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Coloplast A/S (CLPBY.DK)

Q1 2023 Earnings Call

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Analyst, Danske Bank A/S

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Robert J. Davies

Analyst, Morgan Stanley & Co. International Plc

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome and thank you for joining the Coloplast Q1 2022-2023 Earnings Release Conference Call. Throughout today's recorded presentation, all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. [Operator Instructions]

It's my pleasure, and I would now like to turn the conference over to Kristian Villumsen, President and CEO. Please go ahead, sir.

Kristian Villumsen

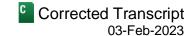
President & Chief Executive Officer, Coloplast A/S

Good morning and welcome to our Q1 2022-2023 conference call. I'm Kristian Villumsen, 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 open up for questions like we usually do.

Please turn to slide number 3. We delivered 7% organic growth and a 29% EBIT margin before special items. Return on invested capital after tax and before special items was 20% impacted by the Atos Medical acquisition. I'm satisfied with the solid start to the year. We continue to outgrow the market across regions and help more people with intimate healthcare needs.

Today, we also announced the launch of Luja, our next generation male intermittent catheter with a unique microhole zone technology. This is the first product launch from our clinical performance program, aimed at setting a

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new standard in Chronic Care by launching clinically differentiated products. Luja is designed to reduce the risk of urinary tract infections, a significant burden for people using intermittent catheters and healthcare systems as a whole.

Users of conventional catheters today experience urine flow stops and blockage of the catheter islets, increasing the risk of residual urine in the bladder and mucosal microtrauma, two key UTI risk factors related to intermittent catheterization. As such, Luja is a game-changer as it ensures complete bladder emptying in one free flow and does not require repositioning.

The launch of Luja will be backed by two pivotal clinical studies, the results of which are expected to be publicly available within the next few months. The new catheter will be introduced in key markets over the next 12 months as we obtain reimbursement starting with Denmark and Finland here in February. I'm excited to follow the launch and the difference that Luja will make for the many users of intermittent catheters as well as its contribution to our growth agenda.

Now, let's take a look at today's results in more detail. Please turn to slide number 4. Let me start off with a few highlights from our first quarter, with a strong start in our Chronic Care business despite continued impact from COVID-19 in China and back orders in our collecting devices business.

In the US Ostomy Care market, we continued to advance our competitive position, and I'm pleased to share that our group purchasing agreement with Premier, a leading healthcare improvement company, has been renewed and will be valid for another three years starting April 1, 2023.

In China, most of the COVID-19 restrictions were lifted nationwide towards the end of our first quarter, and this gives me confidence for the mid- and long-term growth prospects of our Chinese business but it doesn't change our outlook for the current financial year as the recent spike in COVID cases continues to negatively impact procedural volumes and hospital access.

Lastly, our smaller business areas, Interventional Urology and Voice & Respiratory Care both had a solid start to the year with continued good performance.

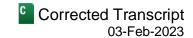
Now, let's dive into the details by business area. Ostomy Care organic growth was 8% for the first quarter with growth in Danish kroner of 8%. Our SenSura Mio portfolio continues to be the main growth driver, followed by the broader range of supporting products. At the product level, SenSura Mio Convex was the main growth contributor driven by Europe and the US.

From a geographical perspective, growth in the quarter was broad-based with solid contributions across all regions excluding China. In Continence Care, organic growth was 7% for the first quarter, and growth in Danish kroner was 8%. Growth continues to be driven by the SpeediCath ready-to-use intermittent catheters with a good contribution from SpeediCath Flex as well as our SpeediCath Compact and standard catheters.

The new addition to the portfolio SpeediCath Flex Set has been launched in nine markets and continues to perform well. Backorders in Collecting Devices continued to have a negative impact on Continence Care growth in the quarter of around 1 percentage point. The backorders are expected to persist into the second quarter of 2022-2023 at a similar level to Q1 and to be resolved in the second half of 2022-2023.

From a geographical perspective, all regions contributed to growth, led by Europe and the US.

