

## Company announcement no 2013-01

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### Publication of Annual Report 2012

#### **Continued top-line growth and strong cash flow from operating activities Oticon Alta and the new Inium platform to generate further growth in 2013**

Today, the Board of Directors of William Demant Holding A/S adopted the Company's Annual Report 2012 and results that live up to the Group's most recently announced outlook for 2012. This announcement includes the highlights of the Annual Report:

- In 2012, consolidated revenue totalled DKK 8,555 million, matching a growth rate of just over 6%, with acquisitions and changes in foreign exchange rates being the growth drivers, whereas organic growth was modest.
- The Group's three business activities Hearing Devices, Diagnostic Instruments and Personal Communication achieved growth rates in revenue of 5%, 23% and 8%, respectively.
- In 2012, the Group generated an operating profit (EBIT) of DKK 1,653 million against DKK 1,709 million in 2011. The profit margin was 19.3%.
- Consolidated cash flow from operating activities amounted to DKK 1,272 million, which is slightly above the 2011 level, if we adjust for the payment of DKK 118 million in connection with the closing of the ETG patent infringement case.
- Oticon's new high-end hearing aid, Oticon Alta, which was successfully launched in January 2013 and is based on the also brand new Inium platform, sets new standards for natural sound and speech intelligibility. Oticon Alta has been well received and is now available on all main markets.
- In 2013, we expect organic revenue growth in our wholesale of hearing aids to exceed market growth rates by 3-5 percentage points in local currencies and thus expect to continue to increase our market share. In 2013, corporate operating profit (EBIT) is expected to exceed the level realised in 2012.

*"After two years of strong growth in both revenue and earnings, the Group saw more modest success in 2012. However, this development may not be such a surprise after all, given the fact that in 2010 and 2011, we were able to generate overall unit growth of almost 30% in the wholesale of Group-manufactured hearing aids in a market that grew by a mere 3-4% annually during this period," says Niels Jacobsen, President & CEO of William Demant Holding and continues: "For the year as a whole, we generated unit growth in the corporate wholesale of hearing aids just exceeding market growth, but, as everyone knows, we aim much higher: With the launch in early January of a brand new technological platform called Inium and the introduction of the promising Premium family, Oticon Alta, we have embarked on the next platform and product cycle, which is certain to generate renewed momentum for the Group in 2013."*

## Market conditions and business trends

For 2012, the global unit growth rate in the hearing aid market is thought to have been 2-3%, and hearing aid sales are estimated at just over 10 million units. The general economic slowdown, a less attractive product mix, keener price competition as well as changes in structures and subsidies in a number of European markets resulted, however, in flat to slightly negative trends in revenue in our industry prior to a series of high-end launches at the end of 2012 and in early 2013.

Also in 2012, we succeeded in delivering unit growth in the wholesale of hearing aids that out-matched market growth. However, sales in terms of value did not see an equally positive development. Overall, our Hearing Devices business generated 5% revenue growth, which was driven by changes in foreign exchange rates and acquisitions.

Despite challenging market conditions, Oticon's modest success in 2012 was thanks to a complete range of products based on the RISE 2 platform and continuous focus on providing our customers with the best conditions for selling solutions that match end-users' needs. The host of options for customised hearing solutions requires close collaboration between manufacturer and hearing care professional to ensure not only that the end-user gets the right solution, but also that the hearing aid is individually fitted for maximum benefit. The year also saw the launch of Oticon Intiga<sup>1</sup>, a so-called IIC hearing aid (Invisible-Inside-the-Canal).

With the introduction of Oticon Alta in January 2013, we launched our first hearing aid based on the brand new Inium platform, which among other things offers twice the working memory of the previous platform. Based on this new processor, Oticon has introduced an entirely new anti-feedback system that will set new standards in our industry, and on the whole, Alta offers a number of audiological advantages that will considerably improve speech intelligibility in the most difficult listening environments. Alta can, to an even greater extent than it has been the case with previous products, be customised to match individual user needs and preferences. At the launch of Oticon Alta in January, Oticon also launched its new generation of wireless accessories in the ConnectLine series, whose focal point is the new Streamer Pro, an accessory that uses highly power-efficient wireless technology based on magnetic induction and 2.4 GHz technology. The new Streamer Pro can communicate with a very broad spectrum of Bluetooth units, and the possibilities for wireless connection have been expanded to include linking to FM transmitters, telecoils, IP telephony as well as a new and improved solution for landline phones.

