

# INNOVATION & GROWTH

## *Innovation and commercialization to drive strong top line*

In 2010, GN Store Nord set out highly ambitious financial targets for 2013 – to double the EBITA margin in just three years. Today, being only a few weeks from delivering on the targets, GN Store Nord is ready to announce where the next step of the journey will take the company. With a leading technological position and supported by highly attractive megatrends, now is the time to exploit a unique window of opportunity – to drive strong profitable growth.

The key drivers of shareholder value remain to be based on innovation, technology and commercialization supported by continued relentless focus on productivity gains as part of normal business. With the completion of the restructuring programs, GN Store Nord is poised to increase its focus and efforts on commercialization, including marketing and sales activities, by accelerating market tests and experiments to improve customer understanding and get GN Store Nord closer to its customers.

## Financial targets 2016

Financial targets 2016 (assumes exchange rates as of November 1, 2013 (DKK/USD - 550) until end of 2016)					
	Organic revenue growth (2014 - 2016 average )	EBITA margin	ROIC	Effective tax rate	Net interest-bearing debt
<b>GN ReSound</b>	More than 3%-points above market growth	In line with top-tier competitors	Increase more than 4%- points from 14 - 15% in 2013		
<b>GN Netcom</b>	More than 10%	18 - 19%	More than 55%		
<b>GN Store Nord</b>				26 - 27%	1 - 2 times EBITDA

The revenue growth targets are deliberately made as open-ended ranges as GN Store Nord sees potential upsides based on the strong technology position combined with attractive market growth rates.

The specific financial guidance for 2014 will be announced as part of the Annual Report 2013.

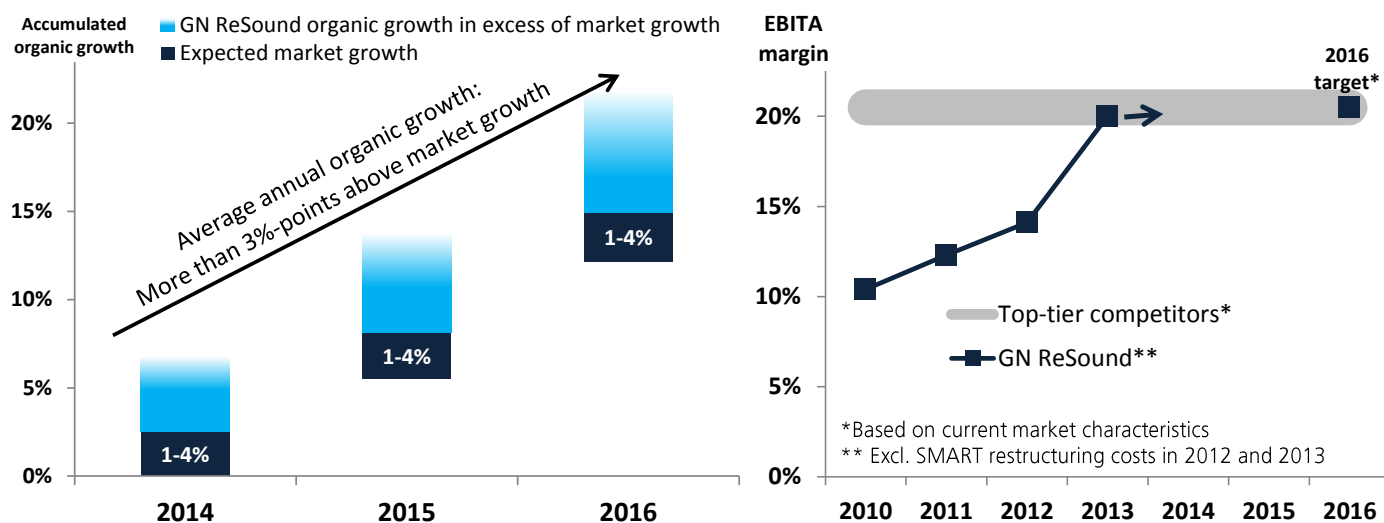
## GN ReSound 2014 - 2016

With GN ReSound's unique technology position, the launch of ReSound LiNX™<sup>1</sup>, and increased focus on commercialization, GN ReSound will challenge itself to gain market shares during the period from 2014 - 2016. GN ReSound targets an annual average organic growth that exceeds market value growth with more than 3 percentage points in 2014 - 2016.

