organic growth and growth in Danish kroner were both 11% for the first quarter. Organic growth for Wound Care in isolation was 10%. The growth in Wound Care was driven by the Biatain Silicone portfolio in Europe. Markets like the U.K. and France posted solid growth. The newly launched Biatain Silicone Sizes & Shapes portfolio continues to contribute meaningfully to growth.

In the U.K., the NHS' clinical evaluation team have recently published an independent clinical review of foam dressings from different wound care suppliers in the U.K. market. The evaluation covered several parameters, including packaging, opening, clinical use and disposal, and Coloplast Biatain Silicone rated very highly in all parameters, but the highest in the most important parameters of absorbance and total fluid capacity management. We believe this speaks to the strength of our portfolio and 3DFit technology.

The U.S. Skin Care business detracted from growth in the first quarter due to a high comparison base last year. And Contract Manufacturing of Compeed contributed positively to growth due to low comparative numbers 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 quarter in our European markets. The growth continues to be satisfactory across the portfolio of countries, and in particular, in key markets like the U.K. and France. Organic revenue growth in other developed markets was 10% in Q1. The U.S. Chronic Care business posted double-digit growth, driven by new product launches and the continued upgrade of the catheter market to hydrophilics. Growth rates in Japan, Canada and Australia remain satisfactory. Revenue in Emerging Markets grew organically by 14% for the first quarter, markets like China, Brazil and Middle East continue to deliver satisfactory performance.

With this, I will now hand over to Anders. Please turn to Slide 6 (sic) [Slide 9] .

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

Thank you, Kristian, and good afternoon, everyone. Reported revenue in Q1 increased by 9% compared to Q1 last year. Most of the growth was driven by organic growth, which contributed 8% to reported revenue. Acquisitions contributed 1% to reported revenue, resulting from the acquisitions of Lilial and IncoCare in Q2 last year. Foreign exchange rate had a negative impact of less than 1% on reported revenue, primarily due to the depreciation of the Argentinian peso and Brazilian real against the Danish kroner. This negative development was partly offset by a favorable development in U.S. dollar against Danish kroner.

Please turn to Slide 7 (sic)[Slide 10] . Gross profit was up by 9% to around DKK 2.9 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 the launch of new products where the production economy is not yet fully optimized as well as wage inflation in Hungary, restructuring cost and acquisitions.

Restructuring cost in the quarter amounted to DKK 17 million related to the reduction of production employees in Denmark. The gross margin includes a negative impact from currencies of 30 basis points.

The distribution to sales ratio came in at 29% compared to 30% in Q1 last year. The 7% increase reflects increased investments across business areas and several markets, as Kristian explained earlier. The admin to sales ratio came in at 4% of sales, on par with the recent trend. The 21% increase was mainly related to timing of expenses within IT and legal. My expectation for the full year is that the ratio will be around 4%. The R&D to sales ratio came in at 4% of sales, in line with last year. The 15% increase in R&D cost reflects a higher general activity level.

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We continue to invest this year to ensure compliance with the new EU Medical Device Regulation taking effect in May 2020. We can confirm that the notified bodies that we used for the certification of our products had given us confirmation that they will continue to service all the products codes needed for our products under the new EU Medical Device Regulation.

Overall, this resulted in an increase in operating profit of 8% corresponding to an EBIT margin of 30%. The EBIT margin contained a negative impact from currencies of 30 basis points.

Operating cash flow amounted to DKK 772 million compared with DKK 1 billion last year. The decrease is primarily explained by an increase in tax payments due to lower tax deductions this year in connection with the U.S. Mesh litigation.

Cash flow from investing activities was impacted by the capacity expansion in machines to produce new and existing products, as well as the establishment of production facilities in Costa Rica.

CapEx investments amounted to DKK 131 million for the quarter, down DKK 65 million compared to last year due to timing of investments. As a result, the free cash flow was an inflow of DKK 658 million against DKK 819 million last year. Our cash conversion in Q1 calculated as 12-month trailing 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. To date, we have paid out DKK 4.8 billion of the total provision of DKK 5.25 billion.

We are following the development around Brexit in the U.K. closely. We remain committed to the U.K. market, and we have built up to 8 weeks of stock to ensure that we have adequate supply on U.K. soil should there be a hard Brexit.

I'd also like to mention that the second part of the approved share buyback program of DKK 500 million is expected to be initiated in Q2.

Finally, on a separate note, the Board of Directors established a Nomination and Remuneration Committee in December. The charter was approved at the board meeting today, and it's available now on our website.

