

Company announcement no 2016-08

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Interim information

Major milestone with the introduction of Oticon Opn™ – a true paradigm shift Growth in all business activities – 2016 outlook maintained

- Year-to-date, the Group has realised satisfactory revenue growth in local currencies, driven by both organic growth and acquisitions, with Audika being the main acquisition.
- The Group's hearing aid wholesale business delivered strong unit growth above the market unit growth rate, driven by strong performance in Europe. The strong unit growth was partly offset by a decline in the average selling price (ASP) due to unfavourable changes in product, channel and country mix.
- Our retail business was one of the key drivers of growth year-to-date, with organic growth across all regions. In addition, we saw a significant impact from the acquisition of Audika, which is performing according to plan.
- Oticon Medical continues the commercial launch of the new cochlear implant (CI) system Neuro, and we are seeing increasing competition within bone-anchored hearing systems (BAHS). The overall implant market is showing satisfactory growth rates in general, but Oticon Medical is impacted by a slowdown in oil-dependent markets. This market slowdown has also impacted Diagnostic Instruments that has delivered modest growth in a slow market.
- At the annual US congress AudiologyNOW!, which took place in April 2016, the Group reached a milestone with the introduction of Oticon Opn™, a major step forward in technology and end-user benefits. Oticon Opn™ will be available for end-users from the beginning of June 2016.
- In 2016, we expect to generate growth in all our business activities, and we maintain our outlook for 2016 of an operating profit (EBIT) in the range of DKK 2.0-2.3 billion. EBIT for the year will be skewed further than normal towards the second half of the year.

Market trends

Market unit growth rate exceeding historical growth rate

Year-to-date, the unit growth rate on the global market for hearing aids is estimated to have exceeded the Group's general assumption of 4-5% market unit growth. The market is characterised by high growth in channels such as large retail chains and big-box retailers and a lower, but positive, growth level in the independent channel.

The unit growth rate in the US market was in the first three months of the year reported at 10%, predominantly driven by growth in the commercial market with a growth rate of 11%. This growth rate was, however, inflated by the inclusion of two additional suppliers in market statistics in the first quarter. Adjusted for this impact, the total US market is estimated to have grown by approximately 6% in the first quarter of 2016. In the same period, sales to Veterans Affairs (VA) grew by an estimated 5%.

We believe that year-to-date, overall unit growth in Europe has exceeded the historical average, especially driven by Germany. The German market has seen fluctuating growth rates in the past 24 months due to a change in the reimbursement system, but is expected to achieve normal growth rates going forward. As expected, demand by the NHS in the UK picked up in the first quarter, as the comparative period was relatively low.

Mix shifts across channels and countries, in addition to continued fierce competition, continue to put pressure on the market ASP. Overall, we estimate that in terms of value, the global market for hearing aids has seen modest growth year-to-date.

Business trends

Hearing Devices: Strong unit growth, driven by channels with lower average selling prices

The Group's core business – the wholesale of hearing aids – has year-to-date generated strong unit growth, exceeding the market growth rate, despite the early announcement of Oticon Opn™, which slightly dampened growth in certain parts of our wholesale business.

The positive unit growth is particularly apparent in sales to chains, to European public channels and in the export markets where we have enjoyed significant growth. In the US, the Group was impacted by a slowdown in sales in the high-end segment due to recent launches from competitors and deferred sales prior to our upcoming high-end launch. Our market share with VA in the US has remained fairly stable, and sales to the NHS in the UK have grown considerably, however in the light of low comparative figures. Overall, the changes in product, channel and country mixes have had a negative impact on the Group's ASP year-to-date, which we expect to reverse in the latter part of 2016 with the introduction of the new high-end product Oticon Opn™.

At the recently held congress AudiologyNOW! in Phoenix, Arizona, USA, Oticon took a major step forward in technology and end-user benefits with the introduction of Oticon Opn™, creating a paradigm shift by making directionality, as it has been known for years, a thing of the past. With new, groundbreaking technology, Oticon Opn™ will open up the sound environment and balance individual sounds to deliver a rich and meaningful soundscape, empowering the brain to choose on which sounds to focus.

With Oticon Opn™, we have introduced TwinLink™, the world's first dual-radio communication system, an innovative first in the industry enabling the best possible audiological performance. This new technology provides streamer-free connectivity while ensuring high performing, binaural communication and related audiology as well as ultra-low battery consumption.

The new Oticon Opn™ high-end hearing aid will be available in the popular discreet miniRITE style, covering the widest variety of end-user needs. Products will be available in shops from the beginning of June 2016. Due to the late launch in the first half-year, the launch will mainly impact revenue and earnings positively in the second half of the year, which means that EBIT will be skewed further than normal towards the second half of 2016.

The gradual improvement we have made in our retail activities in the past year are materialising, and our retail business has generated high growth year-to-date, partially driven by increased marketing activities with correspondingly increased spendings. This satisfying performance is broadly based across all the regions where we have retail activities, with organic growth rates exceeding the market growth rates.

Hearing Implants: Growth expectations remain very positive

The overall market is showing satisfactory growth rates in general, but Oticon Medical continues to be impacted by the slowdown in oil-dependent markets where a relatively large part of our products are sold.

Oticon Medical continues the commercial launch of Neuro, the first cochlear implant (CI) system developed by Oticon Medical. Initial feedback from clinics and surgeons is very positive, and the product has performed well on critical parameters such as reliability, complexity and handling by surgeons, and revenue is increasing each month. However, launching the new CI system is a relatively slow process – in fact slower than expected – and spending for launch activities is still high.

In the market for bone-anchored hearing systems (BAHS), we are seeing increased competition. The introduction of the Minimally Invasive Ponto Surgical (MIPS) technique is living up to expectations and is expected to be an essential growth driver, as the initial training of surgeons is progressing.

Diagnostic Instruments: Positioned for growth with new product introductions

Diagnostic Instruments delivered positive growth rates in a soft market that – like Oticon Medical – is challenged by difficult market conditions in oil-dependent countries of North Africa, the Middle East and South America as well as in Russia. Diagnostic Instruments has introduced new products through Grason-Stadler, Interacoustics and Micromedical, thereby strengthening its position as the innovative market leader.

Other business areas: Sennheiser Communications performing according to plan

Year-to-date, sales and order intake in Sennheiser Communications, our joint venture with Sennheiser electronic GmbH & Co. KG, have developed as planned.

Other matters

Share buy-back

Year-to-date, the Company has bought back a total of 321,912 shares worth DKK 199 million. The Company's holding of treasury shares corresponds to 0.14% of the share capital. This holding does not include the shares that were cancelled following the authorisation granted at the annual general meeting to reduce the share capital by nominally DKK 1,208,870, corresponding to the holding of treasury shares at 9 March 2016.

We will continue our current share buy-back programme to channel our 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. From 2014 and up until today, the Company has bought back shares at a total price of DKK 1.69 billion.

Outlook for 2016

We maintain our 2016 outlook as stated in our Annual Report 2015, including our expectation to generate growth in sales in all the Group's three business activities: Hearing Devices, Hearing Implants and Diagnostic Instruments. Based on exchange rates in early 2016 and including the impact of exchange rate hedging, we expect the exchange rate impact on revenue to be neutral in 2016. Acquisitions made in 2015 will impact consolidated revenue by approximately 6% in 2016.

In 2016, the Group's operating profit (EBIT) will be skewed further than normal towards the second half of the year due to, among other things, the launch of Oticon Opn™ at the beginning of June, losses on forward exchange contracts in the first half-year and seasonality in Hearing Implants.

In 2016, we are guiding for an EBIT of DKK 2.0-2.3 billion.



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