In 2016, the EBITA margin is expected to be in line with top-tier competitors – as it is in 2013. EBITA will be positively impacted by the organic growth. Part of the incremental EBITA from growth may be re-invested to drive additional revenue, which is also part of the motivation for the open-ended growth target.

ROIC<sup>2</sup> is expected to increase significantly from around 7% in 2012 to between 14% and 15% in 2013 with an additional expected improvement of more than 4 percentage points in 2016 compared to 2013.

### GN ReSound 2016 financial targets



### GN ReSound market outlook

The hearing aid market has historically been growing at a stable and relatively resilient rate measured in units, primarily driven by demographic trends and higher prevalence of hearing impairment. The total hearing aid market is estimated to comprise around 11 million units in 2013 reflecting growth of around 4% compared to 2012. It is estimated that GN ReSound had a unit market share of around 16% in 2012.

Beyond 2013, GN ReSound expects market unit growth in the range of 3 - 5% annually, entailing a total hearing aid market of 12 - 13 million units in 2016. While limited official value data is available for the hearing aid market, the annual market value growth from 2013 - 2016 is expected to be in the range of 1 - 4% reflecting modest ASP erosion. The expected ASP development of (1) - (2)% annually is a result of expected lower prices on tenders and the development of the geographical revenue mix and the distribution channel mix.

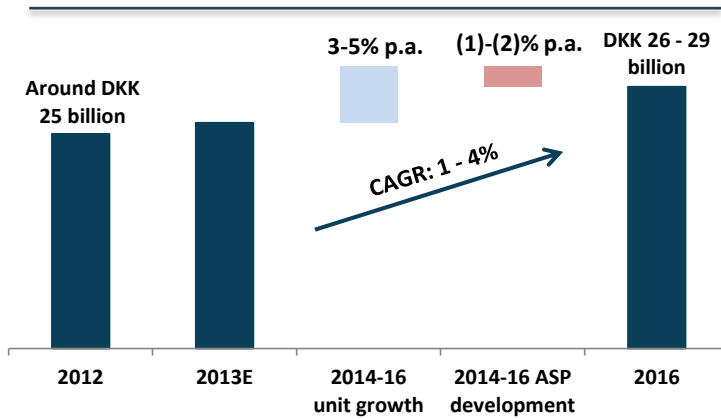
<sup>1</sup> ReSound LiNX™ will simultaneously be launched under the Beltone brand as Beltone First™

<sup>2</sup> GN Store Nord has amended the definition of reported ROIC. Invested Capital now includes part of the financial assets (loans granted to dispensers) and thereby all assets that generate EBITA. See page 2 of the Interim Report Q3 2013 for exact definition.

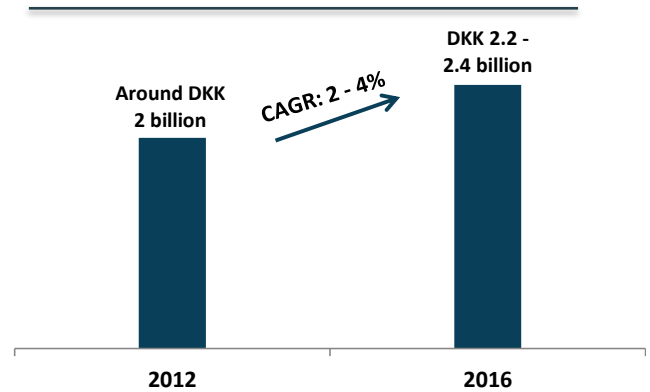
GN Otometrics operates in the diagnostic market, and the 2012 market size is estimated to around DKK 2 billion. The industry is characterized by three larger manufacturers that comprise the majority of the market. It is estimated that GN Otometrics had a value market share of around 21% in 2012. The growth in the diagnostic market is estimated to be 2 - 4% per year driven by product replacement in the Western world and increased investments in diagnostic hearing health care in certain emerging markets.

