FACTSET: callstreet

corrected transcript

PARTICIPANTS

Corporate Participants

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

Other Participants

Martin Parkhøi – Analyst, Danske Bank A/S
Kit Lee – Analyst, Jefferies International Ltd.
Christian Ryom – Analyst, Nordea Bank Abp
Jannick Lindegaard Denholt – Analyst, ABG Sundal Collier ASA (Denmark)
Oliver Metzger – Analyst, Commerzbank AG
Lisa Bedell Clive – Analyst, Bernstein
Veronika Dubajova – Analyst, Goldman Sachs International
Maja Pataki – Analyst, Kepler Cheuvreux SA (Switzerland)
Kate Kalashnikova – Analyst, Citigroup Global Markets Ltd.
Scott Bardo – Analyst, Berenberg Bank
Niels Granholm-Leth – Analyst, Carnegie Investment Bank AB (Denmark)
Carsten Lønborg Madsen – Analyst, SEB Enskilda (Denmark)

MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to Coloplast's Financial Statements for Q1 2020 to 2021. The call has an expected duration of one hour.

I'll now hand over to President and CEO of Coloplast, Kristian Villumsen. Please begin.

Kristian Villumsen, President & Chief Executive Officer, Coloplast A/S

Thank you, operator. Good afternoon and welcome to our Q1 2021 conference call. My name is Kristian Villumsen. I'm the CEO of Coloplast, and I'm joined by our CFO, Anders Lonning-Skovgaard; and our Investor Relations team. We'll start with a short presentation by Anders and myself and then, as we usually do, open up for questions. Please turn to slide number 3.

Overall, I'm encouraged by the good start to the year. We delivered 5% organic growth, 32% EBIT margin, and a return on invested capital of 44%. We maintained guidance for the full year. The pandemic is still very much at large and our priorities remain clear: keep our people safe, continue to serve our customers, and maintain business operations. Our teams across the world continue to manage the situation locally, and we continue to adapt our business and commercial activities in new and innovative ways.

In many of our markets, our sales forces are still working from home and leveraging new capabilities within virtual education, remote support, and digital sales. In the markets where we have access, we're executing on investments in strategic areas, including Asia and within Interventional Urology in the US.

A few highlights from the quarter include a strong start in emerging markets with 16% organic growth. The growth was broad based, but especially solid in China and Latin America. Timing of tender deliveries in Russia also boosted growth.

Growth in the US Chronic Care business continues to be resilient. We're also very satisfied with the return to growth in Interventional Urology. The Men's Health business is leading the recovery as elective procedures continue to resume. I'm also pleased with the increasing contribution to growth from our newly launched Biatain Fiber portfolio within Wound Care, which is now available in nine markets.

Our challenge continues to be in Europe. But, overall, we assume that the situation will gradually improve in the second half of our financial year as vaccines are rolled out. We've seen lower growth in new patients in Ostomy and Continence Care as a result of the COVID-19 outbreak. Broadly speaking, surgeries and procedures picked up again and begin normalizing towards the end of 2020. In most markets, this normalization is still happening with the exception of the UK where the situation has deteriorated.

In the UK, due to the extended lockdown and measures put in place by the NHS to handle the COVID-19 crisis, there's been a significant decline in screening, referrals and operations. The situation improved steadily in the second half of 2020, and we saw new patients discharge improved to around 80% to 90% of pre-COVID levels. Since then, the second wave of COVID-19 has put the NHS under renewed pressure. During January, new patients discharge stand at 60% of pre-COVID levels. But as the vaccination program rolls out and society reopens, our assumption is that these levels would normalize again in the second half of our financial year. Anders will speak more about guidance later. But, overall, our assumptions are unchanged compared to November when we issued full year guidance.

Before we take a closer look at today's results, just a few words from my side on our sustainability journey. Coloplast is committed to ambitious science-based climate action. And at the end of last year, we joined the business ambition for 1.5-degree campaign to meet the goals of the Paris Agreement, limiting global temperature rise to 1.5 degrees. We've also become official supporters of the Task Force on Climate-related Financial Disclosures or TCFD. We have a lot of work ahead of us, but we've begun to make the necessary investments and commitments.

Now, let's take a closer look at today's results. Please turn to slide number 4. In Ostomy Care, organic growth was 6% for Q1 and growth in Danish kroner was 1%. Growth continues to be driven by our SenSura Mio and Brava supporting products in larger markets like the UK, US, and Germany. SenSura Mio Convex stands out as the main contributor to growth.

Our SenSura and Assura/Alterna portfolio continues to post solid growth in emerging markets. In Q1, the emerging markets region was the strongest contributor to growth led by China, Latin America, and tender deliveries in Russia. Growth in Europe and in particularly in the UK was challenged by lower growth in new patients due to COVID-19. On a positive note, though, our home care business, Charter Healthcare in the UK, contributed nicely to growth on the back of market share gains.

In Continence Care, organic growth was 6% for Q1 and growth in Danish kroner was 1%. Growth continues to be driven by the SpeediCath ready-to-use intermittent catheters with good contribution from the SpeediCath flex portfolio as well as our SpeediCath compact and standard catheters. Sales growth for Peristeen products remains satisfactory driven by the US, but partly offset by weakness in the UK due to COVID-19.

