

## Company announcement no 2015-10 Interim Report 2015

14 August 2015

**Revenue growth of 11% supported by successful product launches and exchange rate movements**  
**Free cash flow of DKK 543 million, equivalent to 21% growth**  
**10% underlying EBIT growth – raising lower end of full-year EBIT guidance**

William Demant Holding A/S today published its Interim Report 2015. Selected highlights from the Interim Report are summarised below:

- In the first half-year, the Group realised a revenue growth rate of 11%, corresponding to revenue of DKK 5,043 million. All business activities contributed positively to the Group's growth.
- Especially in the US, the Group benefitted from the successful introduction in late February of the Oticon Inium Sense platform, with new products launched across all styles, at all price points and in all markets. In our US hearing aid wholesale activities, we saw 9% organic growth. The positive impact was particularly apparent in the independent channel in the US, where we enjoyed significant growth and market share gains.
- Hearing Implants grew by 16% in local currencies, fuelled by double-digit growth rates in bone-anchored hearing systems (BAHS) and also in cochlear implants (CI).
- The Group's gross profit margin was reported at 74.2% supported by a favourable development in the average selling price in the wholesale of hearing aids.
- Operating profit (EBIT) was reported at DKK 880 million, corresponding to 10% growth adjusted for earn-outs of DKK 36 million in the first half of 2014. The Group continues to generate a significant cash flow and thus generated a free cash flow of DKK 543 million, corresponding to a 21% increase on the first half of 2014.
- We expect our operating profit (EBIT) for the second half of 2015 to be at the same level or exceed the EBIT realised in the first half of the year. Consequently, we now expect EBIT of DKK 1.8-2.0 billion for the full year against a previous range of DKK 1.7-2.0 billion. The guidance provided does not include any impact of the ongoing process to acquire Audika.

*"I'm delighted by the successful, global launch of our full line of new products based on the Oticon Inium Sense platform. This launch has led us to take market shares in the first half-year, especially with the independent dispensers in the US – a development that was also driven by a tremendous effort by our US sales organisation,"* says Niels Jacobsen, President & CEO of William Demant Holding.

Mr Jacobsen continues: *"It is also encouraging to see that all our efforts convert into cash. In the first half-year, we delivered a free cash flow of 543 million kroner, corresponding to a growth rate of as much as 21%, which I find highly satisfactory. Furthermore, we have now raised the lower end of our EBIT guidance range for the full year, which is partly due to the strong, underlying EBIT development we have seen so far this year."*

	1st half 2015	1st half 2014	Change
<b>Key figures, DKK million</b>			
Revenue	5,043	4,539	11%
Gross profit	3,743	3,320	13%
Operating profit (EBIT)	880	834	6%
Net financial items	-33	-30	10%
Profit before tax	847	804	5%
Profit for the period	669	627	7%
Assets	12,099	10,721	13%
Equity	6,088	5,328	14%
Cash flow from operating activities	755	706	7%
<b>Financial ratios</b>			
Earnings per share (EPS), DKK	12.3	11.2	10%
Gross profit ratio	74.2%	73.1%	
Profit margin (EBIT margin)	17.4%	18.4%	
Return on equity	22.6%	24.0%	

### Market conditions and business trends

In the first half-year of 2015, the global market for hearing aids developed in line with the Group's general expectations of 3-4% unit growth. After a strong start to the year, market growth rates in North America softened a bit towards the end of the period. The unit growth rate in North America was 9% in the first half-year, with growth rates in both the private sector and VA of 9%. We believe that in the period under review, unit growth in the major European markets for hearing aids was flat, negatively impacted by a high growth rate in Germany in the comparative half-year of 2014 due to changes to subsidy schemes. Excluding Germany, the European market for hearing aids slightly exceeded our full-year expectations of 3-4% unit growth.

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 and changes to public subsidy schemes. We estimate that the market ASP was slightly negative in the first half-year and that in terms of value, the global market for hearing aids has therefore seen flat to slightly positive growth in the first half-year.

### Hearing Devices

In the first half of 2015, our core business – the development, manufacture and wholesale of hearing aids – generated organic revenue growth of 4%, thereby exceeding the market growth rate. The launch of Oticon's new Inium Sense platform marked the biggest and broadest product launch ever undertaken by Oticon. The platform was launched in all styles, at all price points and in all markets in the course of only a few weeks, resulting in encouraging momentum in the period under review.

In Europe, the Group's sales were adversely affected by the negative growth rates in Germany and the NHS in the UK. If we exclude sales in the German market and sales to the NHS, the global, organic growth rate in the core business was in the high single digits.

