

William Demant



Interim Report 2016

August 2016



Agenda

- Key take-aways
- Group highlights
- Strategic initiatives
- Group financials
- Outlook 2016
- Q&A



Key take-aways



Key take-aways H1 2016



16% revenue growth – mainly driven by retail



Introduction of Oticon Opn™ late in the period



Diagnostic Instruments and Hearing Implants challenged by difficult market conditions



Continued commitments to R&D



Execution on strategic initiatives

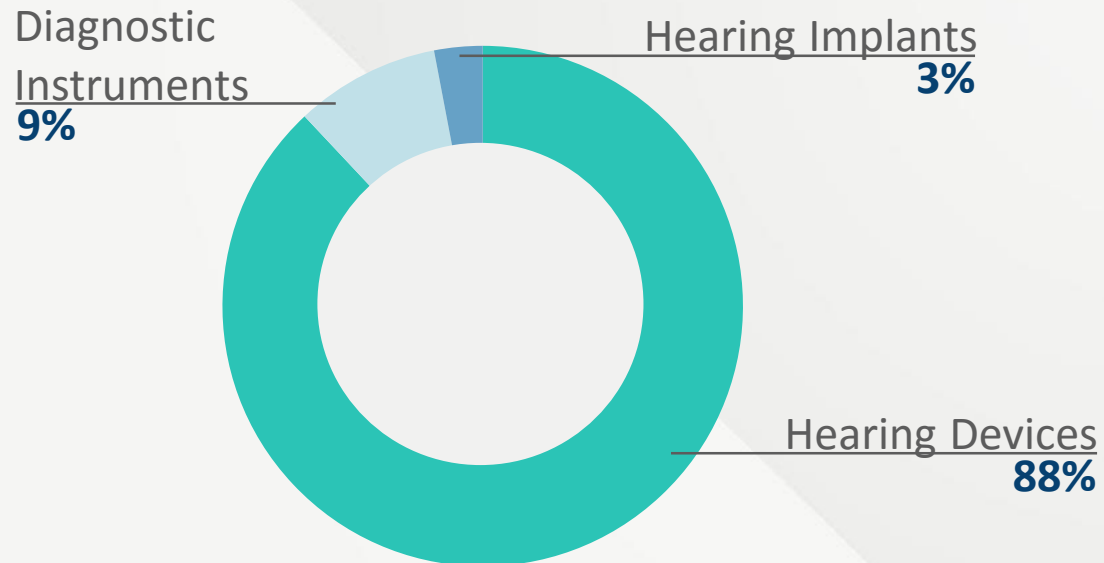


Group highlights



The William Demant Group

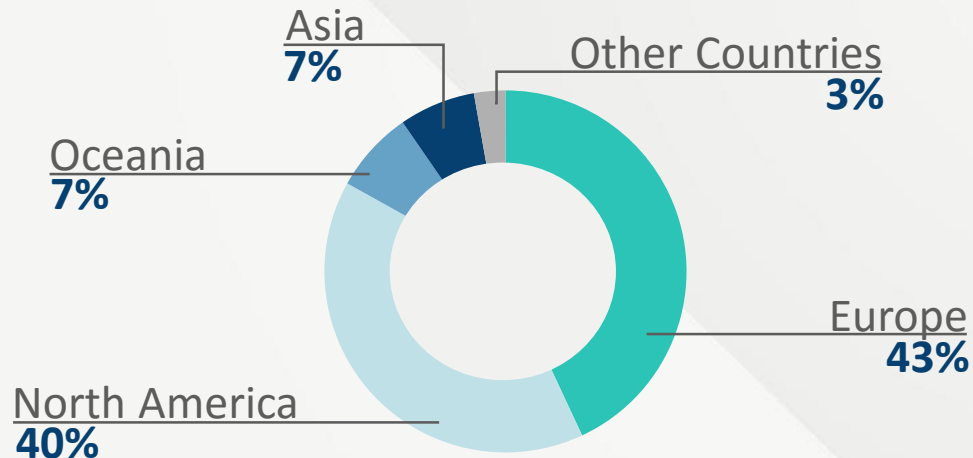
DKK million	H1 2016	H1 2015	Change	Change in local currencies
Hearing Devices	5,096	4,343	17%	18%
Diagnostic Instruments	515	507	2%	4%
Hearing Implants	199	193	3%	6%
Total	5,810	5,043	15%	16%