### Projected value market development

Hearing aid market



Diagnostic market

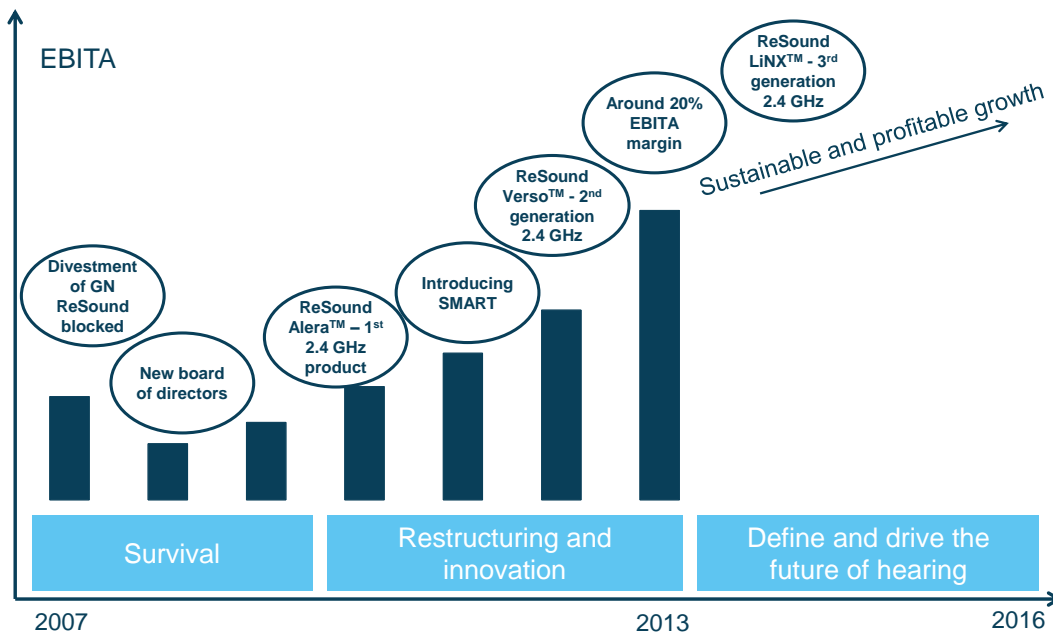


### GN ReSound is uniquely positioned for the next step on its journey

GN ReSound will realize its potential by building on the current formula for success. Being the leader in innovation and having completed the comprehensive SMART program, GN ReSound is now poised to dedicate even more organizational capacity towards commercialization of innovative technology. Commercialization efforts, including marketing and sales activities, will be significantly accelerated by conducting market tests and experiments in order to gain better customer insights and thereby getting closer to the customers.

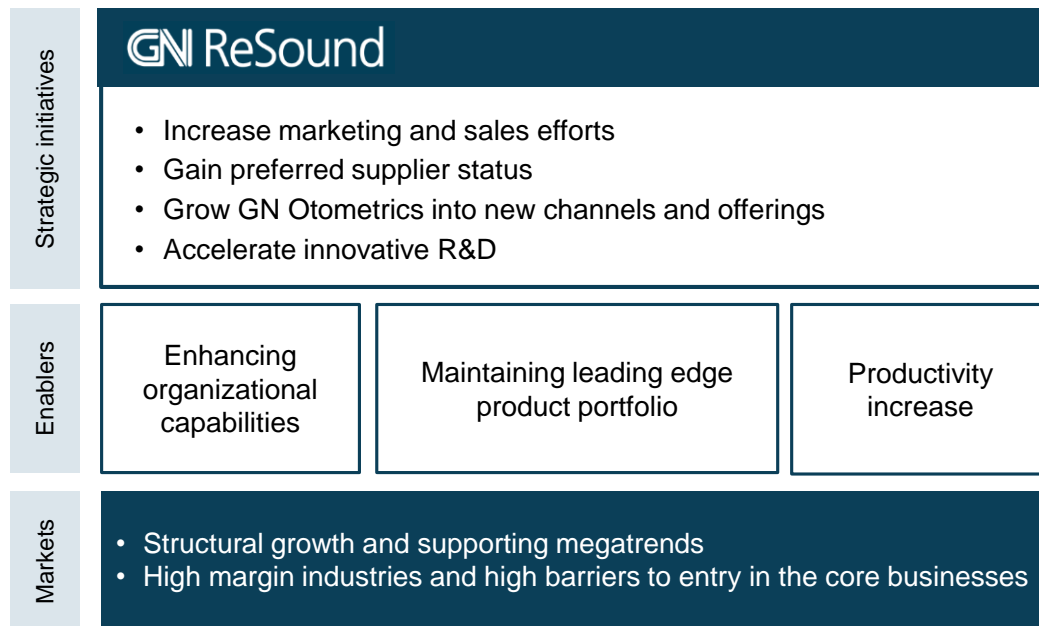
The ability to dedicate increased focus towards commercialization is crucial. From a technological point of view, GN ReSound has a unique window of opportunity as GN ReSound is the only manufacturer offering hearing aids with direct streaming based on 2.4 GHz wireless technology. The upcoming launch of the third generation 2.4 GHz platform and the world's first Made for iPhone hearing aid, ReSound LiNX™, strengthens this position further and is a unique starting point for a profitable growth strategy based on commercialization of innovative technology.

