

COLOPLAST A/S

(as at May 31, 2020)


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Business Description

Coloplast A/S is a Danish healthcare company that develops and provides healthcare products and services. The company's businesses and products are focused within Ostomy Care, Continence Care, Wound & Skin Care, and Interventional Urology. Coloplast is a multinational company founded in Denmark and is listed on the Copenhagen Stock Exchange. The company currently employs more than 12,000 people with sales in 53 countries.

Investment Thesis

- **Coloplast A/S holds a global market leading position in Ostomy Care and Continence Care.** As the global population demographic continues to age, medical products and services within intimate healthcare needs such as Ostomy Care and Continence Care will be increasingly demanded. As a global market leader, Coloplast is positioned well to capture this trend.
- **Strong growth driven by underlying organic business growth.** The company as a whole experienced 8% organic top line growth in Q1 2020. This robust organic growth was driven by each of the business areas. In addition, Emerging Markets including geographies such as China and Latin America experienced healthy organic revenue growth (16%).
- **Attractive shareholder returns from the dividend yield originating from strong free cash flows.** The company has shown free cash flow growth year/year and in Q1 2020 reported Free Cash Flow of DKK 816 million, up 24% for the same period in 2019. This growth in cash flow has also been apparent in returning capital to shareholders through dividend growth and share buyback programs. Total dividends of DKK 17/share were paid in 2019, yielding approximately 1.82%, in addition to a new share buy-back program expected to launch in Q2 2020. These factors make the holding period of the stock attractive to shareholders.

Industry Drivers/Trends

Drivers:

- The strongest driver of growth within the medical devices industry is the changing population demographic in the world. There is a rapidly growing elderly population which provides a larger customer base for intimate medical products.
- In addition, emerging markets are growing and establishing themselves within the global economy. With expanding healthcare coverage in these geographies, this increases the total addressable market for the company's products.

Limitations:

- There has been strong advancement within surgical and early detection technology which will eventually reduce the market for specific Coloplast treatment products.
- Healthcare reforms across the globe is a key concern; economic restraints have driven reimbursement reforms, introduction of tenders and lower treatment costs.

Competitors:

- **Ostomy Care:** Hollister Incorporated, ConvaTec Group PLC
- **Continence Care:** Wellspect Healthcare, C.R. Bard Inc., Hollister Incorporated
- **Interventional Urology:** Boston Scientific Corporation, Ethicon, Inc., C.R. Bard Inc.
- **Wound & Skin Care:** The 3M Company, ConvaTec Group PLC, Smith & Nephew PLC, Mölnlycke Health Care

Customers:

- **Ostomy Care:** Nurses, Hospital purchasers & Group Purchasing Organizations (GPOs), Surgeons
- **Continence Care:** Continence/home care nurses, Wholesalers/distributors, Hospital purchasers/GPOs
- **Interventional Urology:** Surgeons, End customers.
- **Wound & Skin Care:** Wound care committees, Specialist nurses/doctors, Clinical specialists, Wound clinics, Long term Care

Barriers to Entry:

- **Regulatory/Compliance Requirements:** Within different medical industries, there are many regulatory requirements from different regulating bodies in the respective countries. These regulatory requirements serve as barriers to entry for new companies looking to enter this space.
- **Intangible Assets:** The medical devices industry is extremely intangible asset heavy. There are many patents and brands that are on the balance sheet that would be nearly impossible to recreate without intensive capital investments.

Officers and Directors:

Lars Rasmussen, Chairman of the Board; **Kristian Villumsen**, President & CEO; **Anders Lonning-Skovgaard**, EVP & CFO; **Paul Marcun**, EVP of Chronic Care; **Allan Rasmussen**, EVP of Global Operations.





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Financial Summary:

Income Statement (DKK millions, years ended September 31st)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------|----------|----------|----------|----------|----------|
| Revenue | 13,909.0 | 14,681.0 | 15,528.0 | 16,449.0 | 17,939.0 |
| R&D Costs | (442.0) | (509.0) | (574.0) | (640.0) | (692.0) |
| EBITDA | 2,020.0 | 4,624.0 | 5,635.0 | 5,716.0 | 5,807.0 |
| EBIT | 1,535.0 | 4,096.0 | 5,024.0 | 5,091.0 | 5,156.0 |
| Profit before Tax | 1,245.0 | 4,082.0 | 4,950.0 | 5,009.0 | 5,028.0 |
| Net Profit | 899.0 | 3,143.0 | 3,797.0 | 3,845.0 | 3,873.0 |
| EPS (Diluted) | 4.20 | 14.78 | 17.87 | 18.10 | 18.18 |
| Dividend per Share | 12.5 | 13.5 | 15.0 | 16.0 | 17.0 |
| FCF per Share | 14.0 | 11.0 | 8.0 | 16.0 | 18.0 |

Balance Sheet

| | | | | | |
|----------------------------------|-----------|----------|----------|----------|----------|
| Total Assets | 10,817.0 | 11,007.0 | 12,050.0 | 11,769.0 | 12,732.0 |
| Capital Invested | 4,702.0 | 5,551.0 | 7,977.0 | 8,468.0 | 8,748.0 |
| Net Interest-Bearing Debt | (1,300.0) | (813.0) | 826.0 | 754.0 | 539.0 |
| Equity at year end | 4,706.0 | 5,068.0 | 5,952.0 | 6,418.0 | 6,913.0 |

Statement of Cash Flow

| | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Cash Flows from Operations | 3,337.0 | 3,028.0 | 3,251.0 | 4,361.0 | 4,357.0 |
| Cash Flows from Investing | (468.0) | (603.0) | (1,619.0) | (947.0) | (591.0) |
| Investments in PP&E | (583.0) | (627.0) | (661.0) | (616.0) | (617.0) |
| Cash Flows from Financing | (2,963.0) | (2,868.0) | (1,863.0) | (3,430.0) | (3,714.0) |
| Free Cash Flows | 2,869.0 | 2,425.0 | 1,632.0 | 3,414.0 | 3,766.0 |

Key Ratios and Figures (%)

| | | | | | |
|------------------------|-------|-------|-------|-------|-------|
| Operating Margin, EBIT | 11.0% | 28.0% | 32.0% | 31.0% | 29.0% |
| Return on Equity | 16.0 | 69.0 | 77.0 | 72.0 | 65.0 |
| ROIC (after Tax) | 48.0 | 49.0 | 47.0 | 44.0 | 48.0 |
| Equity Ratio | 44.0 | 46.0 | 49.0 | 55.0 | 54.0 |

Source: Coloplast 2019 Annual Report

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