In North America, the Group's wholesale business saw a strong sales upturn after the introduction of the new Inium Sense platform. The positive impact of the launch was particularly apparent in the independent channel in the US, where we enjoyed significant growth and market share gains. The Group's total hearing aid

wholesale activities in the US saw organic growth of 9% in the first half of 2015. The changes we saw in market dynamics in the US in 2014 caused by one competitor's decision to offer its premium brand to a big-box retailer led to increased pricing pressure in 2014, especially with the independent retailers. In our estimation, this higher ASP pressure in the independent channel has stabilised in the US in the first half of 2015 compared to the second half of 2014. However, due to the higher comparative figures our hearing aid wholesale activities in the US saw a decline in the ASP in this channel in the first half of 2015.

In the period under review, Hearing Devices, including the Group's retail activities, saw 3% organic growth. Our retail activities saw a satisfactory increase in revenue driven by a combination of organic growth and acquisitions. After a slow start to the year, especially in the US, our retail business gradually picked up momentum in the period under review. The ongoing process of consolidating our retail businesses in the US is pivotal in order for us to be able to continue to grow and develop our business.

### **Diagnostic Instruments**

In the first half of 2015, Diagnostic Instruments saw 3% growth in local currencies and 2% organic growth in a market that has only shown modest growth. After a slow start to the year, we succeeded in picking up momentum towards the end of the first half-year, despite not having seen the effect of tenders in terms of sales. This momentum has continued into the second half-year and with the new product introductions and the expected impact from tenders, we believe that we are well positioned to gain further market shares in 2015.

### **Hearing Implants**

In the first half-year, Hearing Implants saw 16% growth in local currencies of which the major part was organic growth. Both our bone-anchored hearing systems (BAHS) and our cochlear implants (CI) business delivered double-digit growth rates in the first half-year.

As far as our BAHS business is concerned, the increase in revenue was driven by both existing markets and several new markets. However, the competition has become fiercer, and the market for bone conduction solutions is very fragmented: The new market for transcutaneous hearing solutions is expanding steadily, which bodes well for our upcoming, active, transcutaneous product concept. We believe that with a larger product offering targeted at patients with conductive hearing loss and single-sided deafness, our BAHS business is in a very good position to continue to take market shares in the future.

The CI business is growing in existing and new markets alike. In the first half-year, we won a number of new, important tenders in some of the emerging markets. The products in these tenders are however offered at lower prices, resulting in a lower overall ASP. We are slowly, but steadily, getting access to several European markets, and the wait-and-see approach by some clinics that we are currently experiencing is likely to be less pronounced, when we launch the new CI system later this year. With some delay, the new implant has now been CE marked, which means that we will be able to start the introduction of the new implant to the commercial market in the fourth quarter. In the first half-year, costs have grown slightly more than sales in absolute numbers, but we still expect to meet the plans made for the full year – however at the risk of realising a proportion of sales in early 2016 instead of in late 2015.

As expected, the general expansion in especially R&D and distribution is a significant cost driver, and Hearing Implants will therefore have a dilutive effect on our Group's profitability in the short to medium term, however with the strong potential of becoming accretive to profitability in the longer term.

## **Results for the first half of 2015**

In the period under review, the Group realised 11% reported revenue growth, corresponding to revenue of DKK 5,043 million. Growth in revenue in local currencies was more than 3% and is attributable to organic and acquired growth of almost 3 and 1 percentage points, respectively. Exchange rates had a positive impact of 8 percentage points on revenue, which includes losses on foreign exchange hedging activities of DKK 106 million realised in the first half of 2015.

In the first half-year, consolidated gross profit totalled DKK 3,743 million, corresponding to a 13% increase. The gross profit margin was 74.2%, or an increase of 1.1 percentage points, which can mainly be attributed to the wholesale of hearing aids and a combination of higher ASP and lower unit costs. Furthermore, we have seen an increase in the sale of Group-manufactured hearing aids to own retail compared to the sale of third-party instruments, which has also had a positive impact on the Group's gross profit margin.

In the period under review, capacity costs totalled DKK 2,891 million, or an increase of 6% in local currencies compared with the same period last year, including the impact of acquisitions.

Operating profit (EBIT) amounted to DKK 880 million in the first half-year, corresponding to an underlying growth rate of 10%, adjusted for earn-outs of DKK 36 million in the first half of 2014. Reported growth in EBIT of 6% was mainly driven by Oticon and the successful launch of the Inium Sense platform. Our ongoing optimisation of Group operations and our ongoing efforts to establish one of the leading, global hearing implant businesses carried additional costs in the period under review. The reported profit margin (EBIT margin) was 17.4%, or a decrease of 1 percentage point on the same period last year. When adjusting for exchange rates (both translation and transaction effects) and earn-outs in the first half of 2014, the underlying EBIT margin improved by nearly 2 percentage points compared to the same period last year.