Based on the fundamental belief that dedicated focus is a competitive advantage, GN ReSound will continue to focus on being an innovation-driven hearing aid manufacturer refraining from vertical retail integration and refraining from entering into adjacent businesses such as bone-anchored hearing solutions and cochlear implants.



### GN ReSound's strategic growth initiatives

GN ReSound has identified a number of specific initiatives to drive profitable growth and market share gains. The initiatives are extensions of the current development path and enabled by the unique technological position as well as the released organizational capacity following the completion of the SMART restructuring program.



GN ReSound will significantly increase its *marketing and sales* efforts. Numerous market experiments will be initiated and major efforts will be put into obtaining unprecedented market understanding securing even stronger and closer relationships to the customers. In a period with strong growth momentum combined with

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the launch of the breakthrough ReSound LiNX™, GN ReSound sees potential to strengthen the brand awareness among both dispensers and end users.

Technological leadership, stronger brand awareness and a manufacturer profile refraining from vertical integration have spurred an increasing opportunity to *gain preferred supplier status* among dispensers and to develop strategic relations with larger accounts. This opportunity will be exploited and a key element of that ambition is to build partnerships through selective financial support arrangements.

GN Otometrics also has a unique potential to drive strong profitable growth by *entering into new channels and offerings*. The 3D ear scanner, where full commercial launch will take place during 2014, is an example of a new offering that may significantly expand the market potential for GN Otometrics. The company will to a greater extent also address under-utilized market segments, including emerging markets.

Furthermore, GN ReSound sees a continued potential for developing unique and superior products by *accelerating innovative R&D*. The technological lead and fast-moving development within wireless connectivity in hearing aids is a unique opportunity for GN ReSound to deliver breakthrough products with features providing real end user benefits. GN ReSound will relentlessly strive to not only maintain but advance its technological leadership.

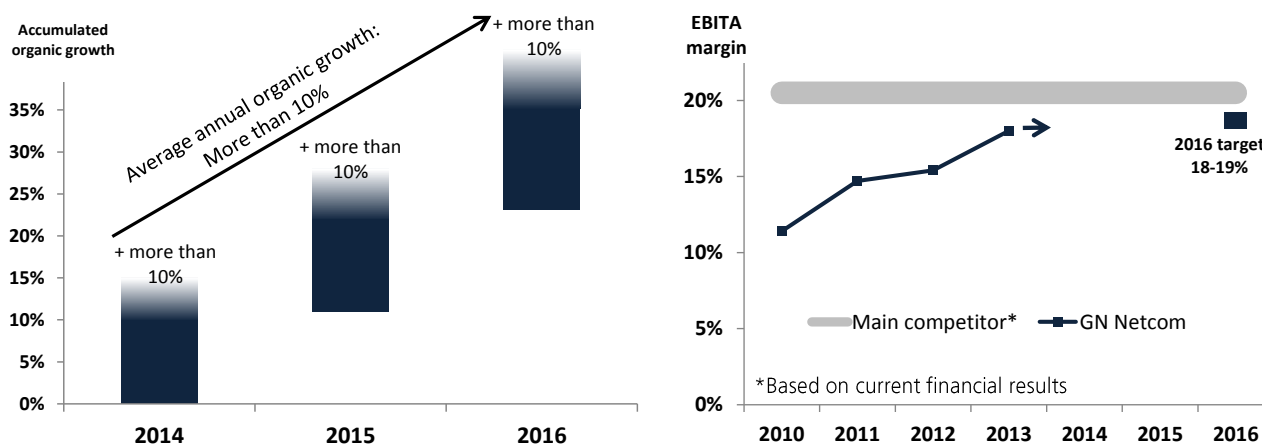
## GN Netcom 2014 - 2016

Based on GN Netcom's leading position in business areas with strong growth, GN Netcom expects to continue to generate strong revenue growth. From 2014 - 2016, GN Netcom targets an average annual organic growth of "more than 10%".