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Voice & Respiratory Care contributed 9 percentage points to reported growth in the quarter. The organic growth for Voice & Respiratory Care was high-single-digit, with both laryngectomy and tracheostomy delivering high-single-digit growth in the quarter. Growth in laryngectomy was driven by an increase in the number of patients served in both existing and new markets, as well as an increase in patient value driven by the Provox Life portfolio. All regions contributed to growth led by Europe.

Growth in the tracheostomy and ENT business was ahead of expectations in the quarter, positively impacted by phasing of sales orders. In China, the National Medical Administration has approved the registration of the Provox voice prosthesis, and this completes the registration of the laryngectomy product portfolio in China and marks an important step towards establishing presence in the market and setting a treatment standard for the many laryngectomy patients in the country.

In Wound & Skin Care, organic growth for the first quarter was 1% and reported growth in Danish kroner was 5%. The Wound Care business alone delivered negative 4% organic growth in the first quarter. Growth in Wound Care was negatively impacted by a high baseline in Q1 last year, continued impact from back orders, mostly in Europe and negative growth in China due to COVID-19. The underlying momentum in Europe continues to be positive, with key markets posting solid growth in the quarter. The negative impact from back orders in Wound Care was around 200 basis points. The impact from back orders is expected to continue into the second quarter of 2022/2023 at a similar level to Q1 and is expected to be resolved in the second half of 2022/2023.

In Interventional Urology, organic growth was 11% for the first quarter and growth in Danish kroner was 18%. Growth in the quarter was nicely balanced across business areas and geographies. The US Men's Health business was the main growth contributor driven by the Titan penile implants.

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

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

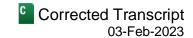
Thank you, Kristian; and good morning, everyone. Reported revenue for the first quarter increased by DKK 936 million, or 18% compared to last year. Organic growth contributed DKK 353 million, or around 7 percentage points to reported revenue growth. Acquired revenue from the Atos Medical acquisition contributed DKK 480 million or around 9 percentage points to reported revenue growth. Foreign exchange rates had a positive impact of DKK 104 million or 2 percentage points to reported growth due to the appreciation of mainly the US dollar against the Danish kroner.

Please turn to slide 6. Gross profit for the first quarter amounted to around DKK 4.1 billion, corresponding to a gross margin of 68%, on par with last year. The gross margin includes positive impact from pricing as well as country and product mix. Pricing remains a high focus area and is progressing as expected with a significant share of the planned price increases implemented in the first quarter.

The inclusion of Atos Medical leverage on production cost and efficiency savings from the Global Operations Plan 5 also contributed positively to the gross margin. Currencies contributed with around 90 basis points to the gross margin. On the other hand, the gross margin was negatively impacted by increased prices for raw materials, energy and transportation, double-digit rates inflation in Hungary and ramp-up cost at our sites in Costa Rica.

Operating expenses for the first quarter amounted to around DKK 2.4 billion, an increase of DKK 491 million or 26% from last year. Atos Medical contributed with DKK 290 million to operating expenses, of which DKK 54

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million were related to the PPA amortization included on the distribution costs. Excluding Atos Medical, operating expenses increased by DKK 200 million, or 11% from last year in line with the expectations.

The distribution-to-sales ratio for the first quarter was 31% compared to 29% last year. Distribution cost increased by DKK 373 million or 25% compared to last year, impacted by the inclusion of Atos Medical and increased sales and marketing expenses post-COVID-19. Higher logistics costs and continued commercial investments in Interventional Urology, consumer and digital initiatives and Atos Medical also contributed to the increase.

The admin-to-sales ratio in the first quarter was 5% compared to 4% last year. Admin expenses increased by 52% in the first quarter, primarily impacted by the inclusion of Atos Medical. The R&D-to-sales ratio for the first quarter was 4% of sales, on par with last year. Overall, this resulted in an increase in operating profit before special items of 8% for the first quarter corresponding to an EBIT margin before special items of 29% compared to 32% last year.

The EBIT margin includes a positive impact from currencies of around 100 basis points, mainly related to the appreciation of the US dollar against the Danish kroner. Financial items in the first quarter were an expense of DKK 333 million, compared to a net expense of DKK 58 million last year, driven mostly by non-cash impact from currencies.

