William Demant

Company announcement no 2015-06

7 May 2015

Interim information, first quarter

Successful global launch of the new Oticon Inium Sense platform
Satisfactory development in all business activities
Outlook for 2015 maintained

- In the first quarter, the Group realised satisfactory revenue growth in local currencies, mainly driven by organic growth. Exchange rate fluctuations positively affected revenue.
- The global market for hearing aids has developed in line with our expectations and within the expected interval of 3-4% unit growth for the full year.
- The Oticon Inium Sense platform has been successfully introduced in products across all styles, at all price points and in all markets – with a positive contribution to sales in March and onwards. The launch has created a high level of attention among potentially new customers, which going forward is likely to drive market share gains, especially among independent dispensers in the US.
- In the period under review, Hearing Implants delivered double-digit sales growth rates, both in bone-anchored hearing systems (BAHS) and in cochlear implants (CI). We have increased the market reach of BAHS by entering several new markets, and we expect to see a similar trend in CI following the launch of the new CI system in the second half of 2015.
- Diagnostic Instruments delivered modest growth, which has also been the case for the Group's retail activities, the latter being somewhat challenged by integration issues in connection with the ongoing consolidation of back-office functions and the implementation of new IT systems in the US.
- Sennheiser Communications, the Group's headset joint venture, saw strong sales growth in Europe and the US, significantly exceeding market growth. These market share gains were supported by an excellent product programme and a number of new orders, especially in the CC&O segment driven by Unified Communication.

Based on this, we maintain our previously announced outlook for 2015, including our expectations to generate growth in sales and earnings in all three business activities and to deliver an operating profit (EBIT) in the range of DKK 1.7-2.0 billion. In 2015, acquisitions are expected to impact Group revenue by less than 1%, and foreign exchange rates are expected to have an estimated 4-5% positive impact on reported Group revenue based on exchange rates in early 2015. The guidance provided does not include any impact of the ongoing process to acquire Audika in France.

Market trends

In the first quarter, market growth in the US was strong and positively impacted by weak comparative figures and the possible stockpiling of orders placed by a few customers. The overall unit growth rate in the US exceeded 10%, and the private sector and Veterans Affairs (VA) saw similar growth rates. The unusually strong year-over-year growth in the first quarter is expected to be followed by lower growth in the remaining part of the year.

Total European unit growth in the market (excluding Germany) was positive, slightly exceeding our expectations of 3-4% growth for the full year. Unit growth was, as expected, adversely impacted by a negative double-digit unit growth rate in Germany. The extraordinarily high growth rate in Germany in the comparative quarter of 2014 was attributable to the changed reimbursement regulations that became effective on 1 November 2013, and in the next couple of quarters, unit growth in Germany is likely to be negative as well. The Japanese market recorded a mid-single-digit rise in unit sales. We estimate that in the first quarter, the overall global unit growth rate (including Germany) was within the 3-4% growth range that we still expect for the full year.

The poor transparency in average selling price (ASP) trends on the market and the absence of official price statistics mean that as usual, the ASP on the market is largely based on our estimate. The first quarter of 2015 was characterised by country mix shifts, which can particularly be attributed to the facts that market growth was high in the US, the world's largest single hearing aid market, and that we saw negative growth in Germany. On the one hand, this country mix shift has increased the overall global ASP, but on the other hand, we have seen adverse channel mix shifts on the private US market, reduced prices in the new VA contract and generally speaking fierce competition. To the best of our knowledge, the ASP on the market was flat in the first quarter and based on that, we estimate that in the first quarter, global market growth in terms of value was positive.

Hearing Devices

The Group's core business – wholesale of hearing aids – generated organic sales growth in the first quarter, thus supporting our full-year expectations. The Oticon Inium Sense platform has been successfully rolled out globally since the end of February. The launch of products across all styles and at all price points in the course of only three weeks marks the biggest and broadest product launch ever undertaken by Oticon. The launch has had a strong positive effect on our competitive position and has created a high level of attention among potentially new customers. Going forward, this interest is likely to result in market share gains for Oticon, especially among independent dispensers in the US.

As always, major global launches – such as the roll-out of several new product families based on the Oticon Inium Sense platform – involve a higher level of spending on sales and marketing activities. However, such costs mainly arise in connection with launch activities and will therefore not reoccur in the second half of 2015.