To be able to strengthen the market position, GN Netcom will invest in driving double-digit growth in 2014 - 2016. GN Netcom targets an EBITA margin between 18% and 19% in 2016, continuing to narrow the gap to the main competitor. The longer term ambition is unchanged – to fully close the margin gap.

GN Netcom is a very attractive business seen from a ROIC perspective. GN Netcom is expected to invest in growth, thereby increasing the invested capital, but this will partly be offset by a strong EBITA improvement. A very attractive ROIC level of more than 55% is targeted for 2016 in GN Netcom.

### GN Netcom 2016 financial targets



### GN Netcom market outlook

GN Netcom operates in markets where very healthy growth rates are expected in the coming years. The growth is driven by continued adoption of Unified Communications (UC) and the integration of music and voice communication. Based on market analysis from Frost & Sullivan, the CC&O market (UC and traditional CC&O) is expected to expand from around DKK 5.6 billion<sup>3</sup> in 2012 to DKK 9 - 10 billion in 2016, corresponding to a compound annual growth rate of 13 - 15%. Frost & Sullivan's market estimations suggest that the growth will come from the office space as offices migrate to UC, which will fuel the adoption of headsets and an expected negative market ASP development. The UC enabled headset market is estimated to grow in value at a CAGR of more than 30% in 2014 to 2016. The traditional CC&O market is expected to grow around 1 - 3% in value per year in the forecast period, driven by an increase in the ASP due to an expected migration from corded to wireless solutions. The growth projections in the overall CC&O market until 2016 of 13 - 15% are lower than the projections announced in the Annual Report 2012 (16 - 19% until 2015) primarily as a result of lower expected

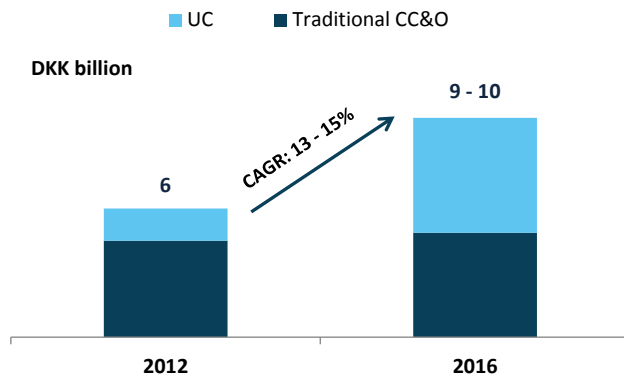
<sup>3</sup> GN Netcom has changed its market definition compared to previous forecasts to better reflect GN Netcom's market opportunity. Speakerphones for larger conference rooms are not part of GN Netcom product portfolio and hence no longer included in the market analysis while tabletop speakerphones (as the Jabra Speak™ 510) for personal conferencing are still included.

growth for the traditional CC&O market (3 - 5% in the Annual Report 2012 compared to the updated projection of 1 - 3%). GN Netcom estimates its market share in the overall CC&O market to be approximately 26% in 2013.

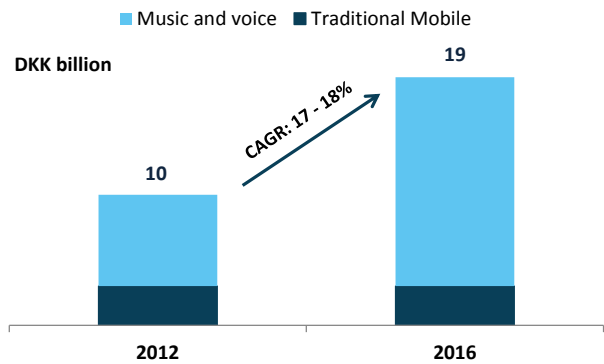
The Mobile business is operating in a highly fragmented market. The market can be separated into the voice centric traditional Mobile market (Bluetooth mono headsets and car speakerphones) and the market where music and voice integrate (corded and Bluetooth stereo headphones and Bluetooth speakers). The traditional Mobile market is estimated to be DKK 3 billion in 2012 and is expected to decline slightly until 2016. The market where music and voice integrate is estimated to be DKK 7 billion in 2012 and expected to more than double to DKK 16 billion in 2016. The growth projections in the Mobile market until 2016 (CAGR: 17 – 18%) is higher than the projections announced in the Annual Report 2012 (CAGR: 11 - 12% until 2015), primarily due to higher than expected growth in the Bluetooth speaker market.