The increase in net expenses was primarily due to losses on balance sheet items denominated in US dollar and Swedish kroner and interest expenses related to the financing of the Atos Medical acquisition. The tax expense in the first quarter was DKK 300 million with a tax rate of 21% compared to DKK 350 million last year, positively impacted by the transfer of Atos Medical intellectual property. As a result of the increase in net financial expenses, net profit for the first quarter declined 7% compared to last year despite the positive development in operating profit and the lower income tax level.

Please turn to slide 7. Operating cash flow for the first quarter amounted to DKK 487 million compared to around DKK 1.1 billion last year. The negative development in cash flows was driven by an increase in working capital. Inventories increased due to a high level of safety stock in raw materials, price increases and an increase in finished goods due to the transfer of production to Costa Rica.

Trade receivables also had a negative impact due to phasing. Other payables were negatively impacted by timing of payments related to mesh lawsuit settlements and the US Veteran Affairs matter. High income tax paid also had a negative impact on the cash flow.

Cash flow from investing activities was an outflow of DKK 275 million, or around 5% of revenue compared to an outflow of around DKK 200 million in the first quarter last year. As a result, the free cash flow for the first quarter was an inflow of DKK 212 million, compared to an inflow of DKK 930 million last year. Adjusted for the abovementioned mesh and US Veteran Affairs payments, the free cash flow was an inflow of DKK 576 million.

The trailing 12 months cash conversion for the first quarter was 72%, impacted by the development in working capital. Net working capital amounted to 26% of sales, compared to 25% at the end of 2021/2022, impacted by the increase in inventories and timing of the trade payables.

Please turn to slide 8. We maintain our financial guidance on organic revenue growth and EBIT margin and continue to expect organic revenue growth of 7% to 8% and an EBIT margin before special items of 28% to 30%. Reported growth in Danish kroner is now expected at 9% to 10%, from 11% to 12% previously negatively impacted by currency development, mostly the US dollar against the Danish kroner.

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The currency impact on reported growth is now expected around minus 1 percentage point. Contribution from the Atos Medical acquisition to reported growth is still expected around 3 percentage points. For 2022 to 2023, I still expect around DKK 50 million in special items related to the integration of Atos Medical.

The net financials for 2022/2023 are now expected at around minus DKK 600 million from previously around minus DKK 450 million impacted by currency adjustments on balance sheet items as well as higher interest payments. The blended interest rate for Atos Medical financing is now expected around 2.6% from previously 1.9%, impacted by the adjustment of the variable interest rate on the two-year bond issue.

The CapEx guidance for 2022/2023 is still expected around DKK 1.4 billion and our effective tax rate is still expected to be around 21%. As mentioned, the assumptions laid out in November on organic revenue growth and the EBIT margin still hold. Overall, we expect continued solid performance in Chronic Care across all geographies, excluding China, where we still expect the key leading indicators of growth, patient inflow, and access to hospitals to remain impacted by COVID-19.

In Wound & Skin Care and Interventional Urology, we continue to expect the performance in line with our Strive2025 ambitions. Voice & Respiratory Care growth is still expected at 8% to 10%. The gross margin is still expected at 66% to 68%. Overall, the price development in electricity and freight is more favorable than in November. However, this is largely offset by unfavorable development in currencies. On the EBIT margin guidance, I would like to call out the impact from currencies, which is now expected around 10 basis points from previously around 50 basis points.

Before opening up for questions, I would like to provide a comment on the Italian payback system for medical devices. Coloplast s closely monitoring the development and we expect to be able to manage the potential financial impact within our guidance for full year 2022-2023.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we will begin the question-and-answer session. [Operator Instructions] We have the first question from Hassan Al-Wakeel from Barclays. Your question, please.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

Q

Thank you for taking my questions. I have two, please. Firstly, can you talk about the launch of Luja, which looks to be earlier than what was signaled at the CMD last year. Why this is? And the confidence in the data that you expect to present in the second quarter as well as the potential for any premium pricing?