Please turn to Slide 8 (sic) [Slide 12]. For '18/'19, we continue to expect revenues to grow around 8% organically and 8% to 9% in Danish kroner. Acquisitions are expected to contribute 0.4 percentage points to reported growth. Our guidance assumes stable growth trends across our regions as well as continued positive impact from new product launches and commercial investments. Our guidance assumes an annual negative price pressure of up to 1-percentage point.

As highlighted in the previous quarters, a reimbursement review for Ostomy Care and Continence Care is currently underway in France. At this point, we don't have any new information concerning the impact and timing of the proposed cut, but we continue to expect that impact would be in the second half of this financial year. We also expect a smaller reform in Switzerland and pricing pressure among health insurance companies in Holland.

The guidance in Danish kroner is impacted by the appreciation of the U.S. dollar against the Danish kroner. The currency impact is based on spot rate as of January 31.

For '18/'19, we continue to expect an EBIT margin of 30% to 31% in constant currencies and around 31% in Danish kroner. EBIT guidance in Danish kroner is impacted by the appreciation of the U.S. dollar against the Danish kroner. The currency impact is based on spot rate as of January 31.

On our operating expenses, we expect broadly stable trends into '18/'19. We will again invest up to 2% of sales in incremental investments into innovation and sales and marketing initiatives in the U.K., Emerging Markets and the U.S. across all business areas. Most of the incremental investments have been initiated in Q1, hence, I expect the quarterly phasing of investments similar to last year.

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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 close the factory in Thisted and reduce the number of production workers in Denmark by approximately 200 people in '18/'19.

As mentioned before, we now expect restructuring cost of approximately DKK 35 million this year 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 in fixed currencies will be in line with '17/'18.

The Global Operations Plan 4 is on track, and we are slightly ahead of the closure of the Thisted factory in Denmark, which is now expected to close in June of this year. The plan is still expected to deliver an EBIT margin improvement of 100 basis points in '19/'20 and 150 basis points in '20/'21.

We continue to expect our net financials to end the financial year 2018/'19 at minus DKK 75 million, primarily due to hedging losses on the U.S. dollar against Danish kroner. CapEx guidance for '18/'19 is expected to be around DKK 750 million and is driven by investments in more capacity for new and existing products as well as the factory expansion in Costa Rica and a 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) And the first question comes from the line of Veronika Dubajova from Goldman Sachs.

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

I will keep it to 2, please. Kristian, first of all, on your investment priorities, I noticed you kind of broadly outlined very similar outlook for Coloplast as it had been prior to your leadership, but you did call out U.K. in your prepared remarks. And I'm curious if your thoughts on putting more investment in terms of the sedum tree on the ground and the U.K. have changed all. Beyond the U.K., if there are any other markets where you might be thinking about the investment opportunities slightly differently to your predecessor? And then my second question is a broader question in terms of your appetite for M&A in the very short term, given that you are still getting your hands around the business. How would you feel about undertaking any potential larger -- well, potentially larger transactions at this stage?

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

Veronika, 2 great questions. Let me start with the first one. If you look at the investment priorities and the program that we've had for the U.K., historically, we've build the position in the U.K., which is we did -- it's our largest subsidiary at this stage and it's probably the best example that we have of the connection between great products and good service and the good use of our Care program that we bring both to clinicians and to local payers and national payers. And it's working. We are posting really solid growth in the U.K. It's a strong contributor to European growth. So we have, if you will, the long lights on for U.K., we're, of course, worried about Brexit and what that means in the short term, but we think the needs in the U.K. market are, are not changing. And so we are in the U.K. for the long haul, if you will. The list of investment areas that we're looking at is not changing in the short term. We have a strong focus, of course, in the U.S. And the investments that we have made there that they need to bear fruit. This year, the focus is on a significant expansion on Continence Care. We're also investing on the access side. And I want those investments to bear fruit. We will also continue to invest in Emerging Markets. You know, Veronika, that, that's close to my heart. We've talked about that before. We have a portfolio of investments that are going into EM. It's a bit more volatile, but we think there are good growth opportunities. We'll continue that program, and we now have Andrew Robinson, who joined us a few months back, who is in the process of putting together the next portfolio of growth opportunities. And then, I am certainly a strong proponent of all the work that we're doing around innovation. Like I said in my opening

