Strategic initiatives in a global perspective

CBS 6 February
Sten Scheibye, President & CEO, Coloplast
Agenda

• **Introduction to Coloplast**
  *Facts, History, Milestones, Revenue, 2012*

• **Global Operations**
  *Presence, Organisation, Strategy, In numbers, Outlook*

• **Customer driven innovation as a competitive means**
  *Customer driven Innovation, FIGARO/AIM, Case: Intermittent Catheters*
Today’s speaker: Sten Scheibye, President & CEO

Born 1951
With Coloplast since 1993

**Educational background**
Master of Science, Aarhus University, 1979
PhD, Aarhus University, 1981
BCom, Copenhagen Business School, 1983

**Previous employment**
Director of Group Sales & Marketing, LEO Pharma A/S, 1981-92

**Management assignments with other Danish companies**
Novo Nordisk A/S (Chairman of the Board)
Danske Bank A/S (Board Member)

**Responsibilities in organisations or bodies**
Board member of the Executive Committee,
Confederation of Danish Industries (DI)
Member of the Danish Academy of Technical Sciences (ATV)
Chairman of the Denmark-America Foundation
Member of the Danish Fulbright Commission
Associate professor in applied chemistry at Aarhus University
Coloplast company profile

**Profile**

Coloplast products and services help patients achieve greater independence from medical challenges in 3 areas:

- Ostomy care
- Urology & Continence care
- Wound & Skin care

**Key facts**

- Approx. 7000 employees
- Subsidiaries in 25 countries
- Distributors worldwide
- Manufacturing facilities in China, Denmark, France, Hungary and the U.S.

**Mission & values**

**Mission**

- Contribute to a better quality of life
- Close to customers
- Passion for our business
- Act responsibly
- Increase value for customers, employees and shareholders

**Values**

As individuals and as an organisation we:

- Are customer driven
- Are quality conscious in all we do
- Have a fair and respectful management style
- Learn and share
- Have a passion for our business

... and we strongly believe that the road to outstanding results is shorter when you have fun on the way
As per 30 March 2007 - A functional organisation

Executive Management

- Global R&D
- Global Operations
- Global Marketing
- Global Sales

Corporate functions
How it all started…

The inventor
Nurse Elise Sorensen

The product
The first single use ostomy bag

The founders
Aage and Johanne Louis-Hansen
Milestones

1957
Statutory meeting of Dansk Coloplast A/S

1978
The first subsidiaries

1982
Divisionalisation begins

1983
Coloplast's share is admitted for listing on the Copenhagen Stock Exchange

1989
‘3000 in 2000’

1994
Several acquisitions: Amoena, Sween, SSL, HSC, Sterling

2001
Factory in Hungary begins operations

2002
Announcement of 2012 objectives

2005

2006
Acq. of Mentor's Urology Division & Selling off Sterling + Moving of US HQ to Minneapolis

2007
Functional organisation + Amoena Divested
50 years of innovation...

1957
Worlds first disposable ostomy bag launched in 1957

2007
Sensura launched in 2006 and introduced in 22 markets in 2007

..........and many more:

Innovation the Coloplast way: Listening and responding to users
...has driven 50 years of growth

CAGR +24%
Expectations and long-term targets

**2007/08**
- Organic sales growth of approx. 10%
- EBIT margin of 16-17%
- CAPEX of approx. 700 - 800 MDKK
- Corporate tax rate of 28%

**Long term target**
- Economic profit (EP) to double at least every five years.
- Long term organic sales growth of approx. 10% p.a.
- EBIT margin of 18-20%
2012 Strategy

**Mission**
- Customers
- Employees
- Society
- Shareholders

**Values**

**Corporate Objectives**
- Customers
- Employees
- Society
- Shareholders

**Corporate Strategy**
- Global Market Leadership
- Innovation Leadership
- Double-digit Organic Growth
- Value Creation Above Peers

**Business Areas**
- Ostomy Care
- Urology & Continence Care
- Wound & Skin Care
- Breast Care

**Corporate, Strategic Priorities towards 2012**

**Innovation & Growth**
- Key Player Strategy/NPD
- Increased Innovation Rate
- FIGARO
- RACE
- New & Emerging Markets
- Mergers, Acquisitions & Alliances

**Productivity**
- Global Manufacturing
- LEAN/abc
- Corporate Procurement
The world around us is dynamic

Demographics +
Consumer healthcare awareness +
Emerging markets +
Surgical and medical trends -/+  
Health Care reforms
  - Reimbursement reforms -
  - Group buying and tender bid process -/+  
  + Focus on overall treatment costs +
Distribution & Parallel import -

The demand for products and services will continue to grow in terms of volume, but pressure on prices and margins will continue.

Market growth within Coloplast’s business areas are approx. 6%
Coloplast needs to be aware of these changes and seize the opportunities…

1. New products to drive growth
   - Increase R&D from 3% to 6% of sales
   - Both external and internal R&D
   - Double speed of innovation and
     - Triple pipeline value

2. Organisation tuned to optimise time to market (March 2007)
   - FIGARO From Innovation to Global Roll-Out of new products
   - New processes for:
     - R&D
     - Marketing & Sales
     - Operations

3. Customer focus
   - Continue successful Key Player / NPD strategy at hospitals
   - RACE: Support NPD strategy with Retention and Conversion in the community

New products to deliver higher value in proven health economics model and attract higher price.
Global Operations
Coloplast has global presence with 3 regional manufacturing and distribution centres
Manufacturing Strategy (1/2)

Focus
- Design for Mfg.
- Process establishment

Focus
- Time to market
- Time to volume
- Optimising of total set-up (Lean)

Focus
- Delivery perform.
- Costs
- Lean
Manufacturing Strategy (2/2)