And then, secondly, on growth. Q1 was meant to represent the trough and has come through stronger. So I wonder if your views on phasing over the rest of the year have changed at all or if China is creating any offset? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



Thank you, Hassan. Why don't I start out? So Luja marks a big milestone for the company. It's the first launch out of the clinical performance program. And we really hadn't faced any delays. So we've gotten to launch maybe a little ahead of plan. That's correct. We are optimistic and excited about this product. I brought the product last week to some customer visits I had in the UK and the benefits are very intuitive. They're easy to explain and they will be backed up by, we think, a compelling clinical story over the coming months.

As you'll recall, Hassan, this is the ambition is to get a price premium. This is a more expensive product. It's taken us longer than normal to make. We've also invested in clinical trials. So we are going to launch gradually over the course of the next 12-plus months and we'll expect to be in the main markets then. We haven't commented specifically on the premiums. I've earlier said that you should probably expect single-digit, low-double-digit depending on country. And we are optimistic that we will be able to do that. Was there anything else on Luja?

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S



Should I take the other question, Kristian? The other question, Hassan, that was the facing of the year on the growth side. So we are still expecting at the low end of our guidance in the first half of the year. And then, we are expecting the growth – organic growth to pick up in the second half of the year. So overall, there are no changes as such to the facing. And we also explained back in November.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.



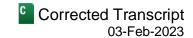
That's very helpful. Thank you both. If I could just follow up on the decline in electricity spot prices and what that drives in terms of an EBIT benefit for the remainder of the year on the unhedged portion and what the full year potential benefit again at spot rates for next year would be. Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S



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Yeah. So let me take that one, Hassan. Yes, we are seeing that the prices on electricity are coming down. But please remember, for this financial year, we are hedged of around 60% at a level of around €400 per megawatt. And right now, the spot rates are around €150 to €200. So for the remaining 40%, we are going to see some positive impacts. And for 2023/2024, we will see a quite significant impact if the current spot/forward rates continue.

But on the other hand, we unfortunately see more headwinds on the currency. So when I started the year, I expected to see tailwind from currencies of around 50 basis points. Now, it's closer to 10 basis point on the EBIT margin. So that is going to offset some of the tailwind we are seeing from energy, but also some of the tailwind that we are seeing currently on the freight.

Hassan Al-Wakeel

Analyst, Barclays Capital Securities Ltd.

Very helpful. Thank you, both.

Operator: The next question comes from Maja Pataki from Kepler Cheuvreux. Your question, please.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Yes. Hi. Good day. Two questions from my side as well, please. Could you please elaborate a bit more on the situation in Italy? I don't know whether you can quantify it a bit for where you think this – the impact [ph] could sit (22:31) for 2022/2023. But more importantly, as well, how does that impact your growth outlook for Italy going forwards? That would be my first question.

And then, my second question is also on the cost side. I mean, we can all track very well the energy prices, but could you also give a bit of a feedback on what you're seeing on the raw material prices? Has that been in line with your expectations or has that fared a bit better or worse? Thank you.

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

Yeah. Hi, Maja. So let me take you your questions. So on Italy, as I mentioned earlier, the government has introduced a payback system that the industry should pay back an amount above a certain level from 2015 to 2022. And what we have seen is that it has really gone into more activity over the last month or so.

My expectation is that we are going to manage this within the financial guidance we have. When that is said, we are disagreeing with the implementation of this payback decision. And we have also together with the industry appealed the legal grounds for this decision.

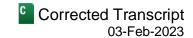
In terms of your second question around the raw material costs, my view for the year is that our raw material costs will increase around the double-digits. That's still a stance. We are – you're not seeing any improvements yet. So my assumptions on the raw materials are unchanged compared to what I said back in November.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Thank you very much. So just to go back on Italy, does it change anything with regards to your growth prospects in Italy? Or is that just more of a one-off?

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Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

So in terms of our Italian business, it does not expect – or impact our Italian business as such. We are having a good business in Italy across our business areas and we continue to expect that we outgrow the underlying market growth in Italy. So it does not really impact our business as such.

Maja Pataki

Analyst, Kepler Cheuvreux SA (Switzerland)

Perfect. Thanks very much.

Operator: The next question comes from James Vane-Tempest from Jefferies. Please go ahead.