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remarks, I'm a big believer in the combination of clinically differentiated products backed by strong marketing. I think this is what we've undertaken. We still need to bring those types of product to market. And we will not relent until we do that. So if you will, in the broad scheme of things, those things, I believe, are right. And I also want the investments that we've already made to go in that direction and deliver. M&A, I think, my message will be what we've communicated for some time now that we are -- we're open to M&A on the Wound Care side to scale the business. We're also open to product and technology acquisition in the Wound Care space. We are constantly looking at that. If you look at what we've done on the distribution side, historically, in the business that I have been leading in Chronic Care, we're now forward integrated in top 5 markets. I don't see us acquiring any more distributors in the short run. We have the platforms that we need to have access in the market and start building the service offering that we want to. So I don't see that on the horizon. Having said that, we're also open to, if you will, pragmatic acquisitions in the Chronic Care space that are related to product or technology. I hope that answers your questions.

Operator

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

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

And my first question is to your BBT technology. I just want to be sure that this performance solely related to commercial strategic aspects, and having confirmed that all registrations started clinical trials, et cetera, has been performed and production ready. And my second question is in respect to U.K., I can see and you also commented that you have increased inventories from 6 to 8 weeks and inventories are now up by DKK 132 million in a quarter, and maybe also related to product launches. But I'd like to know how much of this is related to, I would say, preparation for Brexit? And then in connection with Brexit, are you seeing consumer patience sort of collecting a hoarding, for example, catheters or ostomy bags ahead of Brexit? Is there any sort of fear of not being able to deliver in this respect?

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

Thank you very much for the questions. Let me start with the first one on BBT. This is solely a call on, if you will, getting the most out of this technology for the investments that we've made. We have some really exciting things in the pipeline around our future catheter platform. And like I said in my opening remarks, my judgment is that we are significantly more likely to be paid for that innovation if we bundle these innovations and use them to prove clinical significance -- clinically significant better outcomes. It's not about bringing capacity forward or anything like that. So this is a judgment on how we are most likely [to admit] that this technology will actually make a difference. It is ready now and you should look at this as a vote of confidence in the potential of the technology. But we want to maximize the likelihood that it's actually going to matter. When it comes to the U.K., it's correct that we are now at 8 weeks' worth of inventory. The movements that you can see in our inventory figures for group are only slightly affected by what we're doing in the U.K. So they have little connection with that. Of course, U.K. is a big market, but still in the big scheme of things for the group, it takes up not that much share. We are concerned about Brexit as everybody else is, with the level of uncertainty that, that brings. We're monitoring very, very closely the ordering patterns of the consumers in our chart of health care business in the U.K., and we cannot see any hoarding pattern at this stage. We cannot see that. And we've looked quite closely. I'd also say maybe as a closing remark to that, that you cannot rule out that there were some level of a few patients meeting their clinician and persuading them that they should have an extra prescription. But we cannot see it in the ordering patterns on any significant scale.

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

And Annette, just to add to your inventory question. So yes, it has increased in our first quarter and it's also backed up by a decision we have made to increase our target stocks on both the PIDAC product categories.

Operator

And your next question comes from the line of Oliver Metzger from Commerzbank.

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Oliver Metzger - *Commerzbank AG, Research Division - Analyst*

My first one is on the higher administrative expenses. You mentioned, higher IT and legal expenses. So can you just give us a feeling how admin expenses would be on a normalized base, and to which extent some pull forward effect might leads to a lower level for in the next quarters? And my next question is on the Wound Care business. So the highest growth we've seen for many quarters, which was at the end also pushed forward by a low base in Greece. If I do the math from last year, I knew, okay, the impact was roughly DKK 25 million, but if you look now for the underlying development, excluding Greece, could you share with us how the underlying trends currently is there?

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

Yes. So in relation to the first question, Oliver, around the higher admin expenses in our first quarter. As I mentioned, it's due to higher IT expenses and also due to higher legal costs. We have decided to upgrade our infrastructure within the commercial part of the business where we are replacing our CRM solution with a new one, and that is having some impact on our IT expenses. But for the year, you should expect that the overall admin cost will be in the level of 4% of the revenue, as I have previously communicated.

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

And to your question on Wound Care, we are very pleased with the growth here in Q1. And you're, of course, right that there's some effect from the comparative from last year. But really, we think that this is -- we could see that this growth comes out of Europe, it's very much driven by Biatain Silicone. And I am very encouraged to see how this development plays out across -- I think, broadly across markets, but in particular, in the U.K. and France. I spoke in my remarks also to the study that was done in the U.K. The product works, and it's driving our growth. And it basically exemplifies, I think, work that I really like, which is, it's clinically relevant, it's got strong marketing. The marketing is easy to understand. And the -- our team is driving that quite hard. You've heard of this notion of 3DFit technology. It resonates well with clinicians and consumers. So we're pleased to see that. I'm not suggesting that we're going to see the same growth rates for the rest of the year, our expectation is probably in the neighborhood of mid- to high-single digits. I hope that answers your question.