### Projected value market development

CC&O market



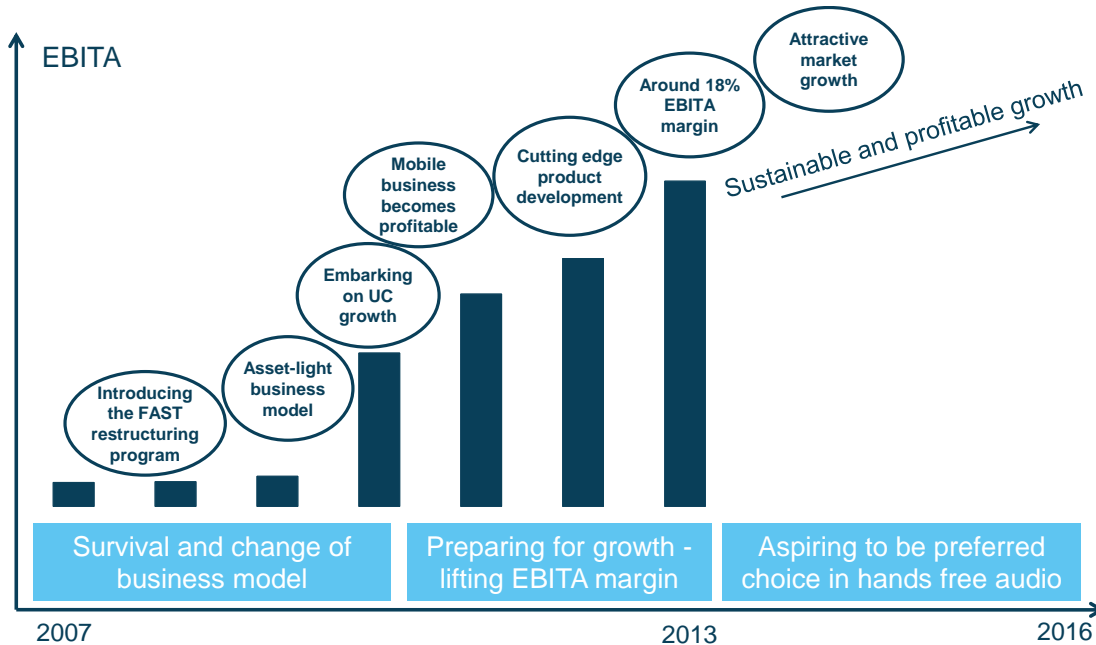
Mobile market



### GN Netcom is in a unique position to drive attractive profitable growth

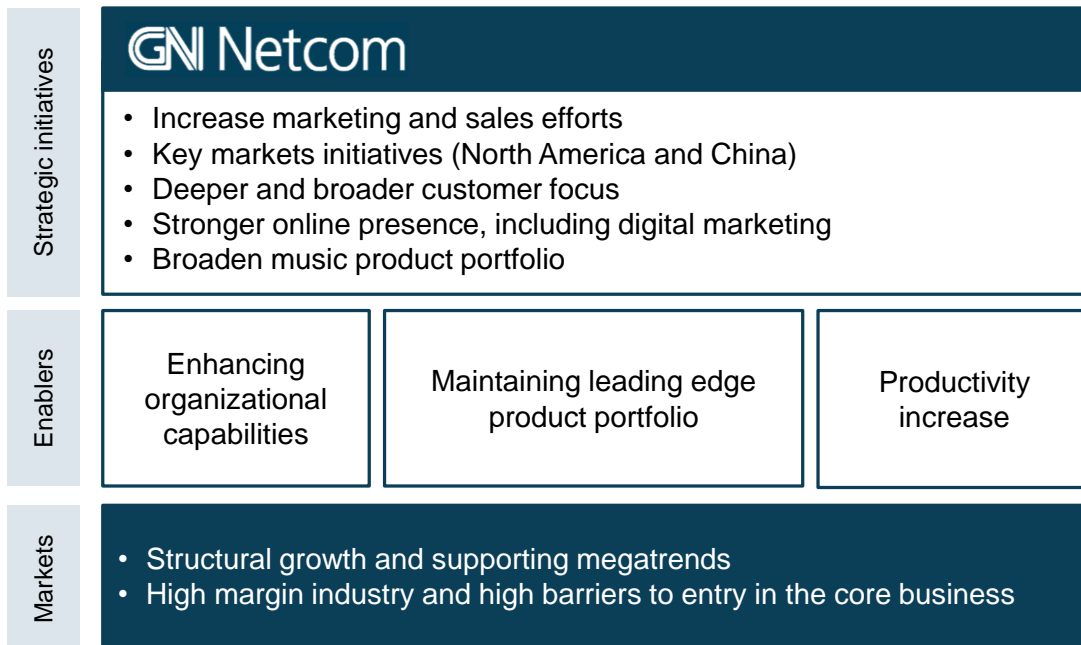
GN Netcom has developed itself into a unique position. Sustainable megatrends are already supporting double digit revenue growth and are expected to continue to create attractive business opportunities in the years to come. In CC&O, UC is integrating office communication services into one common user experience through the computer which entails headsets becoming a need-to-have tool. In the Mobile business, the integration of music and voice communication in smartphones is driving demand for wireless headsets and speakerphones that can be used for high-quality music and conversations. Combined, these factors are creating strong market growth, a key foundation for GN Netcom’s projected growth rates for the next few years. For the CC&O business (UC and traditional CC&O), new entrants are assumed to have moderate effect on the market dynamics, and the market ASP is expected to continue to be attractive with limited annual erosion.

