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8% revenue increase in local currencies in first half-year and maintaining 2014 outlook
First half-year characterised by spending to drive future growth and profitability
Three-year share buy-back programme of DKK 2.5-3.0 billion to be executed in 2014-2016

William Demant Holding A/S today published its Interim Report 2014. Selected highlights from the Interim Report are summarised below:

- In the first half-year, the Group realised a growth rate of 8% in local currencies, corresponding to revenue of DKK 4,539 million. The Group's core business, wholesale of hearing aids, realised unit growth, clearly exceeding unit growth in the market. A continued roll-out of new products is planned for the third quarter.
- The period under review was characterised by a high level of spending and investments in relation to the establishment of a new distribution centre, the transfer of ITE production to Poland, the roll-out of global IT projects and the expansion of Oticon Medical, all of which will secure future growth and profitability for the Group.
- In the first half-year, Oticon Medical continued to deliver double-digit sales growth, both in bone-anchored hearing systems (BAHS) and in cochlear implants (CI). The feedback provided on our CI products at the recently held CI conference in Munich was very encouraging – strongly supported by an independent study, demonstrating in three out of four tests the superior performance of our Saphyr Neo speech processor compared to speech processors from our competitors.
- In addition to the adverse effects of current spending on operating profit (EBIT) in the first half-year, foreign exchange rates negatively impacted EBIT by DKK 60-70 million. EBIT reached DKK 834 million, and the EBIT margin was realised at 18.4%. Earnings per share (EPS) were realised at DKK 11.2, matching last year's level.
- The expected continued strong cash flow generation combined with a limited pipeline of acquisition opportunities leaves room for channelling the Group's substantial excess cash flow back to the shareholders going forward. Therefore, we plan to buy back Company shares worth a total of DKK 2.5-3.0 billion in the period 2014-2016 of which amount we have year-to-date already bought back shares worth DKK 493 million.
- We maintain our full-year outlook for 2014, including our expectation to generate growth in both our business activities and to deliver a rise in earnings per share of 5-10%. Acquisitions are expected to contribute by 3-4% to Group revenue in 2014, even though we expect more than half of this impact to be offset by the Group's weakened invoicing currencies.

"In the light of a first half-year affected by delivery problems in Diagnostic Instruments and a relatively low exposure to the fastest growing channels in the hearing aid market, we are satisfied that we managed to grow revenue by 8% in local currencies. Based on this, we maintain our full-year expectations," says Niels Jacobsen, President & CEO of William Demant Holding.

"We are in the process of strengthening our long-term position in global hearing healthcare by expanding our implant business and by optimising our supply chain – among other important initiatives – and this naturally increases our costs in the short term, but is expected to deliver long-term growth. We will continue to generate

strong cash flows, and we are pleased to announce a substantial share buy-back programme over a three-year period," adds Niels Jacobsen.

	1st half 2014	1st half 2013	*Change*
Key figures, DKK million			
Revenue	4,539	4,403	*3%*
Gross profit	3,320	3,207	*4%*
Operating profit (EBIT)	834	869	*-4%*
Net financial items	-30	-38	*-21%*
Profit before tax	804	831	*-3%*
Profit for the period	627	637	*-2%*
Assets	10,728	9,803	*9%*
Equity	5,352	4,645	*15%*
Cash flow from operating activities	706	723	*-2%*
Financial ratios			
Earnings per share (EPS), DKK	11.2	11.2	*0%*
Gross profit ratio	73.1%	72.8%	
Profit margin (EBIT margin)	18.4%	19.7%	
Return on equity	23.9%	29.3%	

Market trends

In the global market for hearing aids, unit growth in the first half-year is estimated to have exceeded the Group's general assumption of 2-4% unit growth in the market. After a soft start to the year, market growth in North America improved towards the end of the period. The growth rate in the North American market was 3% in the first half-year with growth rates in the private sector and VA of 2% and 7%, respectively. We believe that unit growth in the major European markets for hearing aids has developed favourably and that total unit sales in Europe in the first half-year grew at a faster pace than usual.

It is estimated that the average selling price (ASP) on the global hearing aid market is still under pressure, mainly due to mix shifts in channels, fiercer competition for major tenders and changes to public subsidy schemes. However, the unavailability of official statistics on market selling prices means that estimating trends in average selling prices is rather uncertain. We do, however, estimate that in terms of value, the global market for hearing aids has seen flat to slightly positive growth in the first half-year.