In Q1, the US and Germany were the main contributors to growth. Growth in Europe, and mainly the UK was challenged by lower growth in new patients due to COVID-19. In South Korea, Japan, and Australia where reimbursement for catheters was introduced a few years back, we continue to see very strong growth rates.

In Interventional Urology, organic growth was 5% for Q1 and growth in Danish kroner was 0%. Growth continues to be negatively impacted by COVID-19, but elective procedures continued to recover throughout Q1 in the US Men's Health business and across Europe despite the surge in COVID-19 cases. Men's Health came in stronger than we had anticipated and delivered double-digit growth in the quarter. Women's Health continues to post negative growth due to the cancellation of procedures. And our endourology portfolio in Europe posted growth following a rebound in procedures.

In Wound & Skin Care, organic growth for Q1 was 1% and growth in Danish kroner declined by 3%. Organic growth for Wound Care in isolation was 5%. The Biatain Silicone and Biatain Fiber portfolios were the main contributors to growth, driven by France and Germany. A significant share of growth in Europe was driven by the newly launched Biatain Fiber portfolio. The hospital market in Europe is still negatively impacted by COVID-19, whereas the community market continues to be less affected.

In China, the situation improved significantly in Q1 as access to hospitals improved. The wider emerging markets region is still negatively impacted by COVID-19, but the quarter saw good demand from Brazil. The US hospital business is still negatively impacted by COVID-19 and our Skin Care portfolio saw negative growth in the quarter. Our contract manufacturing business also posted negative growth in the quarter due to COVID-19.

With this, I'll now hand over to Anders who will take you through the financials and outlook in more detail. Please turn to slide number 5.

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

Thank you, Kristian, and good afternoon, everyone. Reported revenue for Q1 increased by DKK 26 million or 1% compared to last year. Organic growth contributed DKK 240 million or 5% to reported revenue. Foreign exchange rate had a significant negative impact of [ph] DKK 214 million or around (00:08:26) minus 5% on reported revenue as expected due to the depreciation of the US dollar, British pound, Argentinian peso and Brazilian real against Danish kroner. The US dollar accounted for – All right. Sorry for that. I'll just start again.

So thank you, Kristian. Is it better? All right. Thank you, Kristian, and good afternoon, everyone. Reported revenue for Q1 increased by DKK 26 million or 1% compared to last year. Organic growth contributed DKK 240 million or 5% to reported revenue. Foreign exchange rate had a significant impact of DKK 214 million or around minus 5% on reported revenue as expected due to the depreciation of the US dollar, British pound and the Argentinian peso and Brazilian real against Danish kroner. The US dollar accounted for around 35% of the negative currency impact.

Please turn to slide 6. Gross profit amounted to around DKK 3.2 billion corresponding to a gross margin of 68% which was on par with last year. The gross margin was positively impacted by savings from the Global Operations Plans 4 and 5. On the other hand, the gross margin was negatively impacted by increasing costs in Hungary due to salary inflation and labor shortages as well as extraordinary cost related to the COVID-19 outbreak and ramp-up cost of our new volume site in Costa Rica. The gross margin includes a negative impact from currencies of around 70 basis points.

The distribution-to-sales ratio in Q1 came in at 28% compared to 30% last year. The 7% decrease in cost reflect cost savings from lower travel and sales and marketing cost due to COVID-19 which were partly offset by investments in sales and marketing activities in Asia, Interventional Urology, and consumer and digital initiatives. The admin-to-sales ratio in Q1 came in at 4% of sales, on par with last year. The 8% increase in costs reflects timing of legal expenses. The R&D-to-sales ratio in Q1 came in at 4% of sales in line with last year. The 10% increase in costs relates to a high-activity level as well as one-off costs related to recent organizational changes. Overall, this resulted in an increase in operating profit of 4% in the first quarter corresponding to an EBIT margin of 32% compared to 31% last year. The EBIT margin contains a negative impact from currencies of 90 basis points.

Please turn to slide 7. Operating cash flow for Q1 amounted to around DKK 1.2 billion compared with around DKK 1 billion last year. The positive development in cash flows was mainly due to a decrease in income tax paid and an increase in operating profit of DKK 64 million, partly offset by development in trade receivables. Cash flow from investing activities was impacted by increased investments in automization (sic) [automation] (00:12:00), IT, and the new factory in Costa Rica. CapEx investments amounted to DKK 280 million for Q1 or 6% of revenues compared to 5% last year. The acquisition of Nine Continents Medical reduced the cash flow by DKK 950 million. As a result, the free cash flow for the full year was an outflow of DKK 14 million against an inflow of DKK 816 million last year. Adjusted for the Nine Continents Medical acquisition, the free cash flow was up by 15%. Our trading12-month cash conversion for Q1 excluding the Nine Continents Medical acquisition was 88%. Net working capital for Q1 amounted to 24% of sales compared to 23% of sales at year-end 2019-2020. In Q2, we expect to launch a new share buyback program totaling DKK 500 million. The program is expected to be completed before the end of the financial year. In the UK, Brexit came into force without any supply chain or delivery disruptions. And on a separate note, we are on track with all the preparations ahead of the EU's medical device regulation compliance deadline in May of this year.