Growth was generated in all major regions and also in Europe, however with the exception of Germany. Besides these new products based on the Inium Sense platform, the paediatric product family Oticon Sensei also contributed positively to this growth, so our dedicated focus on paediatrics is paying off. The launch of Bernafon's high-end product, Juna, in the fourth quarter of 2014 was a significant strengthening of Bernafon's portfolio, and the first-quarter sales were in line with the plans made.

Our sales to the VA increased significantly compared to the first quarter of 2014, and the introduction of the new wireless fitting system and tinnitus solution in the fourth quarter of 2014 has supported this growth. Our current market share with the VA is around 9%, and we are looking forward to further strengthening our VA product offering in May 2015 by adding new products based on the Oticon Inium Sense platform.

Our retail business got off to a slow start in the first quarter, especially in the US, which is partly due to tough weather conditions. In retail, the first quarter is generally relatively weak. However, the gradually improved momentum we saw in the first quarter is expected to continue over the next quarters. When consolidating our retail businesses in the US, we also consolidate our back-office functions and roll out common ERP systems, which are fundamental when it comes to running a highly efficient retail business. This resource-demanding process has, however, been somewhat challenged due to integration issues.

As previously announced, the Group has now signed a Share Purchase Agreement to acquire a controlling interest in Audika Groupe, one of the leading networks of hearing care providers in France, from the controlling shareholder Holton at a price of EUR 17.78 per share. If successful, the purchase of a controlling interest will commit William Demant to commence a mandatory public tender offer for the remaining 46.1% of the share capital outstanding of Audika, which is listed on Euronext in Paris. Based on a price of EUR 17.78 per share, the entire transaction will amount to an equity value of EUR 168 million. The acquisition of the controlling interest in Audika is subject to approval by the French competition authority. Timewise, the mandatory public tender offer is most likely to close early in the second half of 2015.

Hearing Implants

In the first quarter, our business activity Hearing Implants delivered double-digit sales growth rates, both in BAHS and in CI. The revenue increase in BAHS is driven by a very competitive product offering, stronger focus on the upgrade market and increased market reach with the entry into several new markets. The CI business is growing in both existing and new markets, and we recently won new important tenders in a number of emerging markets. Furthermore, we are slowly but steadily getting access to several European markets, and the current wait-and-see position by some clinics is likely to be less pronounced, when we launch the new CI system in the second half of 2015. As expected, the general expansion in especially R&D and distribution is a significant cost driver, and Hearing Implants therefore has a dilutive effect on our Group's profitability in the short to medium term, however with the strong potential of becoming accretive in terms of profitability in the longer term.

Diagnostic Instruments

Diagnostic Instruments generated growth in local currencies close to expectations, such growth mainly being driven by organic growth. The growth contribution by North America was the strongest, whereas the contribution by Europe was the weakest. The delivery issues we experienced in 2014 have been resolved, and our full-year expectations remain intact. Interacoustics is moving into the new headquarters in Middelfart in Denmark in June 2015.

Other matters

Sennheiser Communications

Sennheiser Communications, our joint venture with Sennheiser KG, realised a very satisfactory organic growth rate, significantly exceeding the market growth rate. Growth was especially pronounced in the CC&O segment driven by Unified Communication, and both Europe and the US saw strong growth.

Efficiency programmes

Our ongoing efforts to improve the Group's efficiency through the entire value chain are generally speaking on track. As previously highlighted, we are thus in the process of building and implementing a new global ERP system, establishing shared services for our back-office functions and centralising our ITE production and repair services. Furthermore, our new global distribution centre in Poland will soon be in full operation after a few months' delay.

Share buy-back

Year-to-date, the Company has bought back a total of 254,599 shares worth DKK 133 million. The Company's holding of treasury shares corresponds to 0.22% of the share capital, not including the shares that are in the process of being cancelled following the authorisation granted at the Annual General Meeting to reduce the share capital by nominally DKK 2,236,403, corresponding to the holding of treasury shares at 26 February 2015.

We will continue our current share buy-back programme to channel our surplus cash flow back to the shareholders and maintain our plan to buy back shares worth a total of DKK 2.5-3.0 billion from 2014 to 2016.

Outlook

We maintain our 2015 expectations as stated in our Annual Report 2014, including our expectations to generate growth in sales and earnings in all three business activities and to deliver an operating profit (EBIT) in the range of DKK 1.7-2.0 billion. In 2015, acquisitions are expected to impact Group revenue by less than 1%, and foreign exchange rates are expected to have an estimated 4-5% positive impact on reported Group revenue based on exchange rates in early 2015. The guidance provided does not include any impact of the ongoing process to acquire Audika.

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