Operator

And your next question comes from the line of Kit Lee from Jefferies.

Nyeok Lee - *Jefferies LLC, Research Division - Equity Associate*

I have 2, please. I guess, firstly, just on SenSura Mio, I think you mentioned that it's been launched in 14 countries. Just wondering what the adoption rate right now are you seeing compared to the total market opportunity? Are we still early in the adoption cycle? Or you think that that's going to ramp up as you get more familiar with the commercial launch? And then, I guess, secondly, on SpeediCath Coudé, I think, you relaunched the product back in May last. Just wondering have you managed to switch all patients who have been using the previous version to the current version now? Or are you still going through that process?

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

Thank you very much for both questions. Let me address them in turn. I'm assuming that first question is about SenSura Mio Concave?

Nyeok Lee - *Jefferies LLC, Research Division - Equity Associate*

The Concave version, yes.

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

That's certainly in market now. Yes. I'm very pleased with the launch. The launch is a bit ahead of plan, and it is giving meaningful contribution to our growth. I want to stress that this is early. The way you need to think of this category is that it's new. We -- if you will, we're the only one present with a product like that in the market. It's a type of product that doesn't get used in the acute setting, but it will be when people return to the clinical setting and have issues, or they run into issues in their home and this becomes a problem-solver-type product. So we look at this as a -- this is a long haul. And so to your question, we're early in the adoption cycle, but we are slightly ahead of our plans. But we're quite pleased with where it is. On Coudé, yes, we are through the conversion, and so it's the new product that we have in the market now exclusively.

Operator

And the next question comes from the line Niels Leth from Carnegie.

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

First question on your cost base in Hungary, and to what extent wage inflation in Hungary is a visible cost burden to your cost of goods sold during the course of this year? Second question on how we should interpret say the margin expansion to come from your GOP4 production plant? So just to be sure, so the 100 and 150-basis point of the margin expansion that comes on top of this 31% EBIT margin that you're guiding for this year?

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

So Niels, thanks for your questions. In relation to your first question around the cost base in Hungary, we also, this year, seeing an increase in the wage inflation. We are expecting the high single digit as we have seen also last year. So we are expecting that development for this year as well. In terms of the other question around the GOP4 plant, so we have initiated the GOP4 plant, and we are on track. One of the big initiatives is to close down the Thisted innovation site and that will be closed down by the end of this year. And we're also working on our efficiency agenda and are also expecting to have a positive effect from procurement. The impact from this plant, I'm expecting that, that will be around 100 basis points in '19/'20 and 150 basis points in '20/'21 on the EBIT margin. So that's my expectation from the GOP4 plant.

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

So we should not put it on top of this 31%?

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

So my expectation, no, it should not be put on top. It's -- we're going to, of course, evaluate additional investments as we move into '19/'20 and to '20/'21.

Operator

And your next question comes from the line of Yi-Dan Wang from Deutsche Bank.

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

Okay. I have 3 questions. The first question is more of a big picture one. I mean, when I look at Coloplast since 2012, you have invested substantially more in R&D and in distribution versus your key competitors. But the impact of these on the market has been relatively modest to date. So I mean,

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clearly, some of the investments have not been productive even it takes time to place the investments and for the benefit to come through. So my questions are what proportion of the investments that you've placed have been productive or expected to be productive? And whether we should expect more meaningful returns from these investments in time? If yes, would that be a short-, mid- or long-term prospect? Short being 1 to 2 years, mid 3 to 5, and longer term means 5 to 10 years. And then the second question is on the SenSura Mio Concave product. Can you comment on where you are in the U.S. with respect to that product? And then finally, on France, you've called that one out for almost all of your business areas as being a country where you're getting strong growth. Can you just put some color around it and why that is? And how we should think about the potential pricing reviews that is potentially going to come through this year?