Please turn to slide 8. For 2021, we continue to expect revenues to grow 7% to 8% organically and 4% to 5% in Danish kroner. Overall all the key assumptions that we laid out in November when we issued full year guidance, still hold. Phasing our growth is expected to be back-end loaded with low-single-digit growth in the first half of the year and double digit growth in the second half of the year. Given the good start to the year in Q1 driven by a return to growth in Interventional Urology and solid performance in emerging markets, we are more optimistic on growth in the first half of the year. I've previously talked about 1% to 4% growth in the first half and now expect to be in the upper end of that range for this first half of the year.

Our second quarter this year will be negatively impacted by a tough comparison period driven by DKK 150 million stocking impact in Q2 last year. Q2 will also be impacted by lower growth in new patients in our European Chronic Care business. Underlying growth in the US and emerging markets is expected to be largely stable. On a positive note, Q2 will be positively impacted by lower growth in China in Ostomy Care and Wound Care and Interventional Urology last year. Due to the depreciation of the US dollar, British pound, Brazilian real and the Argentinian peso against the Danish kroner, reported growth in Danish kroner is still expected to be 4% to 5%. The currency impact is based on spot rates as of February 1st. For 2021, we continue to expect a reported EBIT margin in Danish kroner of 31% to 32%. The reported margin in Danish kroner is expected to be positively impacted by the Hungarian forint, but this is offset by depreciation of the US dollar, Brazilian real and the Argentine and peso against the Danish kroner. As a result of the COVID-19 outbreak, we have exercised strong cost control and we have also seen a natural reduction in cost due to lower travel cost and sales and marketing spend. We expect this natural cost reduction to continue into Q2. To ensure that we emerge strongly from this crisis, we continue to invest for growth and incremental investments into innovation and sales and marketing initiatives.

For 2021, the bulk of investments will go into Interventional Urology, Asia, consumer and digital investments. We announced the acquisition of Nine Continents Medical in November, and during 2021, we will primarily invest into R&D including clinical trials. Overall, for the year I expect our SG&A costs and R&D expenses to increase in line with reported growth. The gross margin will be positively impacted by operating leverage and the Global Operations Plans 4 and 5. The positive impact is expected to be partly offset by cost pressure in Hungary from wage inflation and labor shortages as well as transfer costs related to the transfer of machines to the new factory in Costa Rica.

Sustainability investments will also impact the gross margin. Overall, the expectation is that gross margin for 2021 will be in line with 2019-2020. We still expect our net financials to end financial year 2021 at around DKK 0 million. This is primarily due to hedging gains on the US dollar and British pound against the Danish kroner offset by losses on balance sheet items denominated in a number of foreign currencies including the Argentinean peso. CapEx guidance for 2021 is still expected to be around DKK 1.1 billion and is driven by investments in optimization initiatives as part of GOP5, the next factory expansion in Costa Rica, more capacity for new and existing products as well as IT investments. In a few weeks' time, our first volume factory in Costa Rica will be operational marking a key milestone for the company. This year, we will see transfer of around 15 machines to Costa Rica, and we are building inventory in advance to ensure a smooth transition.

Finally, our effective tax rate is expected to be around 23%. As part of the Danish government's COVID-19 stimulus measures, the government has increased deductions for R&D expenses incurred in 2020 and 2021. For Coloplast, this represents a positive impact of 0.5 percentage point on our tax rate. Overall for this year our tax rate is unchanged at around 23% because we have a one-time negative tax impact in Q1 related to the Nine Continents Medical.

Thank you very much. Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Martin Parkhøi from Danske Bank. Please go ahead.

<Q – Martin Parkhøi – Danske Bank A/S>: Yes. Hello. Martin Parkhøi from Danske Bank. A couple of questions, I can start to Anders with the cost side. You say that the SG&A cost should grow in line with sales. In the first quarter, distribution cost was down 7% than in reported terms and sales was up actually 0.6%. I don't see that is completely in line with each other. So what do you actually mean? Should we – because you also say the cost control will continue to Q2, it's difficult for me to see that with 7% down in distribution cost in the first quarter and you expect the double digit growth in the second half, should we really see such a big change to the cost development in the second half. Where will that exactly come from?

And then secondly just on Urology which was holding up quite well here in the first quarter, are you seeing a similar trend so far in the second quarter? And then if I can just take a small third question, just on the boost to Q1 growth in emerging markets from the Russian tenders, could you quantify that?

<A – Anders Lonning-Skovgaard – Coloplast A/S>: All right. Let me start, Martin, with the first question around our expected cost development for the year. So, yes, we had a strong EBIT margin for Q1, 32%. And as you were saying, our distribution cost was down compared to last year. I'm also expecting our second quarter to have similar levels in terms of costs compared to Q1, but then we are going to increase our cost level in the second half. So for the year, I'm still expecting levels around the reported growth we are guiding for, so in the level of 4% to 5%, but that depends on how much we are going to invest and it also depends on when the COVID situation is starting to be behind us. So that's the assumptions we are working with currently.

<A – Kristian Villumsen – Coloplast A/S>: And then, Martin, let me pick up on your other two questions starting with Urology. So yes, the business is off to a good start, driven both by Europe and particularly Men's Health in the US. You should note that the Men's Health franchise is driven by a relatively limited number of surgeons for whom this is their livelihood. So they have strong incentives to, if you will, keep their business going. These are also relatively valuable procedures. So there're also good incentives for clinics in hospitals to accommodate these procedures to take place if it can be done. So, we do expect that this is going to continue also into Q2 on Urology barring a markedly new negative development on COVID.