James Vane-Tempest

Analyst, Jefferies International Ltd.

Hi. Good morning. Thanks for taking my questions. Two if I can please. And firstly, on guidance. Historically, I think, you've normally given a one-point EBIT margin guidance range. Just wondering at what point you think you might have enough visibility to narrow the current 2% range?

And related to that, I think in your prepared remarks, you mentioned the R&D was in line, but I think It didn't have around a 40-basis-point benefit to EBIT margins in Q1. So it is sort of the level we can expect R&D for the year?

And then, my second question is, obviously, today is the focus on Luja's launch, but just wondering how the initial pair study for Heylo progressing. Thank you.

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

Yeah. So, hi. I'll try to answer the first couple of questions and then Kristian can go through the Heylo. In terms of our guidance, yes, this year, we are guiding a little bit broader interval. So our EBIT margin guidance is, as I said earlier, between 28% and 30%. And we have decided to do that because we have more uncertainties, especially around the raw material, trade and energy.

And as I said earlier, we are maintaining our full-year guidance of the 28% to 30% level. In terms of R&D ratio question, yes, it is sitting around the 4% of sales that is within our expectations. And so – and we continue with our activities, we have agreed. So I would not expect a significant change to that at the full year.

Kristian?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

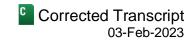
Yes. And to your question around the Heylo studies that are ongoing in UK and Germany, they are on plan, on time. Early feedback coming out, this is qualitative, is positive. We'll be able to say some more about what the results will be when we get to the May conference call.

James Vane-Tempest

Analyst, Jefferies International Ltd.

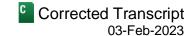
Thanks very much.

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Operator: The next question is from Ed Ridley-Day from Redburn. Your question, please.	
Ed Ridley-Day Analyst, Redburn (Europe) Ltd.	Q
Good morning. Yeah. Thank you. Could you just update us on where you feel the wound market, your addressable wound market, [indiscernible] (27:28) is growing in your first quarter. And more broadly, your expectations for the underlying market for this year. And related to that, could you update us on the French reimbursement cuts and the potential effect you are seeing from those? Thank you.	
Kristian Villumsen President & Chief Executive Officer, Coloplast A/S	A
For the Wound Care market, we maintain that the global market is growing between 2% to 4%. Bear in mind, though, that the composition of our business is really unevenly distributed across the different geographies. So have our largest Wound Care business in China. China has, of course, been heavily hit by COVID. This is a redrag on our performance also in this quarter. In addition, we are also impacted somewhat by back orders and really don't have a footprint on Wound Care in the US. But we see nothing that suggests that the fundamental market rates or growth rates are changing.	
What was your second question?	
Ed Ridley-Day Analyst, Redburn (Europe) Ltd.	Q
Just on the reimbursement cuts in France.	
Kristian Villumsen President & Chief Executive Officer, Coloplast A/S	A
Which ones are you referring to?	
Ed Ridley-Day Analyst, Redburn (Europe) Ltd.	Q
Well, more broadly, of course, Chronic Care and any color you can give.	
Kristian Villumsen President & Chief Executive Officer, Coloplast A/S	A
Well, we are not seeing any reimbursement cuts on the Chronic Care business in France. There have been so minor things happening on the Wound Care side last year. But it was – the impact was negligible for us.	me
Ed Ridley-Day Analyst, Redburn (Europe) Ltd.	Q
Okay	
[indiscernible] (29:21)	
Kristian Villumsen President & Chief Executive Officer, Coloplast A/S	A

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That's where we are in France. So there's no reform there at the moment.

Ed Ridley-Day

Analyst, Redburn (Europe) Ltd.

Very good. Glad to clarify. Thank you.

Operator: The next question comes from Christian Ryom from Danske Bank. Your question, please.

Christian Sørup Ryom

Analyst, Danske Bank A/S

Yes. Good morning. Thank you for taking my questions. First, on China, can you just clarify where you were in terms of growth here in the first quarter relative to your full year expectations for low-single-digit growth in the country?

