

Company announcement no 2016-11

Interim Report 2016

17 August 2016

16% revenue growth in local currencies driven by retail; Opn™ off to a strong start to drive growth in H2
Increased share of retail impacting the Group's cost structure and EBIT margin
Group executes on strategic initiatives to further improve efficiency

William Demant Holding A/S today published its Interim Report 2016. Selected highlights from the Interim Report are summarised below:

- In the first half-year, the Group realised revenue of DKK 5,810 million, corresponding to revenue growth of more than 16% in local currencies of which almost 7 percentage points were attributable to organic growth and 10 percentage points to acquired growth. Our business activity Hearing Devices delivered solid unit growth in our wholesale business and particularly strong growth in our retail business, whereas the business activities Diagnostic Instruments and Hearing Implants were both challenged by difficult market conditions in the first half.
- Based on the new Velox platform, Oticon Opn™ was successfully launched in all key markets at the end of the first half-year, but it will mainly contribute to growth in the second half of 2016. Due to the late launch of Opn™ in June, we saw a slowdown in the high-end segment in the months leading up to the launch, particularly in the US. This resulted in negative product and country mixes in the first half of 2016, impacting the average selling price (ASP), which are, however, expected to improve in the second half-year.
- To ensure continuous cost efficiency gains and to support our future scalability at a lower cost, we have defined several strategic initiatives to be implemented in 2016 to 2018. We consider cost-efficient and strong set-ups in operations and R&D to be among the key drivers of future profit growth. Therefore, we will continue to move operational activities to Poland and Mexico. Consequently, the production facility in Eagan (USA) was closed down in the first half of 2016, and we plan to move the remaining activities in Thisted (Denmark) to Poland before the end of 2018. We are evaluating the possibility of moving R&D from Switzerland to Poland and Denmark where we expect to increase staff.
- In size and scope, the defined initiatives go beyond what would be characterised as normal business, and the total restructuring costs of around DKK 500 million from 2016 to 2018 will have a noticeable impact on our cost base and deliver annual savings of around DKK 200 million, once the initiatives are fully implemented, in addition to future scale effects. Restructuring costs incurred in the first half-year of 2016 amounted to DKK 52 million, and adjusted for this, operating profit (EBIT) was DKK 892 million (DKK 891 million in the first half of 2015). The adjusted EBIT margin was 15.4% in the period under review and was adversely impacted by strong retail growth of 43% in local currencies affecting the Group's cost structure. Reported EBIT amounted to DKK 840 million (DKK 880 million in the first half of 2015).
- In 2016, we maintain our expectations to generate growth in all our business activities and realise an operating profit (EBIT) of DKK 2.0-2.3 billion before restructuring costs, which are expected to total DKK 200 million in 2016.

“I am happy to see the positive top line growth of an impressive 16%. We have yet to see the effect of Oticon Opn launched late in the period, which – in combination with a relatively high cost base – has led to an EBIT skewed towards the second half-year. Therefore, I am particularly delighted with the exceptionally positive end-user reactions to Opn, which makes me confident that we will see strong performance in the second half-year and onwards,” says Niels Jacobsen, President & CEO of William Demant Holding A/S.

“We have now taken the next steps in our ambitious plan to obtain further efficiency gains and support our future growth, as I believe it is of great importance that we establish strong and cost-efficient set-ups in operations and R&D to stay competitive in the hearing healthcare market,” Niels Jacobsen continues.

Adjusted income statement

(DKK million)	1st half 2016	Restructuring costs	Adjusted 1st half 2016	1st half 2015	Restructuring costs	Adjusted 1st half 2015
Revenue	5,810		5,810	5,043		5,043
Production costs	-1,461	20	-1,441	-1,300		-1,300
Gross profit	4,349	20	4,369	3,743	0	3,743
Research and development costs	-404	8	-396	-369		-369
Distribution costs	-2,786	17	-2,769	-2,248	6	-2,242
Administrative expenses	-334	7	-327	-274	5	-269
Share of profit after tax, associates and joint ventures	15		15	28		28
Operating profit (EBIT)	840	52	892	880	11	891

For the full Interim Report, we refer to our website, www.demant.com.



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