- 16% revenue growth in local currencies
 - Driven by strong growth of 43% in retail
 - Organic and acquired growth of 7 and 10 percentage points respectively
- Diagnostic Instruments and Hearing Implants challenged by difficult market conditions

The William Demant Group

DKK million	H1 2016	H1 2015	Change	Change in local currencies
Europe	2,499	1,858	35%	35%
North America	2,326	2,157	8%	7%
Oceania	426	441	-3%	3%
Asia	395	387	2%	4%
Other countries	164	200	-18%	-7%
Total	5,810	5,043	15%	16%



- High double-digit revenue growth in Europe
 - Organic growth of 11%
- Organic growth in all major markets
 - Except *Other countries* negatively impacted by a slowdown in the oil-dependent countries

Global hearing aid market

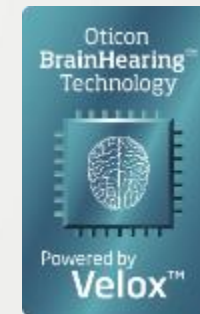
Global market unit
growth > 4-5%



- Estimated global market growth rate slightly above the Group's general expectations of 4-5% unit growth
- The global average selling price (ASP) is still under pressure, mainly due to shifts in channels, fiercer competition and changes to public subsidy schemes
- In terms of value, the global market for hearing aids is estimated to have seen modest growth in the first half of 2016

Hearing Devices

- Our Hearing Devices business activity generated revenue growth of 18% in local currencies
 - Mainly driven by strong organic and acquired growth in our retail business of 43%
- Solid unit growth of 10% in our wholesale business
- Unfavourable product and country mixes prior to launch of Opn™
- Oticon Opn™ launch with strongest uptake ever



Oticon Opn™ off to a strong start

Oticon Opn™



- The paradigm shift
- 2.4 GHz wireless connectivity
- The world's first Internet-connected hearing aid (IFTTT)

“Oh my gosh, it was like a new world and it wasn’t because things are louder, it’s because things are better.”

“At dinner with multiple conversations going on, I was able to participate in whichever one I wanted to, even more than one at a time.”

“I was amazed how well I could focus on particular conversations while ignoring other conversations and sounds. This represents a significant improvement.”

“The birds’ songs are livelier, clear and beautiful. The planes roar from all directions. The rustling of leaves fill the air in the wind.”

Oticon Opn™ – status

- Successfully launched in all main markets
 - Few technical fitting issues now solved
- Tremendous interest in all channels
 - Cannibalisation of old portfolio
- Will be introduced in the VA channel in November
- Additions to Opn™ family to be presented at EUHA



Hearing Implants

- Hearing Implants realised lower-than-expected revenue growth of 6% in local currencies
 - In our CI business, some large tenders have been postponed to the second half of 2016, thus impacting the reported numbers negatively in H1
 - Our BAHS business saw growth of 6% in local currencies; the increase in revenue was dampened by increasing competition
- Very positive reactions to new Neuro CI system
- Significantly dilutive effect on the Group's profitability in H1



Diagnostic Instruments

- Diagnostic Instruments saw 4% growth in local currencies
 - Significant decline of sales in export markets
- We expect to see improved results in H2




Interacoustics


Grason-Statler


amplivox

MedRx

 **Micromedical**
TECHNOLOGIES™

 **MAICO**

Sennheiser Communications

- Sennheiser Communications, our joint venture with German Sennheiser KG, delivered negative revenue growth of 12%
 - Mainly due to lower-than-expected growth in the CC&O segment and tough comparative figures
- Positive outlook for H2 2016