Hearing Devices

In the first half of 2014, total growth in Hearing Devices, including Retail and Oticon Medical, was 8% in local currencies and 3% organically.

Our core business – the development, manufacture and wholesale of hearing aids – achieved unit growth, clearly exceeding market development. Our updated hearing aid offering in the mid-priced and low-end product categories was the main growth driver, and growth was especially pronounced in Europe. The Group's sales in the beginning of the year in North America were adversely impacted by low market growth caused by unusual winter weather. However, renewed market growth in March in North America combined with market share gains in our business marked a turning point and increased our sales momentum gradually during the first half-year – a trend that has continued into the second half-year. The expected mix changes relating to products, channels and countries have resulted in a decline in the Group's average selling price. The organic growth rate in the core business was 1%.

Oticon's Made for iPhone (MFi) connectivity solution for hearing aids launched at the AudiologyNOW! convention this year has significantly strengthened Oticon's total product offering. Available to all present and future users of Oticon's wireless hearing aids using a Streamer and available in the entire price spectrum, our solution was very well received by hearing care professionals and end-users. However, it is important to stress that the launch of a number of different MFi solutions has, in our opinion, so far not expanded the market, despite the high level of enthusiasm created in the dispensing community.

In the third quarter, Oticon plans to bring several new interesting products to market, all of which will further strengthen Oticon's current product portfolio. Oticon will thus launch Oticon designRITE, which is a cosmetically highly attractive design hearing aid based on our Inium platform, combining the better of two worlds – cosmetics and speech understanding in noise. It will be launched as a new style in the Alta, Nera and Ria families and will be based on a small 10A battery. In addition, we will launch wireless Invisible-In-the-Canal (IIC) and Completely-In-the-Canal (CIC) instruments, which will meet the demand for discreetness by first-time users. To support the dispenser in the fitting process, we will also update and expand our fitting solutions with the connectLINK wireless programmer. Bernafon will introduce an exciting new high-end product family at the EUHA congress to take place in Germany in the fourth quarter.

In the period under review, our retail activities delivered a satisfactory improvement in revenue driven by a combination of organic growth and acquisitions made in 2013.

Oticon Medical continued to deliver double-digit sales growth, both in bone-anchored hearing systems (BAHS) and in cochlear implants (CI). The feedback provided on our CI products at the recently held CI conference in Munich was very encouraging – strongly supported by an independent study, demonstrating in three out of four tests the superior performance of our Saphyr Neo speech processor compared to speech processors from our competitors. In the first half-year, we continued the hiring of key personnel, particularly in R&D and distribution, which will obviously increase the cost level, but on the other hand enable Oticon Medical to achieve its future ambition of becoming one of the leading global implant companies.

Diagnostic Instruments

In the first six months of 2014, Diagnostic Instruments realised 6% growth in local currencies of which organic growth accounted for two thirds. Further growth was, however, impeded by delivery problems due to the upgrade of our ERP system and the transfer of production to a new manufacturing facility. We expect to handle most of the pent-up orders in the second half of 2014. With a strong sales momentum going into the third quarter, we believe that we are back on track and well-positioned to gain further market shares in 2014.

Results for the first half of 2014

In the reporting period, the Group realised 8% growth in local currencies, corresponding to revenue of DKK 4,539 million. This improvement in revenue is attributable to organic and acquired growth of 3 and 5 percentage points, respectively. Exchange rates had a negative impact of 5 percentage points on revenue.

The Group realised gross profit of DKK 3,320 million, or an increase of 4% over the same period last year. The gross profit ratio was 73.1%, or an improvement of 0.3 percentage point compared with the same period last year. The improved gross profit ratio can be attributed to lower unit costs, which more than outweighed the negative effects of a lower realised ASP.

Capacity costs totalled DKK 2,504 million, or a 5% increase compared with the same period last year (9% in local currencies), with acquisitions accounting for more than two thirds of this growth. Operating profit (EBIT) was negatively impacted by foreign exchange rates of DKK 60-70 million. The establishment of our new distribution centre, the transfer of ITE production to Poland, the roll-out of global IT projects and the expansion of Oticon Medical carried additional operational costs in the period under review. As previously communicated, Sennheiser Communications furthermore disposed of its inventory to Sennheiser KG in the first half of 2013, which increased our EBIT in the comparative period. Operating profit (EBIT) amounted to DKK 834 million, which is DKK 35 million below the level realised in the same period of 2013, and the EBIT margin was 18.4% (19.7% in the first half of 2013).