On EM, I want to highlight, Martin, that this is a – the growth is broad based. So, yes, there was a boost in the Russia tenders, but the timing is largely the same. It's going to be like it was last year also in the first half and maybe a bit of flow between Q1 and Q2, but nothing major. We have a really strong growth contribution from China where both the Chronic Care business and the Wound Care business are off to a strong start. We have a strong contribution also from Latin America and the rest of Central and Eastern Europe. So EM is off to a good start and it's way more than just Russia.

<Q – Martin Parkhøi – Danske Bank A/S>: Thank you.

Operator: And the next question comes from the line Kit Lee from Jefferies. Please go ahead.

<Q – Kit Lee – Jefferies International Ltd.>: Thank you for taking my questions. Two, please. I think firstly, just on your first half guidance of low-single-digit organic growth. I know you said that now you expect to hire the top end of 1% to 4% but it still implies that 2Q will be slowing down. I'm just wondering why the main drivers of this, is this just mainly the UK new patient trend that you're seeing or is there any other reason for the 2Q slow down? And then the second question is just on the Biatain Fiber sales. Can you just update us on the market share numbers for the product in that particular segment in Q1 and how has that developed versus Q4 last year? Thank you.

<A – Kristian Villumsen – Coloplast A/S>: Thank you, Kit, for the questions. The dynamic for Q2 is really mostly related to what happened last year with the COVID-19 outbreak and the significant stock-up that we saw from a lot of customers in the face of uncertainty surrounding the pandemic and then wanting to get their hands on product. This was mainly a European phenomenon and there was about DKK 150 million in additional sales in the quarter. So, of course, we have that in the baseline for this year. UK is, of course, also impacting the group but it's in line with the expectations that we had, also articulated back in November. So, I'd say the 5% growth that we posted here in Q1 is a good proxy for the underlying momentum in the business. So what you're mainly seeing is an impact from baseline.

When it comes to your question on Biatain Fiber, remember, this is a new category for Coloplast. So, we are if I may use that term, just getting our feet wet. We are starting basically from a position of zero. So everything that we're doing here is market share gain. The product's off to a great start. It's ahead of launch forecast and we're looking at approaching a 10% share in the community market in Germany, just to give you an example, when it comes to share of prescriptions. So, good start, much more to come.

<Q – Kit Lee – Jefferies International Ltd.>: That's great. Thank you.

Operator: And the next question comes from the line of Christian Ryom from Nordea. Please go ahead.

<Q – Christian Ryom – Nordea Bank Abp>: Hi. Good afternoon, Kristian, Anders. Thank you for taking my questions. I've two as well. The first is I would like to hear if you can talk a little bit about the market dynamics that you're seeing here during the second wave of COVID. I recall when we were during the first wave of COVID, you talked about particularly in some of your large European markets, that there might be a tendency of customers to favor the incumbents. Are you seeing the same kind of dynamic playing out here in recent months? In particular, my reason for asking is the dynamic that you're reporting for Charter?

And then my second question is regarding the EBIT margin outlook over the next couple of quarters. Obviously, you've started the year out above your guidance for the full year EBIT margin. How should we think about the development in the EBIT margin for the next couple of quarters?

<A – Kristian Villumsen – Coloplast A/S>: Good questions, Christian. Let me take the one related to market dynamics. We have seen – it's hard to answer this question, I'd say, just broadly and globally. And really, for a meaningful answer, we have to turn to specific geographies. We've had good share performance in the UK. We have seen some of our competition struggle with supplying products into the market, and we've been well prepared for Brexit, and we have a strong operation there. Other than that Christian, I'd say, I haven't seen dynamics change in a markedly different manner in the main geographies.

Anders, do you want to go on the question on margin?

<A – Anders Lonning-Skovgaard – Coloplast A/S>: Yeah. So thanks for that, Christian. So in relation to our EBIT margin development over the year, I also talked a little bit to that earlier, but if we start with the gross margin, I am expecting the gross margin for the full year to be in line with last year and I see a fairly stable development over the year for the gross margin. We are starting to see the impact, the positive impact from our Global Operations Plan 4 and 5, but on the other hand we also have additional costs related to labor shortages and high salary inflation in Hungary. On the cost, I talked also about that earlier. But as I mentioned is that we are prudent on costs. We will continue to do that throughout Q2, but then my expectation is that we will increase our cost levels in the second half of the year as a consequence of the corona situation where the world is hopefully starting to open up and then we will also start to increase our investments into various commercial initiatives across all our businesses. So therefore I still expect for the year that we will deliver reported EBIT margin in the level of 31% to 32%.

<Q – Christian Ryom – Nordea Bank Abp>: Thank you. If I may just quickly follow up on your point here, Anders; the comments that you're making around the increase in investment in the second half, does that mean that we should expect that it is in the second half of the year we'll see the EBIT margin come down such that you end up in your current guidance range? Is that the interpretation we should take away here?

<A – Anders Lonning-Skovgaard – Coloplast A/S>: Yeah. That is my current view because we are going to increase our cost levels in the second half if the situation allows. Then we will start to invest into the various initiatives that we see in order to drive our growth agenda as part of our Strive25 strategy.

<Q – Christian Ryom – Nordea Bank Abp>: Okay. Thank you.