And then, second question is also to this Italian potential payback. So can you give us some kind of guiding post for the year for the order of magnitude on this? Should we expect it to be roughly similar relative to the size of your business as what we saw Boston Scientific provision for earlier this week? I believe they provisioned about the equivalent of 0.5% of full year sales for the last seven years in total.

And then, maybe a final question if I may. Just given that the net financials were significantly higher this quarter, how should we — or what should we expect for the full year in terms of net financial items? Thank you.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Thanks, Christian. Why don't I get started with China and then Anders can comment on your two following questions. We came out of Q1 in China with low-single-digit flattish Ostomy Care momentum and negative Wound Care, which was really also in line with expectations. And we are expecting that the trough is going to be here in Q2 on the back of the opening for COVID. Once we get better visibility on patient inflow, we would expect that we would see some improvement. We also have a favorable baseline in the second half. But it's too early to become more optimistic on the outlook of China. I don't want to do that until I see a real change in our numbers, in particular, the patient inflow.

Anders?

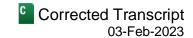
Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

Yeah. So, good morning, Christian. So you are a – Christian, around Italy, so what we have decided at least until now is not to communicate any numbers because it's still in process and there's still a lot of uncertainties around where we will land. But my expectation, as I said earlier, is that we will handle it within the current financial guidance. We expect it to be resolved sometime in the second half of this year. That's at least what I'm currently being told. So that's how we see Italy.

The third question around our net financials, I'm now expecting net financials for the year to be around minus DKK 600 million, and it is more negatively impacted by higher interest rates. And now I'm expecting the blended interest rate to be around 2.6% due to higher interest in general versus 1.9% in the autumn. So that's how I see the financial items for the year.

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Christian Sørup Ryom

Analyst, Danske Bank A/S

Great. Thank you very much, Christian and Anders. Maybe just a very quick follow-up on Italy, and the outcome of this is something that you will treat as a special item or how should we think about that?

Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

No. My expectation is to manage that within our financial guidance. So that's how I see it.

Christian Sørup Ryom

Analyst, Danske Bank A/S

Okay. Great. Thank you.

Operator: The next question comes from Veronika Dubajova from Citi. Your question, please.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Hi, guys. Good morning. And thanks for taking my questions. I'll keep it to two, please. One, Kristian, would just love to get your thoughts on the competitive environment that you're seeing, especially in Continence Care. Obviously, we've seen one of your competitors bring out a couple of new products to the market recently. And I'd love to get your insights of what you're seeing in the UK and France, in particular, and the impact you're seeing from those.

And then, my second question is just a follow-up on China, and apologies for harping on this. But I guess, you said you expect the trough in the second quarter. Are you seeing any signs of improvement at the moment? Or this is just mathematical? And the assumption that we should be sort of thinking through is that really the improvement in growth comes through the easier baseline as opposed to an improvement in patient flows? Thank you, guys.

Kristian Villumsen

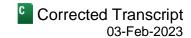
President & Chief Executive Officer, Coloplast A/S

Thanks, Veronika. So on the competitive environment, we're really not seeing much in UK and France. We have really strong momentum in both geographies. I was on the ground myself in the UK for three days last week. We – of course, we keep an eye on all the products that come into the market. But like I think you and I have talked about multiple times over the years, the impact in the market comes from a combination of product, long-term partnership with the healthcare professionals and a strong direct-to-consumer model.

So you need all that to basically make headways. And we are seeing good momentum for both the recent Flex Set launch. And I'm expecting that Luja will make a big splash in Europe. But really not much to report on the competitive side.

When it comes to China, I mean, we are seeing early signs that access is improving. It is still limited, but it's too early to call any marked improvement, Veronika. My main KPI for changing my view on China is what the new patient inflow is going to look like. And there we're still at [ph] index 80/90 (35:52) to pre-COVID. Once that starts to pick up, we'll also become more optimistic.

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Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Understood. And if I can, just quick follow-up on the supply chain issues that you've had in the collection devices and in Wound Care.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Yeah.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

I think, historically, you've talked about these being resolved by that now, and obviously, this morning it seems like you have another couple of months to go. Anything there that we need to worry about beyond the second quarter?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

No. With what I know now, no.