In the past six months, the Group generated cash flow from operating activities (CFFO) of DKK 706 million against DKK 723 million in the same period last year and delivered a high cash conversion ratio (CFFO/EBIT) of 85%.

Other matters

As previously announced, the Group's implementation of new IFRS accounting standards, which took effect on 1 January 2014, has eliminated the possibility of proportionate consolidation of the Group's joint ventures, including Sennheiser Communications. Instead, joint ventures are now recognised using the equity method. Consequently, results after tax are recognised as a net amount in *Share of profit after tax, associates and joint ventures*. As the remaining revenue in the business activity Personal Communication now only makes up an insignificant part of consolidated revenue, we no longer show Personal Communication as a separate business activity, but now include revenue from Phonic Ear and FrontRow in the business activity Hearing Devices. For additional information on the effect of this IFRS change, please see Note 2 in the Interim Report 2014. Neither net earnings nor earnings per share are affected by this change in accounting policies.

As of today, the Company has bought back a total of 999,058 shares worth DKK 493 million, bringing the total number of treasury shares to 1,200,583, corresponding to 2.1% of the share capital.

Over the years, we have continuously used our share buy-back programme to channel the Group's surplus cash flow back to the shareholders, while ensuring that we have a capital structure that provides the Company with sufficient financial flexibility to fund investments and acquisitions.

On an ongoing basis, the Board of Directors evaluates the Group's capital structure. Based on the expectation of continued strong cash flow from operating activities and rather limited acquisition and investment opportunities in the near future, the Board of Directors has concluded that a somewhat higher net interest-bearing debt than the current level can be targeted in the years to come. In the period 2014-2016, the Company consequently plans to buy back shares worth DKK 2.5-3.0 billion of which DKK 0.8-1.0 billion is expected to be spent already in 2014, including the shares worth DKK 493 million repurchased year-to-date. In the period 2014-2016, we thus expect to see a modest and gradual increase in the Group's gearing multiple towards a level of 1.5, measured as net interest-bearing debt relative to EBITDA. Should attractive acquisition or investment opportunities arise during this period, the Company will reconsider the targeted gearing level and the announced buy-back programme with a view to ensuring a high level of financial flexibility and value creation in the Group.

Outlook for the 2014 financial year

Based on the assumptions of market and business trends described in our Annual Report 2013 and confirmed in our interim information in May 2014, the Group maintains its full-year expectations for 2014.

In 2014, we expect to continue to deliver growth in both our business activities. Acquisitions are expected to contribute by 3-4% to Group revenue in 2014, mainly driven by acquisitions made in 2013. Based on foreign exchange levels in late February, more than half of the positive impact of acquisitions will be offset by changes in exchange rates.

In consideration of a weakened set of invoicing currencies compared to 2013 as well as gains from our hedging activities, exchange rates are expected to negatively affect the Group's operating profit (EBIT) in 2014 by around DKK 100 million, based on February currency assumptions. Of this amount, DKK 60-70 million were realised in the first six months. Since the end of the first half-year, several of the Group's invoicing currencies have gained some strength, and if these higher levels remain for the rest of the year, the negative impact of exchange rates on EBIT in the second half of 2014 will be somewhat lower than DKK 30-40 million.

In 2013, the Group once again generated a strong cash flow, reflected in a cash conversion ratio (CFFO/EBIT) of 73%. Also in 2014, we expect to deliver a high cash conversion ratio. Keeping in mind that our near-term acquisition opportunities are rather limited, we expect to be able to buy back Company shares worth DKK 0.8-1.0 billion in 2014, which supports our initial expectation of "more than DKK 500 million". In order to maintain a high level of flexibility, this level of share buy-back is subject to change, should additional attractive acquisition opportunities present themselves.

All in all, the Group will continue to deliver growth in earnings in 2014. Following a 14% growth rate in the Group's net profit and earnings per share (EPS) in 2013, we expect to see growth in EPS of 5-10% in 2014.

In the second half of 2014, Group revenue and earnings will be supported by a sequential improvement compared to the first-half year on a number of parameters, including continued sales momentum in the US, which was adversely impacted by unusual weather conditions in the beginning of the year. Furthermore, the second half-year will benefit from the usual seasonality in Oticon Medical with revenue bias towards year-end and also from the expected further improvement in Diagnostic Instruments, as the delivery issues are in the process of being resolved. In addition, the staff reduction in Thisted, affecting 85 employees who will leave their positions in the second half-year, will reduce our cost base.

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