Operator: And the next question comes from the line of Jannick Denholt from ABG. Please go ahead.

<Q – Jannick Denholt – ABG Sundal Collier ASA (Denmark)>: Hi. Jannick from ABG. Thanks for taking my question and apologies for digging a little deeper back into that EBIT and cost question. So what is it particularly you could scale up into the second half because I assume that digital measures that's already part of what you're doing now, obviously it's the way you operate. So what is it? Is it just more [ph] whole-hog (00:30:48) on promotional activities which would be more related to, you can say, direct action with the physicians?

Secondly to that, have you seen any improvement whatsoever in the US on your field force, your Chronic Care field force's ability to see physicians? Are you also maybe starting to leverage or at least promote your products more to start leveraging your Premier account? And also to that if I may add, any developments in terms of the whole GPO landscape? Now we saw Hollister, obviously they stayed with their single source with Hollister on the [indiscernible] (00:31:32) but also with regards to the [indiscernible] (00:31:35), how should we think of that? Because as long as the market is locked down, I presume it will be hard for you guys to show your products fully to [indiscernible] (00:31:43) and really persuade them to do a switch.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: All right. Jannick, thanks for your questions. I will start with the first one around investments. So for the first quarter or the first half of the year, we have decided to invest in Asia, so we have invested further in China. We have also done additional investments in other Asian markets. We have also initiated investments into our digital and online marketing agenda, so that will continue. What we are expecting to do as well is invest further into the IU business. Please remember that last year as a consequence of the corona lockdown and the elective procedure cancellation; we put a pause on everything related to investments into Urology. Now we are scaling back and we have actually decided to invest quite a bit into Urology over the course of this financial year and that goes especially for the US, but also other regions within the Urology business. We will also invest further into R&D within Urology. It's a consequence of the acquisition of Nine Continents. And when the world is starting to normalize, we will also initiate investments again into our field sales force. So those are some of the examples of investments that we will do across our business and all our regions. So, that's the least what we are planning to do.

<A – Kristian Villumsen – Coloplast A/S>: And then, Jannick let me follow up on your questions to market access in Chronic care in the US. No major changes compared to last quarter. We still have an awesome team which is pretty much working from home. There's some more access on the Continence side but nothing where we could say this has fundamentally improved. This is indeed a headwind on the implementation of Premier. We've done our best to, if you will, work the sales pipeline and mature opportunities that have come out of Premier and done a ton of work around getting ourselves in a good position for [indiscernible] (00:34:06), but I don't want to jinx anything related to that by assigning any probability to it, Jannick. We'll have to see how it plays out. The company is trying to put our best foot forward, but surely it's no help to us that we're not in the market as normal.

<Q – Jannick Denholt – ABG Sundal Collier ASA (Denmark)>: Yeah. Thanks for that. And if I may just follow-up; so last time, I think you also spoke about that you did – at least you had secured some initial contracts already and established relations based on the Premier. Has that sort of – is that steady state as well or have you seen a little more in that regard without referring anything to how it may impact on this end of any possibilities?

<A – Kristian Villumsen – Coloplast A/S>: So the team continues to work its sales pipeline and maturing opportunities. We've still shown some progress. We've also had a good quarter in the US. And remember also we had a pretty good year last year in Chronic Care in the US. So I'd say we're at the same level that we were also last quarter.

<Q – Jannick Denholt – ABG Sundal Collier ASA (Denmark)>: Okay. Thanks.

Operator: And the next question comes from the Oliver Metzger from Commerzbank. Please go ahead.

<Q – Oliver Metzger – Commerzbank AG>: Oh. Hi. Good afternoon. Thanks for taking my questions. The first one is also on emerging market growth. Basically it's a quite attractive level. I would say it's a kind of pre-corona level. So I still remember the old target you had some years ago of 25%. So, it's not so far away compared [indiscernible] (00:35:49). So would you describe the environment in emerging market for you already as the new normal? That's the first question.

My second one is can you give us an indication to where is the level of colostomy surgeries compared to the pre-corona world, if you make an index of it was at 100 before corona, where are we right now?

And, finally – so that's my current question – on have you made any experience that increased mortality of patients might have impact over next time, something which we have [indiscernible] (00:36:43)? So do you think there is some – do you see something like this? Thank you.

<A – Kristian Villumsen – Coloplast A/S>: Thank you, Oliver. I've been 13 years with the company. Everybody still remembers when we talked about the 25% growth. We had a good year in EM last year, right? We're off to a good start this year. We think of emerging markets as a portfolio and that you need to run the portfolio. And right now we're seeing good performance. We could not post this type growth if we didn't have a large part of the portfolio pulling in the right direction; so I just want to reiterate. This is Russia and Eastern Europe broad based across the entire region, a very strong performance from the organization; Latin America, a very strong performance; and China in particular is also back to very strong growth.

To your question on ostomy surgeries, we don't have good visibility in all markets. And it also differs. It differs by market. So if you look at a place like China, we're back to growth. And then I'd say for a number of the other major EM markets, we are seeing relatively good stability I would say in the surgery levels and the patient discharge, and here my best proxy are actually new patient enrollment into our care program. And then in UK in particular and Europe in general around index [ph] 80, 90 (00:38:28) and UK in particular hard hit around [ph] 60 (00:38:33). So it is a bit of a mixed bag. And then of course, you can start to speculate what's going to happen with mortality rates, people that go undiagnosed, that should have had surgery that don't get it, it's too early to say, but there will be some effect Oliver, but at this stage hard to quantify. You will also find that there will be effects going in the other direction that people who would have undergone surgery and not needed to get an ostomy will now not have been diagnosed for a period of time, so they will actually need to do it. So the effect on reversals, we also still need to see how that's going to net out. I hope that answers your question.