A few weeks after its launch in January, Alta was available on all the Group's main markets, in all styles and at two price points. The initial feedback from dispensers and users has been extremely favourable, and Oticon has high expectations, when it comes to being able to deliver the market's strongest audiological products based on the Inium platform also in the years to come.

Having introduced the successful Chronos family in a RITE version (Receiver-In-The-Ear), Bernafon continued its sturdy growth in 2012 and reinforced its business partner relations by offering a comprehensive and attractive product programme at competitive prices, resulting in an improved product mix. Bernafon will continue to build its product portfolio in 2013, gearing it for continuous growth and for capturing larger market shares in the segments where it operates.

Sonic, which joined the William Demant Group at the end of 2010, managed to enhance its profile in 2012 and introduced towards the end of the year an all-new product family called Bliss, available at two price points in the high-end price range. With further launches and the establishment of the

Sonic brand on new markets, 2013 will be another exciting year for the company, which will continue to focus on being a dynamic and innovative business partner under stable ownership.

With both organic and acquired growth, Group retail activities saw overall favourable development in 2012. Compared to the general market growth in those countries where we operate, retailing trends were, however, fairly satisfactory in 2012.

Again in 2012, Oticon Medical saw solid sales growth in all regions and continues to capture market shares. High reliability, an attractive and user-friendly design and unique audiological advantages already found in Oticon's traditional hearing aids have contributed to Oticon Medical – within a very few years – having captured a fourth of the world market in bone-anchored hearing solutions. The introduction of a new and innovative implant system that ensures better and quicker integration of the implant itself has been a vital growth factor in 2012.

A global market leader in audiological equipment, Diagnostic Instruments realised revenue of DKK 844 million in 2012, or a satisfactory growth rate of just over 18% in local currencies, with organic growth accounting for 2 percentage points. The acquired growth relates primarily to distribution activities acquired in the USA and to the three diagnostic equipment manufacturers acquired in 2011 and 2012, namely Micromedical, MedRx and Sensory Devices. The result of recent years' industry consolidation has limited the opportunities for future acquisitions. Consequently, we will focus on integrating and developing the companies already acquired and on continuing to generate organic growth. Over a number of years, Diagnostic Instruments has built strong market positions in most product categories, and with its multi-brand strategy, it covers every major customer segment in all the important geographic regions. In terms of value, the total global market for diagnostic equipment is estimated to have grown by 2% in 2012. Thus, the global macro-economic slowdown does not appear to have caused growth to stagnate or decline, although competition seems to have intensified.

In 2012, Personal Communication realised revenue of DKK 301 million, or 5% growth in local currencies. This improvement in revenue is mainly due to fair growth in Sennheiser Communications and is partially driven by growth in the PC and mobile phone segments. In the same period, Phonic Ear and FrontRow recorded a slight improvement despite difficult market conditions.

### **Financial review**

Consolidated sales in 2012 were positively affected by acquisitions and changes in exchange rates, each contributing by about 3% to growth, which, with moderate organic growth, resulted in revenue totalling DKK 8,555 million.

Operating profit (EBIT) for the year totalled DKK 1,653 million, or a fall of DKK 56 million compared with 2011. One of the reasons for this fall is the fact that revenue growth in the wholesale of hearing aids was relatively modest and was affected by the transition in autumn to consignment stock in the public hearing care services in Norway, resulting in an adverse one-off effect on the Group's operating profit (EBIT) of about DKK 40 million in the second half-year. The Group's practice to recognise losses and gains on forward exchange contracts in revenue also impacted our revenue as well as our operating profit (EBIT) by DKK -101 million in 2012 (DKK 26 million in 2011). In 2012, our profit margin was 19.3%, corresponding to a fall of 2 percentage points

Consolidated cash flow from operating activities totalled DKK 1,272 million in 2012, and the free cash flow amounted to DKK 782 million, or a fall of DKK 113 million compared with 2011. The lower level in 2012 can be attributed to the realisation of provisions and to the payment of interest in connection with the settlement of a patent infringement case, please see *Other matters*. The Group thus maintains its strong ability to convert a considerable share of profit for the year into actual cash flow.