- Pilot
- Volume
- Ramp-up
- Centre of excellence

Volume production

Volume production

Volume production

Manufacturing locations:
- DK Espergærde (1957)
- DK Thisted (1966)
- DK Mørdrup (2000)
- US Minneapolis (2006)
- FR Sarlat (2006)
- HU Tatabanya (2002)
- HU Nyirbator (2007)
- CN Zhuhai (2007)
Global Operations in numbers

• Established March 2006
• 12 Sites world-wide
• 3 Regional Distribution Centres
• 600 million units per year
• 4000 employees
• Cost base of approx. 3,2 BDKK
More Employees at the International Sites

Number of employees at the Manufacturing Sites (DVC+IVC+Funk)

- DK - Site total (incl CCP)
- International sites

Sep-06 to Sep-12
Need for more m² at the International Sites

Future development of manufacturing area will take place at the international Sites.
Relocation means important savings (DKK)

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Total Unit Costs – TUC

\[ \text{TUC} = \frac{\text{Total GO Cost Base (DKK)}}{\text{Total production volume (pieces)}} \]

Changes in product mix is taken into account in calculation of the TUC development.
Expected TUC development

Main TUC drivers today:
- GOS transfers 40%
- Lean (abc) 15%
- Dir. Procurement 10%

Main TUC drivers tomorrow:
- Complexity reduction
- Synergies
- Transfers/abc/Dir. Procurement

Yearly TUC reductions

Time

Target

Avr. 5%
Global Operations provides more than just cost cuts

**From:**
- Divisional production
- Local standards
- Many similar local functions
- Local sub-optimisation
- Ad hoc learning

**To:**
- Scaleable production
- Deploying Global standards
- Corporate functions
- Global best practice
- Learning company

**A World Class Production with a culture where we:**
- Constantly challenge ourselves to focus on continuous improvements
- Adapt successfully to changes
- Utilise and develop people’s potential in the organisation
User driven innovation as a competitive means

"There must be a better way..."
Aage and Johanne Louis-Hansen takes on the challenge of producing and distributing Primitive ostomy bags are the standard

World’s 1st disposable bag in 1954

Coloplast sets new standard
Milestones in Coloplast’s Innovation

- Customer driven innovation
- Structured innovation process
- Innovation culture in Coloplast
A global standard to facilitate efficient product development and global roll-out

- Opportunity identification
- Opportunity analysis
- Idea generation & enrichment
- Idea selection
- Concept definition

Adequate creativity, efforts and resources
Based on strong customer inputs

Stage/gate model with 5 phases:
1) Idea Formulation
2) Concept Formulation
3) Product development
4) Test Marketing
5) International Marketing

Accelerating the actual product development
At the right time, quality and price

Global roll-out of new products
Efficient, competitive and customer-oriented

- Communication platform
- Global visuals
- USPs
- Positioning
- Price strategy
+ Local adaptation and execution
Coloplast Innovation Objectives for Products

2008:
10 substantial new product ideas enter New Product Development

2008:
Time to market of a new product: 25 months

2008:
Within first year of a product launch to reach 70% of global market potential
Customer Driven Innovation

Professionals

- Professionals Boards and Fora

End-users

- Participation at:
  - User Boards
  - Camps
  - Sport events
  - Meetings

Purchasers

- Key Account involvement
Fora and user boards

COF (Coloplast Ostomy Forum):
20 countries / 400 Stoma care nurses

WAF (Wound advisory Forum):
10 countries / 150 Wound management nurses and doctors

CAB (Clinical advisory Board):
13 countries / 130 Continence Care nurses

User Boards/ Sport events/ Assistants at summer camps

Nurses wins
• Having an impact individually and as a group
• Peer and Business Network
• Creating focus on their specific area

Coloplast wins
• Understanding local differences and agendas
• Understanding customer needs
• New product ideas
• Company & Product commitment

End-users: Improved quality of life……
From invention to innovation - Accelerating Ideas to Market (AIM)

Ongoing Professionals Boards

- Brainstorm
- Define need
- Evaluate concepts
- Evaluate prototypes
- Gate 1
- Gate 2
- Gate 3
- Gate 4
- Gate 5

Idea Generation
Idea formulation
Concept formulation
Product development
Test marketing
International marketing

Ongoing User Boards

- Brainstorm
- Define need
- Evaluate concepts
- Evaluate prototypes
- Input for campaign
- Participate on launch meetings
- Activities within community
FIGARO global roll-out elements - 2006

- Business strategy
  - International Strategy, IS, e.g.:
    - Positioning
    - USPs/claims

- Clinical trials
  - SenSura

- Global Product Manual

- Global Roll-Out

- Sales vs production capacity

- Organisation

- Customers

- Products

- SenSura Global Product Manual

- Global Roll-Out
Key benefits of FIGARO & AIM

- Structuring and organising the development process
- Making the steps and demands visible for innovation
- Sorting out ideas
- Portfolio management
Innovation example: Intermittent Catheters
Explosive growth for intermittent catheters presented the window of opportunity for Coloplast

**Historical document: Market analysis, 1991**


- '000 units

Intermittent catheters 1991: 2 market types identified with 2 strategies

Market penetration rates (1991) | Market strategies
---|---

### Established markets
- Head-on competition with monopoly competitor (AstraTech)
- Converting key players to Coloplast

### Concept unknown / emerging markets
- Education of key players
- Influence governments to get reimbursements
Coloplast’s go-to market approach

1. Launch a ‘me-too’ product to get quickly to market

2. Challenge main competitor (Astratech) head-on via existing sales point and channels

3. Launch development program to come up with new innovative product (Speedicath)

4. Capture significant market through combination of solid market position and state-of-the-art product
Outcome: Coloplast’s European market share within intermittent catheters has since increased almost every year.
Thank you