In the first half of 2015, consolidated cash flows from operating activities were DKK 755 million against DKK 706 million in the same period last year, corresponding to an increase of 7%, which is mainly due to an increase in operating profit (EBIT). The corresponding cash conversion ratio (CFFO/EBIT) of 86% was again very satisfactory and at the same high level as last year (85%). Free cash flows (excluding the acquisition of enterprises, participating interests and activities) totalled DKK 543 million against DKK 450 million in the first half of 2014, which is equivalent to an increase of 21%.

## **Other matters**

As of today, the Company has bought back a total of 692,511 shares worth DKK 367 million, bringing the total number of treasury shares to 556,912, corresponding to 1% of the share capital. The Company cancelled 2,236,403 treasury shares at the most recent annual general meeting.

As previously announced, the Group has 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. 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. 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 be launched in the second half of 2015.

## **Outlook for the 2015 financial year**

In the second half of the year, we expect operating profit (EBIT) to be at the same level or exceed the EBIT realised in the first half of 2015. Consequently, we now expect EBIT of DKK 1.8-2.0 billion for the full year against the previously announced range of DKK 1.7-2.0 billion. In view of the strengthened exchange rates, we estimate the positive exchange rate impact on reported Group revenue in 2015 to slightly exceed the previously announced level of 4-5% including the impact of exchange rate hedging. The remaining part of the initial guidance is repeated below and is still based on the assumptions of market and business trends described in our Annual Report 2014:

*“In 2015, we expect to generate growth in sales and earnings in the Group’s three business activities: Hearing Devices, Diagnostic Instruments and Hearing Implants.*

*As far as the hearing aid market is concerned, we expect to see unit growth of 3-4%, which will however be dented by a decline in the market’s average selling price due to continued mix changes and fierce competition. In terms of value, we expect to see flat to slightly positive market trends in 2015. The anticipated growth in 2015 in our own hearing aid wholesale activities is based on the solid momentum gained towards the end of 2014, which has continued into 2015 and has been further fuelled by Oticon’s major global product launch in the first quarter of 2015. Oticon’s new products will from the very start be globally available in all styles and at all price points.*

*In Diagnostic Instruments, we expect a continuation in 2015 of the sales momentum we experienced in the second half of 2014 in a market that is expected to grow by 2-4% in value.*

*In Hearing Implants, i.e. cochlear implants and bone-anchored hearing systems, we expect to deliver double-digit growth rates in 2015 measured in value.*

*The appreciation of several of the Group’s invoicing currencies, most notably the US dollar, is expected to have an estimated 4-5% positive impact on reported Group revenue in 2015 based on exchange rates in early 2015 and including the impact of exchange rate hedging. However, the resulting positive exchange rate impact on the Group’s earnings will partly be offset by the translation of the Group’s Swiss R&D cost base into Danish kroner. The full positive impact on operating profit of the Group’s strengthened invoicing currencies is postponed due to currency hedging.*

*Acquisitions made in 2014 and in 2015 up until today will impact revenue by less than 1% in 2015. Our ongoing efforts to improve the Group’s efficiency through the entire value chain will continue. We will thus build and implement a new global ERP system, establish shared services for our back-office functions, further centralise our ITE production and repair services and put our new global distribution centre in Poland into operation. Also, our cost base will continue to be impacted by our expansion in Hearing Implants, especially driven by R&D and distribution activities. All these major undertakings are meant to deliver value for the Group in the medium to long term, but will in the short term, which means also in 2015, naturally have a dilutive effect on the Group’s profitability, as it has also been the case in recent years.*

*The guidance provided above does not include any impact of the outcome of the current negotiations to acquire Audika.”*

All in all, based on the Group's results in the first half-year, the expected revenue growth in the remaining part of 2015 and our continued efforts to improve our efficiency and to build a future growth platform in Hearing Implants, we are guiding for an operating profit (EBIT) for 2015 in the range of DKK 1.8-2.0 billion (previously DKK 1.7-2.0 billion).



*Further information:*

Niels Jacobsen, President & CEO  
Phone +45 3917 7300  
[www.demant.com](http://www.demant.com)

*Other contacts:*

Stefan Ingildsen, SVP Finance  
Søren B. Andersson, VP IR  
Rasmus Sørensen, IR Officer