

# Company Announcement No 2008-12

## Interim information, third quarter 2008

5 November 2008

### Third quarter characterised by deteriorating market conditions Oticon is introducing important new products

- In the third quarter, the Group has overall not met the plans made. Due to deteriorating market conditions in combination with continued pressure on Oticon Delta, the Group has seen weak development in revenues during this period.
- We estimate that in the third quarter the private sector of the global hearing aid market has seen negative growth rates in the region of 1-3%. Add to this, stagnation in the overall demand for hearing aids by the National Health Service (NHS) in the UK after a rather long period with double-digit growth rates.
- Also, we estimate that the global financial crisis and the intensified competition amongst the manufacturers have led to slightly declining average selling prices in the hearing aid industry. In the third quarter, the market was characterised by unfavourable mix shifts in relation to products, distribution channels and countries. Overall, we thus estimate that the global hearing aid market has seen a decline in value of 2-5% in the third quarter.
- The launch and release for sale of Oticon Dual and the new Power solutions are proceeding according to plan. The preliminary feedback from customers and end-users has been extremely positive, but since the actual introductions are taking place in the fourth quarter, we do not expect to see the main effect until 2009.
- Against this backdrop, the Group estimates that in 2008 both revenues and operating profit (EBIT) will be realised at the level below the previously announced intervals.
- The global financial crisis, combined with the Group's wish to continuously have at its disposal significant contingency funds with a view to further expansion, means that the Company's buy-back of shares has been temporarily discontinued.

### Market conditions and business development

#### *Hearing Aids*

During the third quarter, the situation on the global hearing aid market has deteriorated further. In many countries, including Great Britain, France, Germany and Japan, and also in the private sector of the US market, the market has thus seen negative volume growth in the past quarter. We estimate that in overall terms unit growth in the private-sector market has in the third quarter been negative in the region of 1-3%.

Add to this, stagnation in the total demand for hearing aids by the NHS after a rather long period with double-digit growth rates. The past few quarters' significant growth in the number of fittings carried out in the USA by Veterans Affairs (VA), to whom the Group is however not a supplier, has continued at a high level in the third quarter.

Furthermore, the market is showing signs of slightly falling average selling prices, which seems to be the result of intensified competition amongst the manufacturers as well as unfavourable mix shifts in relation to products, distribution channels and countries driven among other factors by the global financial crisis. The global hearing aid market is estimated to have seen a decline in value of 2-5% in the third quarter.

The Group's core business – the development, manufacture and wholesale of hearing aids – has in the past quarter seen weak development in revenues. This development is mainly driven by the difficult market conditions, which – in terms of volume – affect both Oticon's and Bernafon's product portfolios. Also, the Group's realised wholesale of hearing aids is negatively affected by the above-mentioned mix shifts in the market. In addition to this, Oticon Delta sales continue to decline, which in the Group's hearing aid business has a negative impact on volume and average selling prices alike.

The Group has seen a decline in the sale of hearing aids to the NHS, the reason being that demand by the NHS is normalising after a rather long period where the NHS has carried out a considerable number of fittings, resulting in a significant reduction of the waiting lists.

The sale of Oticon Epoq in the high-end segment is proceeding satisfactorily, given the prevailing market conditions. This is also true about Oticon Vigo, which was introduced in spring 2008. It is positive that the success with Oticon Vigo has not yet resulted in noticeable cannibalisation of the sale of Oticon Tego, which is also positioned in the mid-priced segment.

In general, the Bernafon business too is negatively impacted by the third quarter's difficult market conditions; such impact having manifested itself broadly in the product portfolio. Launched in spring 2008 in the upper part of the mid-priced segment, Move was, however, very well received by customers and end-users, and sales have exceeded our expectations.

At the European hearing aid congress EUHA, which was held in mid-October in Leipzig, Germany, Oticon and Bernafon presented a number of significant product novelties, which improve and extend the Group's product range in several important respects, the most important one being the launch of the product concept Oticon Dual, which represents uncompromising and unprecedented product synergy between the market's most attractive design and state-of-the-art technologies. By combining in one and the same product the best from Oticon Delta and the best from Oticon Epoq, including wireless features, we have set new standards for what hearing aid fitters and end-users can expect from the market's most attractive and advanced products. With Oticon Dual, we have not only created a new benchmark product in the high-end segment, but also a product which – by virtue of an extensive number of product variants – appeals to a very wide target group in terms of both prices and user benefits.