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

Thank you, Yi-Dan, for your questions. Let's start with the big picture. I buy the premise that we've been investing more. But I don't buy the premise that it hasn't had an impact. I -- when we look at the growth numbers, we're quite happy with that and we also believe that we're taking share. We also can see that we've upped the growth rate over the last 7 quarters. So we think definitely it's meaningful. The investments that we've made on the consumer and distribution side, I know from having looked at this very, very closely myself. When you look at categories like accessories or when you look at our product launch upticks, it has real impact that you are in connection with the thousands of consumers and can inform them about the products that are in the market and available for trial and repeat use. It does have an impact. Having said that, our investment portfolio will always have, I think, a good balance of things that we do to drive growth in the short term and the medium and long term. So you're right that a number of the investments that we made particularly on the innovation side, they still need to produce. And we still need to prove that the ambition that we've set for the clinical performance program that we can actually deliver meaningful innovations that we will get paid for. You can also see a number of the innovations that we -- or sorry, the investments that we've made on the capability front will relate to market access and medical marketing. And those are things that have, I would say, medium-term-type impact. But I, of course, expect that this will lead to tangible wins with payers and health care systems around the world that will become willing to pay for the innovation that we bring to market. So I think, that's how I would present my perspective on your first question. U.S., on Concave, we're just getting started, we launched this January. So very early days to talk about how things are going. I think I'll have something more meaningful to say in the coming quarters. We think the product is important also for the work that we do in the U.S. And my hope, of course, is that we can make this a subcategory of the Ostomy portfolio matter when it comes to winning contracts and getting us more shares, so we become more relevant for the play around GPO access. When it comes to France, it's true, we've had a very strong start to the year. We are -- we're quite pleased with that, it's broad-based. When you take the lid of the French business and look how the growth is across regions, it's also broad-based. And so I don't know I'd have to say to what extent there are some tailwind from anything related to the reform, I don't believe so. I think simply the business has good momentum. I hope that answers your questions, Yi-Dan.

Operator

(Operator Instructions) And your next question comes from the line of Maja Pataki from Kepler.

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

This is Maja from Kepler Cheuvreux. I also have 2 questions, please. One with regard to your long-term guidance and the question that Niels asked with the savings that you're expecting. If we look at how the guidance has been readjusted over the last 2, 3 years. We've seen a bit of a adjustment on the top line growth narrowing of the range, and we've seen the EBIT margin coming -- EBIT margin guidance coming down quite significantly, with last year you setting a floor, I think, EBIT margin -- long-term EBIT margin would be greater than 30% for 2019. We're expecting EBIT margin of 30% to 31%. Now my question is, how is your thinking about the business? If you see the opportunities to invest into growth, would you be willing to go below this 30% EBIT margin floor if you would expect to see a growth acceleration in the long run? That's question number 1. And then the second question is, I believe that next week we do have the advisory committee in the U.S. looking at female health product, also specifically looking at mesh product. Could you give us a bit of a view of what your thinking is around that? What kind of outcome would you expect to see? And can you remind us how much of your group revenues female health mesh product actually represent?

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

So in terms of your question around the long-term guidance, so our long-term guidance is to deliver 7% to 9% organic growth and deliver an EBIT margin of more than 30%. So no, we are not going below the 30%. We have said that we are willing to invest up to 2% of revenue into additional investments, both commercial investment and also innovation as we have been talking to earlier at this call, and that's what we are focusing on. And the guidance for this year is in standard currencies 30% to 31% and around 31% in reported currencies, as I'm expecting to have some tailwind from the U.S. dollar.

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

And from my side maybe just a few remarks to our questions around the FDA panel coming up here on the 12th of February. Maybe I should just start by reminding all of you who're participating that this is standard. This is standard in connection with PMA approval processes and the product that is in question here from our women's health portfolio is a product called Restorelle. That also requires a PMA and we submitted our PMA in 2017. The panel's job is to advise and provide recommendations to the FDA that the FDA may basically choose to use or disregard. Our women's health business is 25% of our Urology business, but the product in question here is less than 0.5% of group revenue. So we believe that the risk is quite manageable. Hope that answers your question?

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

Yes. It's very helpful. Just to clarify that I got it right, this 30% is the absolute floor for your margin and that -- with that you can actually also do all the investments you would like to do?

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

Yes. So the floor of minimum 30% in standard currencies that is the floor, and we believe that we have enough capacity within the LEAD20 strategy to go for the investments that we see both commercially, but also within our innovation agenda.

Operator

And your next question comes from the line of [Virendra Chauhan] from AlphaValue.

Virendra Chauhan - *AlphaValue - Analyst*

Kristian, Anders, a couple of questions on Wound Care. So one, can you reconcile me -- can you reconcile the Wound & Skin Care performance for me because you say Wound & Skin in aggregate was up 11%. Wound was up 10%, but then Skin you say it was detracting from performance. So I've been unable to figure out like how do all the 3 add up?

