

Coloplast A/S Class B

CORE HOLDING*

Recommended since 07.11.22

26.02.2024



Country DK	Market capitalization (bn) DKK 205,6	Perf. since reco. (%)
Sector Health Care	Free float 68,5%	Coloplast A/S Class B 15,7
Factset COLO.B-DK	Closing price DKK 916,40	Sector 14,5
ISIN DK0060448595	ESG Risk score* 15,2 Low risk	



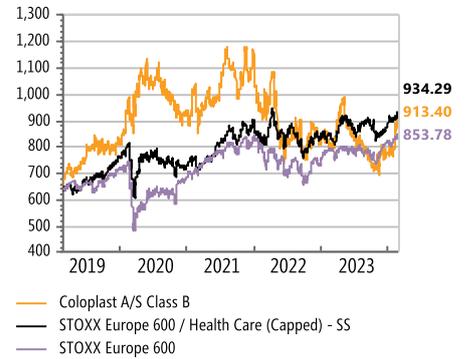
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1957, Coloplast is a leader in medical devices dedicated to chronic care of ostomies (37% of sales), continence disorders (32% of sales) and laryngectomy/tracheostomy since early 2022 (following the acquisition of Atos Medical - 8% of sales). The company is also present in urology (11% of sales) and in wound & skin care (12% of sales), with a position of n°4 worldwide.

Market - competition - positions - barriers to entry

Chronic care of ostomies and continence disorders is growing by 4-6% on average per year and laryngectomy/tracheostomy care by 8-10% on average per year. These markets are relatively oligopolistic. Wound & skin care and urology are growing at 2-5% CAGR. The barriers to entry are innovation for a low price positioning, a strong relationship with nurses and patients (brand loyalty).



Source: Factset

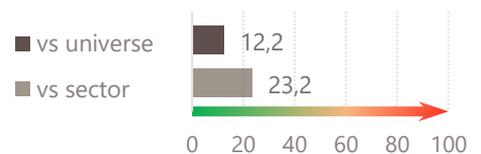
Investment case

- As a leader in chronic care (c. 80% of sales), Coloplast benefits from a particularly resilient market with strong fundamentals and an excellent track record in strategy execution, with historical organic growth averaging 7%/year over the past 17 years. This outlook is sustainable in the long term thanks to constant innovation (aimed at improving the quality of life of patients on a daily basis), proximity to patients and healthcare services, geographic expansion in emerging markets and a strengthening of its presence in the USA, with contract wins with GPOs (central purchasing offices for the hospital and homecare sectors).
- Acquisitions of Atos Medical and Kerecis provide new sources of growth. Specializing in laryngectomy/tracheostomy care, Atos has strengthened the portfolio in chronic care. This market is growing by an average of 8-10% a year, with penetration still low. Kerecis focuses on biological medical devices for wound care, with a new technology based on fish skin. Marketed since 2016, its product offering has achieved sales of DKK 772mio. Technology in launch, profitability amounts to 6% in 2023. While the acquisition is dilutive in the short term, the ambition is to reach the Group's operating margin (i.e. over 30%) post-2026.
- In addition, as a large part of production is located in Hungary, Coloplast is subject to cost inflation (raw materials, wages), putting additional pressure on margins. Nevertheless, the low point has been reached, and an improvement will be visible in the medium term, underpinned by three factors : 1/ economies of scale generated by growth ; 2/ a geographical reallocation of production, with a transfer to Costa Rica, which will account for 25% of volumes by 2025 ; and 3/ the ramp-up of Kerecis.
- The outlook to 2025 reflects these different elements, with the aim of generating organic growth of 8-9% on average per year, and an operating margin expected to reach 27-28% in 2024 and below 30% in 2025. The company has the capacity to return above 30% post-2026 (we have 31% in our model from 2027).

ESG - risks and key points

- Coloplast's ESG risk level is low, due to low exposure and strong performance in managing ESG issues.
- Nevertheless, the company has experienced a moderate level of controversy in the past → cf litigation in the US over pelvic mesh product in 2014-15 - Coloplast spent DKK 4.9mia, or EUR 735mio, to settle the lawsuits.
- The company has to guarantee the quality of its products and comply with regulations imposed by health authorities.
- As a large proportion of its products are eligible for reimbursement, the company is exposed to price pressure.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in DKK

Current price	Value Bordier Scenario
916	988

Our scenario includes a risk-free rate of 2.5%; organic growth of 7.8% on average per year over the period; and an EBIT margin reaching 31% in 2027 and stabilising at the end of the period.

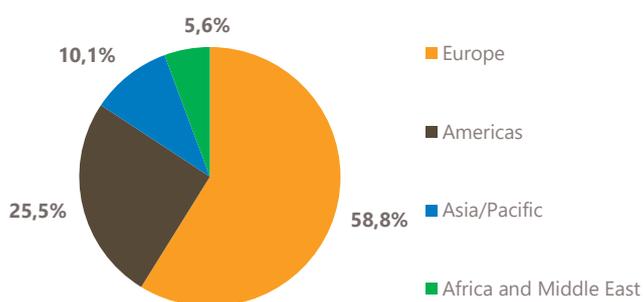
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of DKK	2022	2023	2024e	2025e	2026e
Sales revenue	22 579	24 500	27 195	29 507	32 015
Sales growth %	16,0%	8,5%	11,0%	8,5%	8,5%
<i>a/w organic</i>	6,0%	7,6%	8,0%	8,5%	8,5%
EBIT adjusted	6 910	6 845	7 610	8 616	9 764
% of sales	30,6%	27,9%	28,0%	29,2%	30,5%
Net income	5 068	4 841	5 429	6 249	7 211
Adjusted EPS	23,85	22,47	25,20	29,09	33,65
Adjusted EPS growth	2,1%	-5,8%	12,1%	15,4%	15,7%
Capex/Sales	5,0%	5,0%	5,0%	5,0%	4,5%
Free cash-flow	3 975	2 993	4 606	5 521	6 581
FCF/Sales	17,6%	12,2%	16,9%	18,7%	20,6%
Dividend per share	20,00	21,00	18,02	19,14	22,14
Dividend yield	55,0%	27,7%	22,6%	21,8%	22,3%
ROCE - WACC	12,5%	8,3%	9,4%	10,9%	12,8%
ROE (%)	61,1%	28,0%	29,9%	31,2%	31,9%
Net debt/Ebitda	235,7%	226,6%	203,8%	168,3%	131,5%

Source: Factset, Bordier estimates

Sales breakdown - 09/2023



Ratios

	Coloplast A/S Class B		Stoxx Europe 600	
	Sector	Market	Health Care	Stoxx 600
PE (x)***				
2023	35,2	17,9	13,1	
2024e	36,2	19,8	14,4	
2025e	31,4	18,4	13,8	
P/B (x)***				
2023	10,4	3,4	1,9	
2024e	11,5	3,7	2,0	
2025e	10,4	3,5	1,9	
Beta (2Y, daily) vs market:			0,34	

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2018 - CEO Kristian Villumsen

Key shareholders (if any):

The founding family holds 36% of capital and 62% of voting rights (mainly via class "A" shares).

Agenda

07 May 2024: H1 results / 20 Aug. 2024: Q3 results

05 Nov. 2024: Annual results / 05 Dec. 2024: Annual general meeting

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements)

The capital is split between (1) unlisted A-shares (8% of capital; 10 voting rights per share) and (2) listed B-shares (92%; one voting right per share).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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