The launch of Oticon Dual is expected to result in a material strengthening of Oticon's position on the global hearing aid market. Dual has already been released for sale on the main markets, and preliminary feedback from customers and end-users, including the order intake, is very encouraging indeed. Since the Dual introduction is taking place in the fourth quarter, the effect of the introduction is expected to mainly materialise itself in 2009.

At EUHA, Oticon also presented the new Power RITE solutions, which may be used together with all BTE variants of Epoq and Vigo. This also makes it possible for users with severe hearing loss to be fitted with a cosmetically attractive solution that not only provides second-to-none sound quality, but also gives the user access to the market's most advanced technologies, including wireless ear-to-ear communication and wireless Bluetooth connectivity to mobile phones, MP3 players etc. The Power RITE solutions released for sale in October 2008 represent a substantial extension of the sales potential for the Epoq and Vigo families.

Bernaфон used EUHA to present their cosmetically attractive product Brite 50x, which extends Bernaфон's offering of RITE solutions and will be positioned between Brite 503 in the high-end segment and Brite 502 in the upper part of the mid-priced segment. Also at EUHA, Bernaфон introduced their volume product Avanti. Last but not least, Move, which is also positioned in the upper part of the mid-priced segment, was presented to the European customers.

Despite the adverse market conditions, the Group's retail activities have in the third quarter developed satisfactorily, also in Great Britain.

#### *Diagnostic Instruments*

Diagnostic Instruments has in the third quarter continued its handsome growth in revenues from the first half-year and has also managed to increase profitability from an already high level. Growth is still broadly founded on the different product categories and markets. In connection with EUHA in October, we successfully introduced the hearing aid fitting system Affinity 2.0, which will contribute to support growth in this business area going forward.

#### *Personal Communication*

In the third quarter, Personal Communication has seen weak development in revenues, which can mainly be attributed to tougher market conditions for the FrontRow business and continued downturn in Sennheiser Communications' OEM business. In the past quarter, Sennheiser Communications has introduced the new wireless headset VMX Office, which connects the user to landline phones and computers and directly to mobile phones by means of a base station and Bluetooth technology.

#### **Other matters**

After write-down of the share capital to nominally DKK 58,956,257 at the general meeting on 31 March 2008, the Company has continued its buy-back of shares, albeit at a somewhat slower pace. In the third quarter, we have bought back a total of 239,350 shares at a total price of DKK 61 million. Today, the Company holds 704,763 own shares, or 1.20% of the share capital. Since

1 January 2008 and up until today, the Company has acquired a total of 1,328,663 shares worth DKK 428 million in total.

The global financial crisis combined with the Group's wish to continuously have at its disposal significant contingency funds with a view to further expansion has induced the Company to reconsider its share buy-back programme. As a consequence, it has been decided to temporarily discontinue the Company's buy-back of shares.

### **Expectations**

In *Interim Report 2008*, we updated the Company's expectations of 2008, including our expectations of Group revenues in the region of DKK 5,450-5,550 million and an operating profit (EBIT) of DKK 1,150-1,250 million. Deteriorating market conditions and the critical competitive situation in the hearing aid industry mean that for 2008 the Group now expects to realise revenues and operating profit (EBIT) at the level below these intervals.

In the Group's updated 2008 expectations, it is presupposed that the difficult market conditions we have seen in the third quarter will continue for the remainder of the year. Also, the updated revenue expectations allow for the effect of the latest movements in corporate trading currencies, including a strengthening of the US dollar and the Japanese yen, which is, however, partly counterbalanced by movements in Australian dollar and Brazilian real. As a consequence of the forward exchange contracts entered, the earnings impact of the change in exchange rate conditions will be limited this year.

For 2008, we expect the effective tax rate to remain 24-25%.

We maintain our forecast total investments in property, plant and equipment for the year at around DKK 200 million.

The Company's decision to discontinue its share buy-back programme for the time being means that for 2008 we now expect to buy back shares at an amount of DKK 428 million, corresponding to the value of the repurchases carried through since the beginning of the year and up until today.



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