

Company announcement no 2015-15

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Interim information, third quarter

Satisfactory, above-market organic growth in the core business

Major milestone reached with the pre-launch of Neuro, Oticon Medical's first CI system

Outlook for 2015 maintained

- Driven by the successful Oticon Inium Sense platform, the Group's core business – the wholesale of hearing aids – has generated satisfactory organic growth year-to-date, exceeding the market growth rate.
- The gradually improved growth momentum we have seen in our retail activities since the beginning of the year, especially in North America, continues.
- We have successfully initiated pre-launch, clinical trials of Oticon Medical's first ever cochlear implant system, thereby reaching an important milestone. The commercial launch of the system is expected to take place in the fourth quarter of 2015, which is later than initially planned and will therefore defer most of the revenue and earnings effect to 2016.
- Sales in Diagnostic Instruments have been soft in a market showing flat growth. We still expect to see improved momentum during the remaining part of the year driven by recent product launches and tenders.
- We have seen improvement in the underlying EBIT margin year-to-date compared to the same period last year, when adjusting for exchange rate effects and earn-outs in 2014.
- For the full year, we continue to expect growth in sales and earnings and an operating profit (EBIT) of DKK 1.8-2.0 billion, including Audika. The take-over of Audika is expected to positively impact consolidated revenue by an estimated DKK 194-216 million, whereas the impact on EBIT is expected to be limited due to transaction costs and other non-recurring costs related to the take-over.

Market trends

Year-to-date, unit growth on the global market for hearing aids is estimated to have slightly exceeded the Group's general assumption of 3-4% unit growth in the market.

Unit growth in the US market slowed down in the second half of the year, especially unit sales to Veterans Affairs (VA), compared to the 9% unit growth rate recorded in the first half of 2015. Year-to-date, unit growth in the US market has, however, been encouraging and has actually exceeded the historical average growth rate. Growth was driven by both the private sector and VA.

We believe that year-to-date, overall unit growth in Europe has been in line with the historical average growth rate. Having seen low, double-digit, negative growth in the first half of 2015, Germany has improved going into the second half-year. As expected, demand by the NHS in the UK has picked

up in the second half-year, thereby bringing year-to-date growth to a normal level following negative growth in the first half-year.

Characterised by a low level of orders placed, delayed tenders and significant currency headwind, the overall hearing healthcare market in Russia has been tough in 2015, resulting in a material market slowdown.

Several key hearing aid markets are characterised by fierce competition, which continues to put some pressure on average selling prices (ASP). All in all, we estimate that in terms of value, the global market for hearing aids has seen flat to modest growth year-to-date.

Hearing Devices

The Group's core business – the wholesale of hearing aids – has generated satisfactory organic growth year-to-date, exceeding the market growth rate. The successful Oticon products based on the unique Inium Sense platform continue to be the main growth driver. Feedback from both existing and new hearing care professionals and end-users continues to be very positive.

The positive momentum is still particularly apparent in the independent channel in the US where we have enjoyed significant growth and market share gains. Our market share with VA in the US has remained fairly stable, and sales to the NHS in the UK have normalised despite a weak first half-year.

At the recently held EUHA congress in Nuremberg, Germany, Oticon showcased three new, innovative Power solutions that set new standards for meeting the unique needs of people suffering from severe to profound hearing loss. The new Oticon Dynamo, Sensei SP and Plus Power are the first Power solutions built on the ultra-fast Inium Sense platform that supports Oticon's BrainHearing™ technology to deliver the clearest sound possible to help the brain make sense of sound. Proven BrainHearing™ technology lets users enjoy a more natural listening experience and better speech understanding with less effort. The Inium Sense platform enables the new Power solutions to provide higher gain and output, improved feedback control and a more personalised listening experience. The three strong additions to the Oticon product portfolio were launched at the end of October and are expected to contribute to growth for the remainder of the year and into 2016. Also at EUHA, Bernafon introduced BeFlex, the world's only fitting and counselling concept of its kind, enabling demonstration of three different performance categories at once – and in a single hearing instrument. Reactions to the concept have been positive, and the concept will help the Group's core business gain further sales momentum.