<Q – Oliver Metzger – Commerzbank AG>: Yes, it does. Thank you very much.

Operator: And the next question comes from the line of Lisa Clive from Bernstein. Please go ahead.

<Q – Lisa Clive – Bernstein>: Hi there. Three questions from me. First of all, as we think about the elective procedure volumes sort of normalizing, does your guidance include expectations for some catch-up surgeries or just a return to run rate, and maybe if you could give comments by the different divisions?

Second, US Wound Care, it wasn't too long ago that you hired a sort of dedicated head for US Wound. How is that business developing? It's obviously off of a small base, but would just like an update there.

And then, last question on Ostomy growth. It was pretty strong considering your largest EU market being the UK continues to really lag. Can you comment on just the contribution from pricing and mix to that growth rate and whether it is any higher sort of different from your normal run rate? Thanks.

<A – Kristian Villumsen – Coloplast A/S>: Thanks, Lisa. Good questions. Just at the high level, our guidance does not assume a, if you will, a lot of pent-up demand on elective. The current run rate will, of course, play out differently now across the quarters because the baselines are different. But we're not assuming major pent-up demand.

On US Wound Care, remember US is mostly a Skin Care business for us. Skin Care has been subdued in the quarter partly due to less activity in the US, but actually mainly due to the contract manufacturing business where we saw negative growth in the quarter. Wound Care overall has had, we believe, a good quarter with 5% growth, strong in China, strong in Europe, and also okay in the US.

And finally on Ostomy, the 6% growth is, of course, helped a lot by the EM growth. We have a very strong quarter in EM and also in there, a very strong quarter in China. And that drives up a large share of the growth. There's really not a big change that you should read into the mix at this stage. Of course, the brand composition of the portfolio in EM is different than it is in developed markets, but no big changes to mix for the year.

Operator: And the next question comes from the line of Veronika Dubajova from Goldman Sachs. Please go ahead.

<Q – Veronika Dubajova – Goldman Sachs International>: Hi, guys. Good afternoon and thank you for taking my questions, please. I have two, one slightly boring. But just thinking about rising freight costs and commodity prices, just wondering, Anders, if you can talk through to what impact that might have, if any, on the gross margin. I appreciate it's probably not top of mind, but it is something that we're starting to see and you have a bit more exposure there than everyone else.

My second question is just going back to Wound Care and Biatain Fiber which just seems to be having some nice traction in Germany. I'd love to understand what the product road map looks like from here. So, when will we see entry into some of the other major markets in Europe to the extent that you're in them, remind us kind of what market share you've seen there? And then I know you've always talked about also wanting to [ph] enter into silver segment in Hydrofiber (00:43:14) space. What's the timeline for that, if you can give us a refresh on that, whether that's something that you're trying to accelerate given the success that you're seeing with Biatain Fiber so far? Thank you, guys.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: All right. Veronika, let me start on the commodity prices. So, where we have seen some increases, that's freight costs. So, we have seen higher, especially air freight cost throughout the last couple of quarters. But the impact on our gross margin is immaterial in the bigger scheme of things. But we are seeing higher freight costs. The other commodity prices are, more or less, stable.

<A – Kristian Villumsen – Coloplast A/S>: And, Veronika, let me pick up on your question on fiber. So, the major markets that we're in now are Germany, France, Spain, and Italy and a few smaller markets. This year, we are adding – we've added UK, Australia, and we'll launch in a number of other markets in EM also, depending on whether we can get access for the product. The positioning that we've launched the product with, that's synergistic to the Biatain portfolio, it works. Our customers understand it. So, there's good alignment on portfolio and customer call points. So, it's early days. And I'll just remind you it is still very early days for the product, but it's a great early start. And our customers understand the value and the positioning and the technology.

We have a [ph] silver (00:45:02) product in the pipeline. And I don't think we provide any particular timing on a launch. But, of course, we're driving that with everything that we've got. But remember, for that product, the clinical work and regulatory work is considerably more stringent than it is for this first launch without [ph] silver (00:45:29). But – yeah, that's probably as much as I'll say at this stage.

<Q – Veronika Dubajova – Goldman Sachs International>: Understood. Thank you for that. Can I ask a follow-up? If you kind of look where [ph] you've seen the traction with the fiber product (00:45:40), is this you winning share from the incumbents, or is this you more of targeting the kind of [indiscernible] (00:45:49) competition that's out there on the market?

<A – Kristian Villumsen – Coloplast A/S>: No. We're moving share. And we're moving share from both...

<Q – Veronika Dubajova – Goldman Sachs International>: Okay. Understood. Thank you for that.

<A – Kristian Villumsen – Coloplast A/S>: ...both incumbents and small players.

Operator: And the next question comes from the line of Maja Pataki from Kepler Cheuvreux. Please go ahead.