The fundamentals of GN Netcom’s business will be maintained with manufacturing and logistics outsourced to suppliers in order to keep a simple and flexible business model which has already proved its ability to adjust both supply and costs under fluctuations.



### GN Netcom's strategic growth initiatives

GN Netcom's strategic initiatives are focused on fully exploiting the very healthy growth rates expected on the CC&O and Mobile markets. With an outset in the strategy which has driven strong revenue growth in 2013, GN Netcom has identified five new strategic growth initiatives.



GN Netcom will strengthen its *marketing and sales* efforts, initiating market tests and initiatives to get closer to the customer to obtain significant customer insights. Jabra branding initiatives will go across the CC&O and Mobile businesses and part of the brand strategy will be to position Jabra as the wireless company initiating physical and virtual "Go Wireless" store displays at retailers to differentiate and to increase rack space. Digital



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marketing will be a crucial part of this journey as the online platform is becoming increasingly important as more and more customers are having their first look at products online.

Geographically, GN Netcom has significant opportunities to realize a profitable growth potential in *two key markets, North America and China*. In North America, the CC&O business (UC and traditional CC&O) has significant opportunities and traction to increase its market shares with distributors where GN Netcom is fundamentally under-represented. The market for the Mobile business (traditional Mobile as well as Music) in China is highly attractive long-term and continues to experience significant underlying growth when excluding the effect from the recent change in hands free legislation.

For the CC&O business, GN Netcom will *deepen and broaden its customer focus*. The CC&O sales team will be significantly expanded to capture the attractive growth opportunity spurred by the increasing UC projects among large corporates. Additionally, GN Netcom will broaden its focus on customer segments where UC is just starting to take off.

Another growth initiative across CC&O and Mobile is the advancement of the *online sales channel*. Jabra will implement an extension of the existing partner program, which will improve online representation and intelligence as well as increase internal focus through training and education. GN Netcom will also increase the digital presence of the Jabra brand with added digital marketing efforts. Sales from online market places are expected to comprise more than 50% of the Mobile market in 2016 compared to around 20% in 2012. GN Netcom will position the company to benefit from this trend.

In Q4 2012, GN Netcom entered the segment where *music and voice* integrate with the launch of the distinct Bluetooth speaker Jabra SOLEMATE™. In 2013, the portfolio was expanded further with additional innovative products, including the stereo headset Jabra REVO and additional Bluetooth speakers. The segment where music and voice integrate is currently the fastest growing segment that GN Netcom operates in. By broadening the product portfolio to increase store presence and by initiating creative branding initiatives, GN Netcom can position itself to grab an attractive piece of this growth.