Veronika Dubajova

Analyst, Citigroup Global Markets Ltd.

Okay. Understood. Thanks, guys.

Operator: The next question is from [ph] Yung-Hsin Liu (36:34) from HSBC. Please go ahead. Maybe unmute your line. We cannot hear you. Maybe try to dial-in back in for another question.

[Operator Instructions] The next question is from Robert Davies from Morgan Stanley. Your question, please.

Robert J. Davies

Analyst, Morgan Stanley & Co. International Plc

Yeah. Thanks for taking my questions. I have two. One was just on the development of cash in the first quarter. You mentioned the movements in [indiscernible] (37:19). Are you expecting that to sort of unwind by 2Q? Is it going to be more of a back-end-loaded sort of phasing to the second half of the year?

And then, the second one was just around, I guess, the expectations within raw materials in the bridge to 2022/2023. Where are you seeing the biggest sort of pressure points on raw materials at the moment? Thank you.

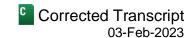
Anders Lonning-Skovgaard

Chief Financial Officer & Executive Vice President, Coloplast A/S

Yeah. So thanks for those questions. In terms of our working capital, I am expecting it will improve during the year. So I am expecting it will start to improve also from, yeah, Q2 and onwards.

In terms of your second question around raw materials, so as I said earlier, you're still expecting raw materials to be in the level of a price increase of around double-digit. And it is still quite broad-based across our main

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categories such as injection molding, film, packaging, chemicals and also primary packaging. So it is really broadbased that we still see high price increases compared to last year. So I have no changes to the underlying assumptions that we also laid out back in November.

Robert J. Davies Analyst, Morgan Stanley & Co. International Plc That's great. Thank you.	Q
Operator: [ph] Yung-Hsin Liu (38:52) is back on the line. I hope we can	hear you now.
	Q
Can you hear me?	
Kristian Villumsen President & Chief Executive Officer, Coloplast A/S	A
Yes.	
Anders Lonning-Skovgaard Chief Financial Officer & Executive Vice President, Coloplast A/S	A
Yep.	
	Q

All right. Yeah. Thanks so much. And thanks for taking my questions. I have two questions. The first one is we've seen some growth of 11% in the Interventional Urology business. And we've also seen some contribution from the US as well. So my question is, how's the reimbursement landscape in the US reimbursement landscape in the US for this? And more specifically, would it be affected by the Center of Medicare Services (sic) [Centers for Medicare & Medicaid Services] (39:25) rule that calls for tougher auditing on the Medicare Advantage program?

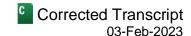
My second question is on back order issue. So you've been impacted by the back order issue in incontinence care and Wound Care. Could you elaborate a bit more on this and talk about what the raw material shortages can – they actually have been acting as a bottleneck. Thanks.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Thank you for the question. I'll try my best. I'm not sure I can fully answer your first question. We've got really good underlying momentum in the international business. We had that last year. We finished strong. We started strong. And it's broad-based across regions also in the US.

The products we sell are covered by insurance. And I've had no intel over the last quarters that we are in danger of reimbursement cuts on the products and procedures that are relevant to our business. But your question will lead me to do a follow-up. But with what I know now, no.



Q

Thanks. And what about the second question on the bottleneck and the raw material shortages?

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

On back orders, really, the situation has been – we've had two main areas that have been – where the business has been affected. One is on the continence business and collecting devices, and this has primarily been related to silicone and shortages in the silicone market. We've worked hard to get through that. We are through that.

But once you get supply back, you have to work through a few months for things to normalize. That's where we are now. So we feel confident that we're going to be through that by the end of Q2. And on the Wound Care side, the plans are also that we are going to get through. These are sporadic material shortages that we'll get through also during Q2. So with what I know now, I do not expect that to persist later into the year.

Q

Yes. Thanks very much.

Operator: That was our last question for today. And I hand back to Kristian Villumsen for closing comments.

Kristian Villumsen

President & Chief Executive Officer, Coloplast A/S

Thank you, ladies and gentlemen, for dialing in today. We wish you a nice weekend.

Operator: Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone. Thank you very much for joining and have a pleasant day. Goodbye.

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