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: Yes. Hi. Good afternoon. I have just one question with regards to Interventional Urology and the dynamics there. You reported strong growth or good growth in Q1. Men's Health double digit, Women's Health is lagging behind with still negative growth as I understand. But you're still reporting that you don't expect to see major pent-up demand impacting urology care going forward. I'm not sure I understand that. Wouldn't those treatments in Women's Health that are being postponed or canceled at this point in time see a – wouldn't they be put through at a later stage and, therefore, could add to growth in the quarters going forward? Thanks for clarifying that.

<A – Kristian Villumsen – Coloplast A/S>: Maja, that's a great question. So, let me – I'll talk to the dynamic of both. So, for Men's Health, like I said in earlier remarks, the surgeons that do these procedures, this is their livelihood, right? So, they are very active in ensuring that procedures get done. There's also good financial incentives for clinics and hospitals to ensure that there is available staff and room to get the procedures done. And we've seen robust demand also here through Q1.

The Women's Health procedures are done by surgeons who do a range of other things. They don't have the same financial incentives. So, we haven't seen the same robustness of demand. And whether we are going to see, if you will, a bump up in demand, well, we want to see it first. But my comment is merely to suggest we're not forecasting – the forecasting that we've done, we're not assuming that that's going to happen. But I can't rule out that there'll be some level of that.

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: Understood. Thanks a lot. And just for my understanding, if we look at normalized years, the difference between Women's Health and Men's Health, is it material, or are there more or less close?

<A – Kristian Villumsen – Coloplast A/S>: In what way?

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: In the sense that you said Men's Health is up double digit in Q1. Now, if we look at a normal – at a normal quarter...

<A – Kristian Villumsen – Coloplast A/S>: Oh, is the question about growth?

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: Growth. Yeah. Yeah. Sorry. Growth rates.

<A – Kristian Villumsen – Coloplast A/S>: Yeah. So...

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: Is it materially different?

<A – Kristian Villumsen – Coloplast A/S>: So, it has varied over the years depending on dynamics in the market. So, it hasn't been a consistent pattern. But both at different points in time driven high growth. And right now, Men's Health is up.

<Q – Maja Pataki – Kepler Cheuvreux SA (Switzerland)>: Okay. Thank you.

Operator: And the next question comes from the line of Kate Kalashnikova from Citi. Please go ahead.

<Q – Kate Kalashnikova – Citigroup Global Markets Ltd.>: Hello, Kristian, Anders. Kate Kalashnikova here from Citi. I've got two questions. Firstly, are you seeing increased prevalence of more permanent indwelling catheters in the UK or in other markets because of COVID? And if so, how could this impact intermittent catheter sales going forward? And then, secondly, could you talk about pricing environment? Is there risk of bigger price headwinds medium term, given that health care budget is under pressure from COVID? Thank you.

<A – Kristian Villumsen – Coloplast A/S>: Kate, thank you for your two questions. Let me start with pricing. We're not seeing anything concrete at the moment. There's been a bit of rumbling around [ph] okay (00:50:17) prices in France, but we'll see where that lands. We continue to monitor this situation across all of the major markets. We have our teams keeping an eye on this.

On the IC question or the catheter question, I don't expect, Kate, that COVID is going to fundamentally change the structure of, if you will, the penetration rates of intermittent catheters versus Foleys. Intermittent, as a therapy area, has been gaining ground for many years, and we continue to take share in the UK. I don't expect COVID is going to fundamentally change that dynamic. So, if anything, it's going to be passing.

<Q – Kate Kalashnikova – Citigroup Global Markets Ltd.>: Okay. Perfect. Thanks.

Operator: And the next question comes from the line of Scott Bardo from Berenberg. Please go ahead.

<Q – Scott Bardo – Berenberg Bank>: Hi. Good afternoon. Thanks for taking the questions. So, first question, please. Kristian, can you be certain that the quarter that we've just seen, which is, I think, a pretty robust start to the year for Coloplast, doesn't contain any stocking? The reason I ask for that is it's quite difficult to calculate or assume stocking. And, usually, over the Christmas period, this is where this sort of behavior becomes a bit more common. So, I just wonder if you can sort of be certain that there's no stocking-related effects that you see here in Europe or across your regions.

The second question just relates to the EBIT margin. And as I think, you've been pretty clear throughout that you're going to carefully and prudently manage costs in this environment and will step up investments when the world starts to normalize. I guess, the question I have is that if you do have a strong profit performance this year, maybe at or above the high end of your guidance, should we view that very much as a profit margin in isolation given this current peculiar environment such that when we think about the following year, this is not a base for which you can progress further? So, I'm just trying to understand about not just this year's profitability but what that means going forward given you are in an abnormally low-cost situation currently.

And last question, please. And, again, I suspect that this is a little bit too early. But, Kristian, I wonder if you're hearing anything from your regulatory affairs team in the US with regard to any changes from the Biden administration. I'm particularly thinking about competitive bidding, whether this is coming back under the radar. Thank you.

<A – Kristian Villumsen – Coloplast A/S>: Thanks, Scott. Let me start with your first question related to stocking. We haven't seen any material effect from stocking. We, as you know, we have a very good visibility to both the channel and consumer demand in major markets. So, if there is any stocking effect in here, it is minimal.