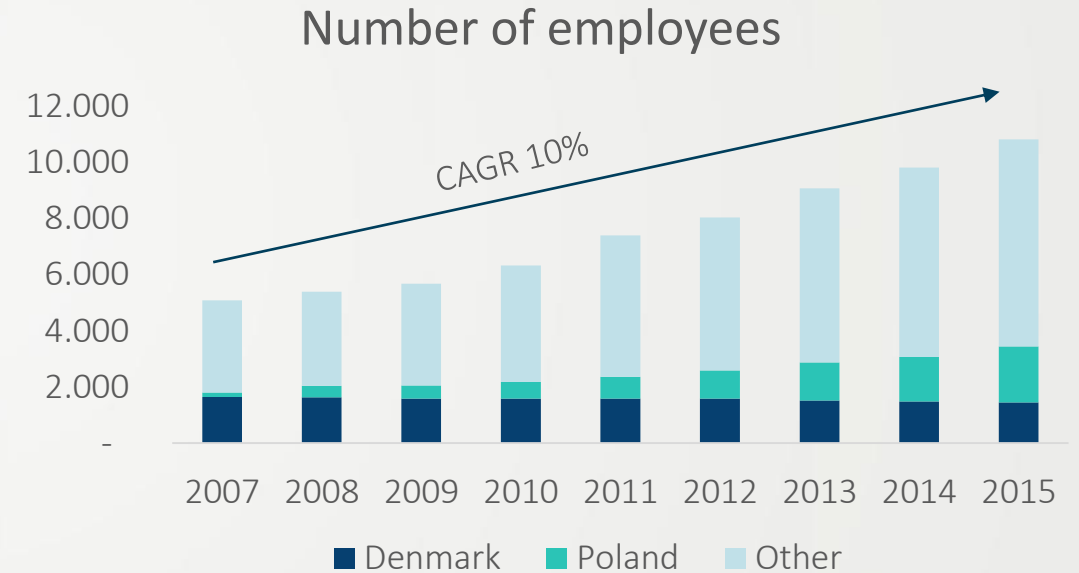
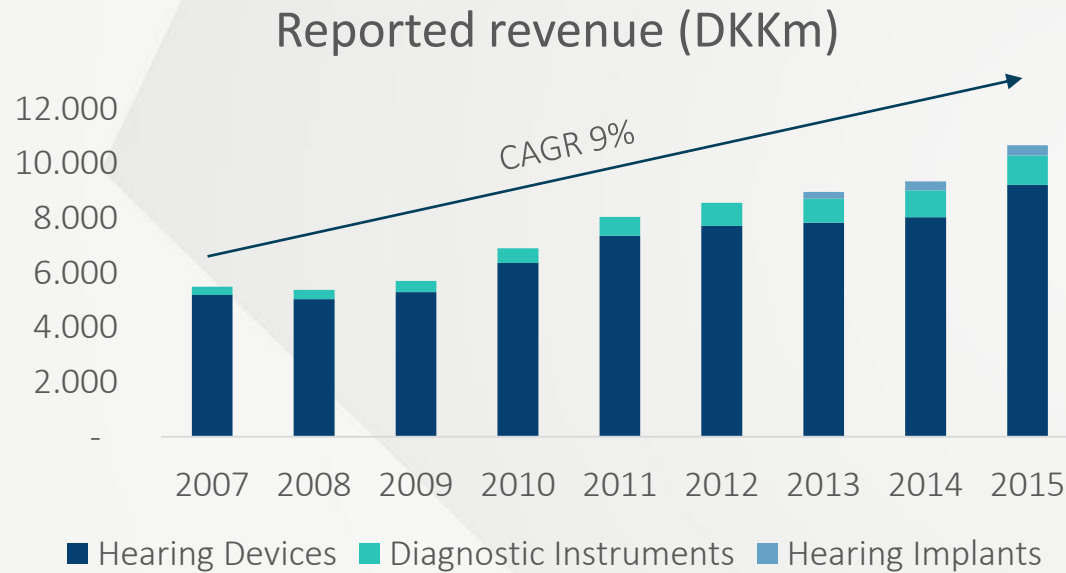