The gradual improvement we have seen in our retail activities after a slow start to the year continues. The positive trend is especially pronounced in North America, but most of our European retail activities deliver revenue growth in line with our expectations. A common business model across clinics in a local retail market is key to delivering growth, so we will continue our local consolidation efforts.

On 29 September 2015, we completed the acquisition of a controlling interest in Audika Groupe, which is one of the leading networks of hearing healthcare providers in France. The subsequent mandatory public tender closed on 6 November and as a result, William Demant now holds a total of 8,933,269 shares in Audika, representing 94.53% of the share capital and 94.52% of the voting rights.

William Demant will continue to acquire Audika shares in compliance with applicable regulations and reserves the right, in the event that it subsequently comes to hold more than 95% of the voting rights in Audika, to file with the French Financial Markets Authority (AMF) a draft public buy-back offer to be followed by a squeeze-out. The take-over of Audika is expected to positively impact consolidated revenue in 2015 by an estimated EUR 26-29 million, equivalent to DKK 194-216 million. We expect to expense transaction costs and other non-recurring costs related to the take-over, and the impact of the transaction on the Group's operating profit (EBIT) in 2015 is therefore expected to be limited. William Demant's Annual Report 2015 will provide more details on the financial impact of the transaction.

Hearing Implants

Oticon Medical has successfully initiated pre-launch, clinical trials of Oticon Medical's first ever cochlear implant system (CI) in France, Denmark and Germany with positive initial results. Regulatory approvals in multiple markets will pave the way for the expected commercial launch of the system in the fourth quarter and will thus substantially increase the competitiveness of Oticon Medical, which will trigger additional growth from early 2016. The commercial launch of the system is expected to take place in the fourth quarter of 2015, which is later than initially planned and will therefore defer most of the revenue and earnings effect to 2016. Furthermore, in 2015 the market for cochlear implants (CI) has been softer than normal, but we still expect high market growth going forward, and we remain confident of the potential of this business area.

In the market for bone-anchored hearing systems (BAHS), we are currently introducing several innovative products, including a truly new *Minimally Invasive Ponto Surgical* (MIPS) technique that leaves no scarring and is designed to minimise post-op complications and improve the cosmetic aspects of the surgery compared to other techniques used. We are seeing increased competition in the bone conduction market where the *transcutaneous* segment is experiencing some traction, but we continue to gain market share in the *percutaneous* segment, i.e. the segment in which we are currently present.

Total growth in Hearing Implants has been slightly lower than anticipated, and besides the delayed launch of our new CI system, which has taken a lot of resources, we have seen difficult market conditions in a few markets, including Russia and the Middle East.

Diagnostic Instruments

Sales in Diagnostic Instruments have been soft in a market showing flat growth. We have seen limited tender sales and very difficult market conditions in Russia. We still expect to see improved momentum during the remaining part of the year driven by recent product launches and tenders.

Other business units

Sennheiser Communications, our joint venture with Sennheiser KG, has delivered significant organic growth, thereby exceeding the market growth rate.

Other matters

Compared to the same period last year, we have year-to-date seen an improvement in the underlying EBIT margin based on comparable exchange rates and adjusted for hedging effects and earn-outs in 2014. We have seen depreciation of several unhedged, dollar-related currencies into the second half-year, leading to a negative, full-year exchange rate effect on our operating profit (EBIT).

As of today, the Company has in 2015 bought back a total of 950,006 shares worth DKK 509 million. The total number of treasury shares is 814,407, corresponding to 1.50% of the share capital. The share buy-back is part of our previously announced plans to buy back shares worth DKK 2.5-3.0 billion in the period from 2014 to 2016.

Outlook for the 2015 financial year

For the full year, we expect growth in sales and earnings and an operating profit (EBIT) of DKK 1.8-2.0 billion, including Audika. The take-over of Audika is expected to positively impact consolidated revenue in 2015 by an estimated EUR 26-29 million, equivalent to DKK 194-216 million, and we now expect a total acquisition impact on Group revenue in 2015 of approx. 3% (previously less than 1%). We expect to expense transaction costs and other non-recurring costs related to the take-over of Audika, and the impact of the transaction on the Group's operating profit (EBIT) in 2015 is therefore expected to be limited.



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