And then, to your third question related to competitive bidding, we've seen no changes coming out of the Biden administration so far. This is, of course, something that we will continue to monitor. And we'll see if the rules of the game change.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: Yeah. And then, Scott, related to your second question around our EBIT margin, so, as you know, our Strive25 long-term ambition is to grow 7% to 9% and deliver an EBIT margin more than 30%. And when we are going to guide for 2021-2022, then, of course, the outset for that guidance will be this year's results. And currently, we are guiding this year of 31% to 32%. We will, of course, when we move into next year, continue to be disciplined about our cost. But we will also look into where do we have opportunities to invest, where do we have opportunities to grow. And that's something we are going to discuss with the organization prior to next year's financial guidance. So, that's how I see it.

<Q – Scott Bardo – Berenberg Bank>: Okay. Thanks, guys.

Operator: And the next question comes from the line of Niels Leth from Carnegie. Please go ahead.

<Q – Niels Leth – Carnegie Investment Bank AB (Denmark)>: Yeah. Thank you. A few housekeeping questions here. So, to begin with, when do you expect to ramp up cost related to the Nine Continents' research projects and how much should we model in for those projects on an annual basis?

My second question would be can you just remind us of your annual travel budgets or how much you spend on traveling in a normal year? And then my third question would be why did your depreciations and amortizations go so much down in this quarter? Thank you.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: So, hi, Niels. Thanks for your question. Let me start with the Nine Continents. So, as we also described when we acquired the Nine Continents, we will start the ramp up of costs within R&D and clinical studies throughout or from this quarter and onwards. We are going to keep our group guidance on R&D cost of around 4%. So, it will be part of that for the Strive25 period.

In terms of travel costs, I have not given you any specifics on how much we are spending on travel. But it's clear that since the corona and the impact that the world and also Coloplast, our global – we have a global travel ban. We still have it, and we are seeing quite significant cost reduction also in Q1 and I'm expecting that will continue into Q2. But I'm not going to disclose a specific number for you. But it is one of the reasons why we are seeing a lower spend currently. And there's no doubt when the world starts to open up again, we will also start to travel more. But I don't think we're going to travel at the level we had before corona. I think we, as a company, have demonstrated good discipline and good way of working through our various online tools in order to operate the company.

And your third question that was related to amortization or depreciation?

<Q – Niels Leth – Carnegie Investment Bank AB (Denmark)>: Yeah. Well, both.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: Yeah. So, as far as I remember, it's pretty stable compared to Q1 last year. And my view throughout the year, it's going to be more or less in line with last year in terms of depreciation and amortization.

<Q – Niels Leth – Carnegie Investment Bank AB (Denmark)>: So, no effect from Costa Rica?

<A – Anders Lonning-Skovgaard – Coloplast A/S>: No. So, Costa Rica, not yet. We are about to finalize the first phase, so that will be finalized more or less as we speak. We will open up in a few weeks' time, so that will start to impact us over the course of the next couple of quarters. But please remember, the depreciation horizon is 15-25 years for a building like that.

<Q – Niels Leth – Carnegie Investment Bank AB (Denmark)>: Great. Thank you.

Operator: And we have one more question from the line of Carsten Lønborg from SEB. Please go ahead.

<Q – Carsten Lønborg – SEB Enskilda (Denmark)>: Thank you very much. And, first, a question to Anders, I guess. Anders, you said that you are now a little bit more upbeat on revenue growth, organic revenue growth in the first part of the year, more confident that you'll end in the high end of the range, up to 4%. How about the second part of the year? What has changed there then? Because, I guess, that there's still some pretty big uncertainty about the double digits you're talking about in the second part of the year. Which markets do you see right now as the most fragile markets, maybe marginally have high growth? I don't really doubt you believe that this can continue.

And then, secondly, now that you call out UK in new patient starts, would you care to speculate a little bit about what you could have printed in terms of organic growth in Ostomy Care had new patient starts been at a normalized level? Thank you.

<A – Anders Lonning-Skovgaard – Coloplast A/S>: All right. Carsten, let me start with your first question around first half and second half. Yes, our first quarter was a bit better than we had anticipated. And I am expecting a bit better first half of the year compared to what we talked to you about when we started the year. For the second half, my – or our assumptions still stand. So, for the year, we are still expecting to be in the level of 7% to 8%. So, that's how we see it. Kristian?

<A – Kristian Villumsen – Coloplast A/S>: Carsten, to you question on Ostomy, think of it this way that, if we had Europe at a normalized level, depending on the quarter, we would have seen global Ostomy growth 1 to 2 points higher than this quarter.

<Q – Carsten Lønborg – SEB Enskilda (Denmark)>: Yeah. Thank you. And you assume that to normalize in already next quarter or in Q3 for you, guys?

<A – Kristian Villumsen – Coloplast A/S>: No, no, no. So, what we're saying is, we're expecting a gradual normalization in the second half, gradual normalization.

<Q – Carsten Lønborg – SEB Enskilda (Denmark)>: Okay.

<A – Kristian Villumsen – Coloplast A/S>: Yeah.

<Q – Carsten Lønborg – SEB Enskilda (Denmark)>: Okay. Thank you.

<A – Kristian Villumsen – Coloplast A/S>: All right.

Operator: And as there are no further questions, I'll hand it back to the speakers for closing remarks.

Kristian Villumsen, President & Chief Executive Officer, Coloplast A/S

Thank you very much. And thank you to all of you who dialed in for good questions and for the interest in the company. Have a nice day.