Strategic initiatives



Need for strong set-ups to support growth



Efficiency improvements have offset lower prices

Expanding industry-leading gross margins despite lower prices

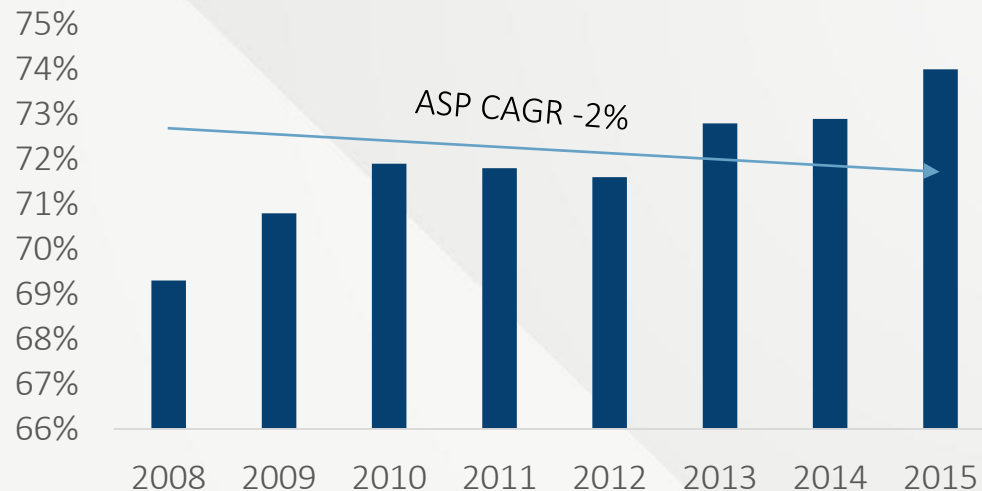
Lower prices
(negative for gross margin)

Operational efficiency
(positive for gross margin)

Economies of scale
(positive for gross margin)

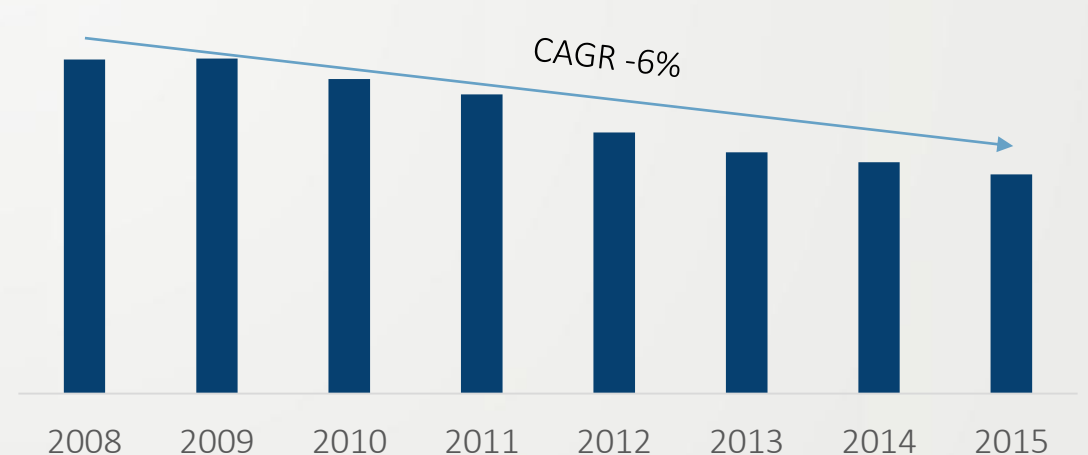
Retail acquisitions
(positive for gross margin)