### **Other matters**

In 2012, the Company bought a total of 979,367 treasury shares worth DKK 497 million.

Since 2005, the Group has been party to a patent infringement case filed by the New York-based Energy Transportation Group (ETG). Charges were originally brought against the entire hearing aid industry based on two expired patents, which – according to the ETG – include certain aspects of the anti-feedback technology normally used in hearing aids. In the case in question against our Company, an appellate court (Court of Appeals for the Federal Circuit) indicated in October 2012 that the jury had been presented with the correct particulars of the case. Having received the appellate court's rejection of our petition for the court to reconsider the actual infringement, we chose not to appeal the decision to the Supreme Court, so we now consider the case closed. In 2007, the Group made a provision to cover any damages and legal costs in this respect. The residual provision, which at the beginning of the year amounted to DKK 94 million, is set off against damages, legal costs and interest totalling DKK 118 million.

### **Outlook for 2013**

The introduction of Oticon's newest high-end product family, Oticon Alta, in January 2013 heralds a significant audiological improvement, which means greater advantages for users and dispensers alike. The cornerstone of Oticon Alta is the new Inium platform, which ushers in a new product generation for the Group's largest hearing aid brand. The first feedback from dispensers and end-users after the launch has been positive and supports us in our belief that we can generate growth and capture market share in the years to come – and thus also in 2013.

Despite Oticon Alta's qualities and market potential, we believe that the present outlook for the global hearing aid market – and thus for the Group – is subject to greater uncertainty than normally owing to a range of structural factors, including growth in markets and distribution channels with lower average selling prices. To this should be added further uncertainty due to changes in subsidy systems and government spending patterns in a number of countries. At the beginning of the year, it is therefore our best prediction that the global hearing aid market will record modest value growth in 2013.

Against this backdrop, organic growth in the Group's wholesale of hearing aids is expected to exceed market growth rates by 3-5 percentage points in local currencies in 2013, whereas our retail business is expected to deliver an organic growth rate on a par with the underlying market. Moreover, we expect Diagnostic Instruments to also capture market share organically in 2013 in a market that is anticipated to record low, single-digit growth. To this should be added the effect of any exchange rate impacts.

In 2013, corporate operating profit (EBIT) is expected to exceed the level realised in 2012.

The Group is expected to have an effective tax rate of approximately 25% in 2013, and investments are expected to hover at the 2012 level.

Also in 2013, we intend to buy treasury shares. To this end, we will continue to apply our share buy-back programme to channel the Group's surplus cash flow back to the shareholders, and we aim to maintain the level of net interest-bearing debt at around DKK 1.5-2.0 billion. Buybacks will, in line with customary Group practice, be adjusted on a continuous basis to reflect the extent of acquisitions and investments.

Lars Nørby Johansen  
Chairman of the Board

Niels Jacobsen  
President & CEO

*The full Annual Report 2012 for William Demant Holding A/S totalling 92 pages will be published immediately after this announcement.*



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	2012	2011	2010	2009	2008	Development 2011-2012
<b>Key figures, DKK million</b>						
Revenue	8,555	8,041	6,892	5,701	5,374	6.4%
Gross profit	6,127	5,777	4,959	4,035	3,725	6.1%
Operating profit (EBIT)	1,653	1,709	1,430	1,149	1,042	-3.3%
Net financial items	-132	-103	-116	-94	-139	28.2%
Profit before tax	1,521	1,606	1,314	1,055	903	-5.3%
Profit for the year	1,151	1,199	988	795	682	-4.0%
Assets	8,777	7,646	6,786	4,626	3,914	14.8%
Equity	4,059	3,304	2,443	1,302	532	22.9%
Cash flow from operating activities (CFFO)	1,272	1,381	826	950	828	-7.9%
<b>Financial ratios</b>						
Gross margin	71.6%	71.8%	71.9%	70.8%	69.3%	-
Profit margin (EBIT margin)	19.3%	21.3%	20.7%	20.2%	19.4%	-
Earnings per share (EPS), DKK	20.2	20.6	16.9	13.6	11.6	-1.9%
Return on equity	31.8%	41.7%	49.5%	87.2%	162.9%	-