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

Could I ask you to speak up a little bit, you're -- we can hardly hear you?

Virendra Chauhan - *AlphaValue - Analyst*

Okay, can you hear me now? Is it better?

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

Yes.

Virendra Chauhan - *AlphaValue - Analyst*

Okay, so can you reconcile the Wound & Skin Care growth rates for me? So actually Wound & Skin is up 11%, Wound is up 10%, but you told Skin Care detracted from performance. So how do the 3 add up? That would be my first question and I have another for you post that.

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

All right, let me take your question. So our Wound & Skin Care franchise consist of the 3 businesses: one business is our Wound Care, and as we have said, it has been -- the growth has been 10% in our first quarter. The Skin Care business, we actually had a negative drop due to the fact that we had a high baseline as you might recall, one of our competitors had a back order problems and we benefited from that last year. And then, we have the third business that's the Contract Manufacturing so -- of the Compeed, where we had a poor start last year because of some destocking in the market, and that has benefited us this year. So overall, the franchise is growing in the first quarter of 11%.

Virendra Chauhan - *AlphaValue - Analyst*

Okay, okay. That clarifies my question. And I've second one on Wound & Skin Care margin particularly. So I see that there's been some kind of at least 1.5-percentage point change in your segment profitability. So is that anything, in particular, driving that or -- and should that be sustainable going ahead?

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

Yes. So what you're looking at that's our segment operating profit. So that includes our direct expenses. But it does not include our -- you can say, group costs. We are not allocating that out in our segment P&L. But it's true that we are improving. And it's very much due to scale. And it's also due to that we have over the last couple of years moved out our silicone production from Denmark to Hungary.

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

And we have time for the last question.

Operator

And the last question comes from the line of Yi-Dan Wang from Deutsche Bank.

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

I have a little bit more time, so I'll follow-up on the answer you gave to my question earlier. That the question is not really whether we've seen the investments delivered. They've clearly delivered, but it's just how much they have delivered relative to the size of the investments that have been placed. So I suppose to boil it down to -- that the question is, should we see meaningful pick up in the amount of benefit from these investments over time?

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

When you run an investment portfolio like we do, it adds up to -- over the course of let's say, I think, you went all the way back to 2012, right? It adds up to quite a few dozens of investments. And some of them work better than others clearly. And some of them pay -- payback a lot more effectively than others. I would like to believe that we've become better at investing. Certainly, in the areas that we participated in for a long time, when we make mistakes, we try to learn from them. But I don't think I can confidently rule out that we'll make a mistake in the future. I think that that's what -- that that will happen. We continue to invest and the core of the future program, Yi-Dan, does entail some uncertainty when it comes to building products that are clinically differentiated. That that I think, -- I look at that, that is the cost of being a market leader and wanting to develop the category and beat the category to a place that it hasn't been. And of course, I would like to attach a high probability do that, but anyone who is looking at it from the outside will be skeptical until we deliver, and I also understand that. So my dialogue with our team is that we need to prove that what we talk about, what our strategy is actually matters, and of course, the ultimate proof is growth. And then growth is -- will be the proxy for whether we get the price pickup and will we get clinicians to try, use and hopefully love the product. So will we see a meaningful pickup, that's certainly our hope and what we're working toward, but the guidance remains the guidance.

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

Okay. So if you look at the fundamentals of the industry and the amount of investments you are placing the growth that you hope to get, is the industry at a point where the returns from the investments you're placing are diminishing essentially costing you for more to get the growth that you want going forward? Or is it a case where you make the investments, you can get very nice premiums with the clinical relevant products you can get, and therefore, the returns are still comparable to what we have seen in the past?

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

So this is probably one that we can debate at further length when we see each other in London. I -- my personal view, Yi-Dan, is that this is -- at this level of discussion, this becomes almost too conceptual to be meaningful. The answer is it depends. If we strike a home run on one of the innovations that we're trying to build with clinical differentiated products, it will matter a lot. But of course, we have to strike a home run. And there are -- there's nothing that's automatic about that. And I cannot meaningfully attach a probability to it. It's not our view that the investments that we're looking at now have a fundamentally different payback than what we've done before when we look at all the -- what I would call a marginal investments or incremental investments, they look largely the same. But of course, when you start setting a new standard for clinical performance, you increase the level of uncertainty. So I think, that's how I'm going to answer it now and then we will pick it up again when we see each other in London, all right?

Okay. Thanks a lot. Thank you, everybody.

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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