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## GN Store Nord

### *The GN innovation powerhouse*

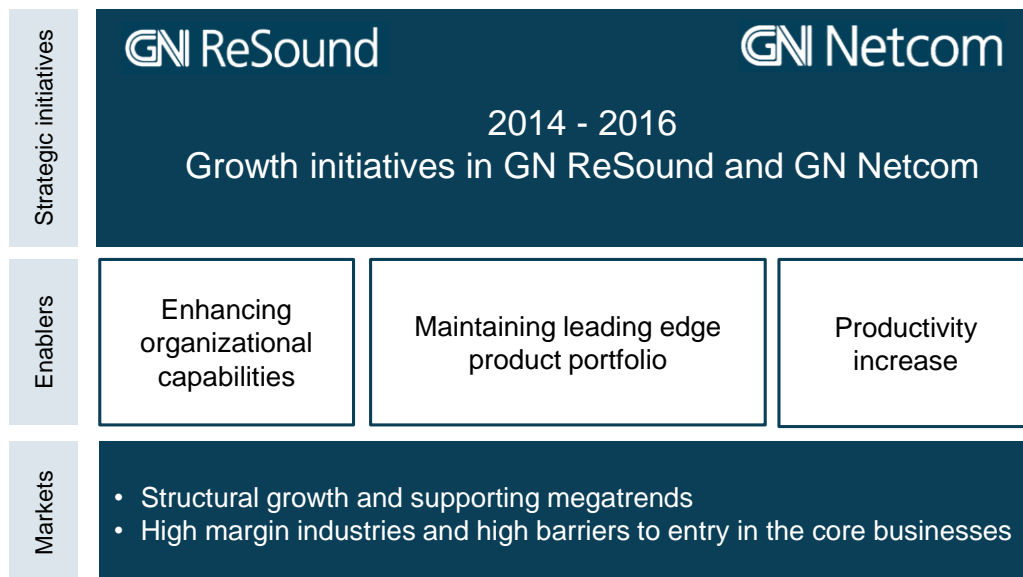
Innovation is embedded in the culture at GN Store Nord and drives the business agenda every single day. The aim of being “an innovation-driven leader in the field of sound processing” has created results leading to strong competitive advantages and an extensive upgrade of the product portfolios, including numerous first to market innovations. Today, GN ReSound is the only company in the hearing aid industry offering hearing aids with direct streaming of sound with no intermediate body-worn device (based on 2.4 GHz technology) – including the highly innovative Made for iPhone hearing aid, ReSound LiNX™, to be launched in Q1 2014. At the same time, GN Netcom has gained a leading position in the fast growing UC segment as a result of the early conversion to USB-enabled headsets, including the first headset certified by Microsoft.

GN Store Nord now wants to build on this foundation with improved commercialization capabilities.

Building on innovation, the ambition to realize the growth potential will be achieved by initiating specific and thoroughly evaluated growth initiatives in GN ReSound and GN Netcom as outlined in the sections above. The growth initiatives will be supported by three key growth enablers that are common across the businesses within the GN Store Nord group: Maintaining a leading edge product portfolio, enhancing organizational capabilities and a continued pursuit of productivity increases.



### *Sustainable and profitable growth*



The current structure of GN Store Nord with two separate business units and two dedicated CEO's has proven effective during the transformational journey that started in 2008. With the experience from the last five years and increasing technological synergies between the businesses, the board of directors and management deem the current structure equally efficient for the next part of the journey for GN Store Nord.

GN Store Nord continues to experience encouraging leads from the exploratory research projects conducted under Other activities in GN Store Nord. From 2014 to 2016, GN Store Nord expects to continue exploring selected research projects aiming to discover potential future business opportunities within the core competencies of GN ReSound and GN Netcom, but outside the current business areas. It is currently deemed inappropriate to provide guidance on the financial impact of these initiatives. In 2016, some projects may have started to generate associated revenue and other projects, which do not turn into business cases, have been closed down. The 3D ear scanner technology which has been developed as part of the exploratory research projects is expected to result in a full product launch in 2014. Once the technology has been implemented in a final product ready for commercial launch, the technology will be transferred to GN Otometrics.

Following the change in the Danish tax legislation, the Danish corporate tax rate will decline from 25% to 22% by 2016. The decline is expected to result in a decrease in GN Store Nord's effective tax rate from around 28% in 2013 to 26 - 27% in 2016.

As previously communicated, the net interest-bearing debt is targeted to be around one time EBITDA by the end of 2014. GN Store Nord continues to be committed to its long term capital structure policy targeting a net debt of up to two times EBITDA. The net debt by the end of 2016 is expected to be between one and two times EBITDA.

GN Store Nord expects to continue to distribute funds back to shareholders. As previously communicated, GN Store Nord's policy is to distribute 15 - 25% of the net result as dividend and to distribute additional excess cash back to the shareholders via share buyback programs.

Financial targets 2016 (assumes exchange rates as of November 1, 2013 (DKK/USD - 550) until end of 2016)					
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