Gross margin development



Note: ASPs (RHS) are based on constant exchange rates

Hearing aid cost per unit



Note: Standard products are based on constant exchange rates

Global operations footprint

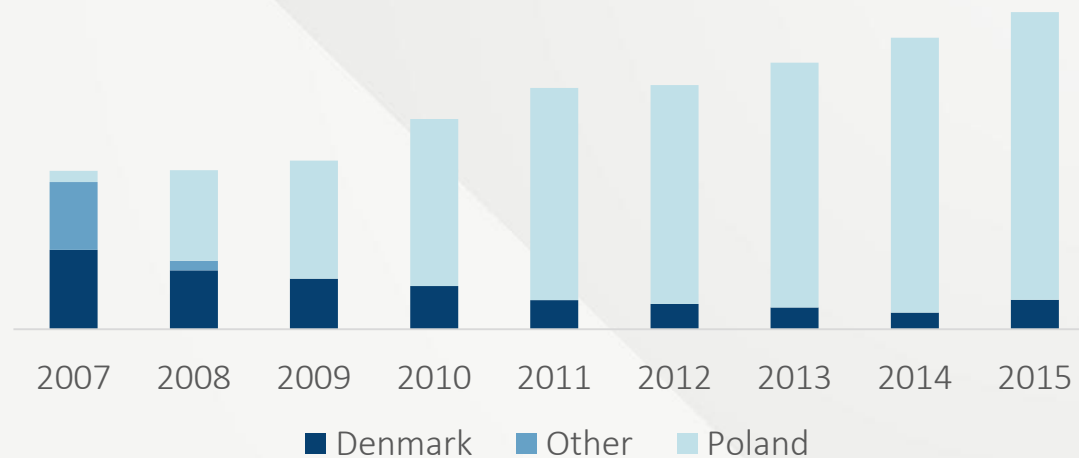
- Economies of scale
- Central production
- Future ambition to build three main production hubs



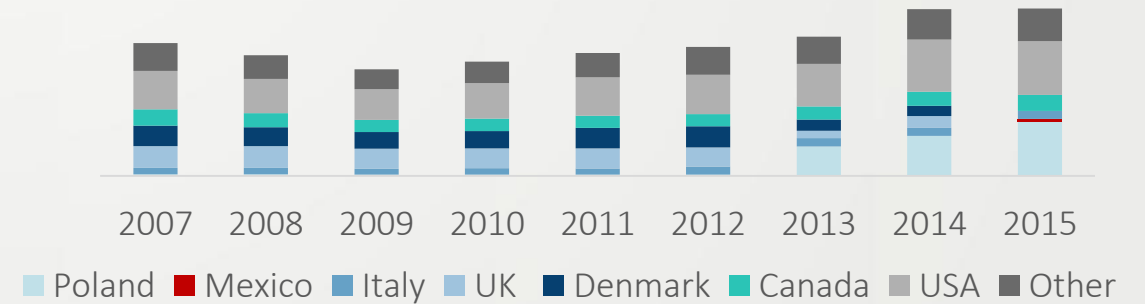
Global locations: Poland, Mexico

Major local locations: Denmark, Italy, Germany, France, USA, Canada, China, Korea, Australia and Japan

Standard production



Custom production



Consolidating production to fewer locations

Gathering knowledge and skills at fewer production hubs to obtain maximum output in a competitive, scalable and cost-efficient way

Poland as the Group's central production hub in Europe

- Mierzyn, Poland: 90% of our production and 2,000+ employees
- Activities in Thisted will be moved to our site in Poland by the end of 2018
- The move will affect approx. 210 employees

Expanding new site in Mexico

- The production facility in Eagan (US) was closed down in the first half of 2016
- We continue to move operational activities to Mexico

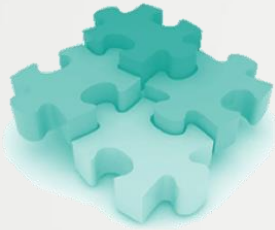
Building strong, cost-efficient R&D set-ups



- Building two main R&D hubs in Poland and Denmark in order to secure optimal R&D output in a cost-efficient way
- We are evaluating different options of moving R&D from Bern (Switzerland) to Poland and Denmark, with the aim to make a simpler and more cost-efficient R&D set-up
- With this set-up, we can build a strong platform for continuous and successful expansion within R&D

Executing on initiatives to improve efficiency

To create the best possible platform for future growth with the most competitive, scalable and cost-efficient set-up, we have defined several ***strategic initiatives*** to be implemented in 2016 to 2018.



Initiatives with the largest impact

- Consolidating production at fewer locations
- Building two main R&D hearing aid hubs in Denmark and Poland



Financial impact

- Expected total costs of DKK 500 million – hereof DKK 200 million in 2016
- Restructuring costs in the first half of 2016 of DKK 52 million
- Annual savings of around DKK 200 million when initiatives are fully implemented in addition to scale effects in future growth



Group financials



Adjusted income statement

DKK million	Reported H1 2016	Restructuring costs	Adjusted H1 2016	Reported H1 2015	Restructuring costs	Adjusted H1 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

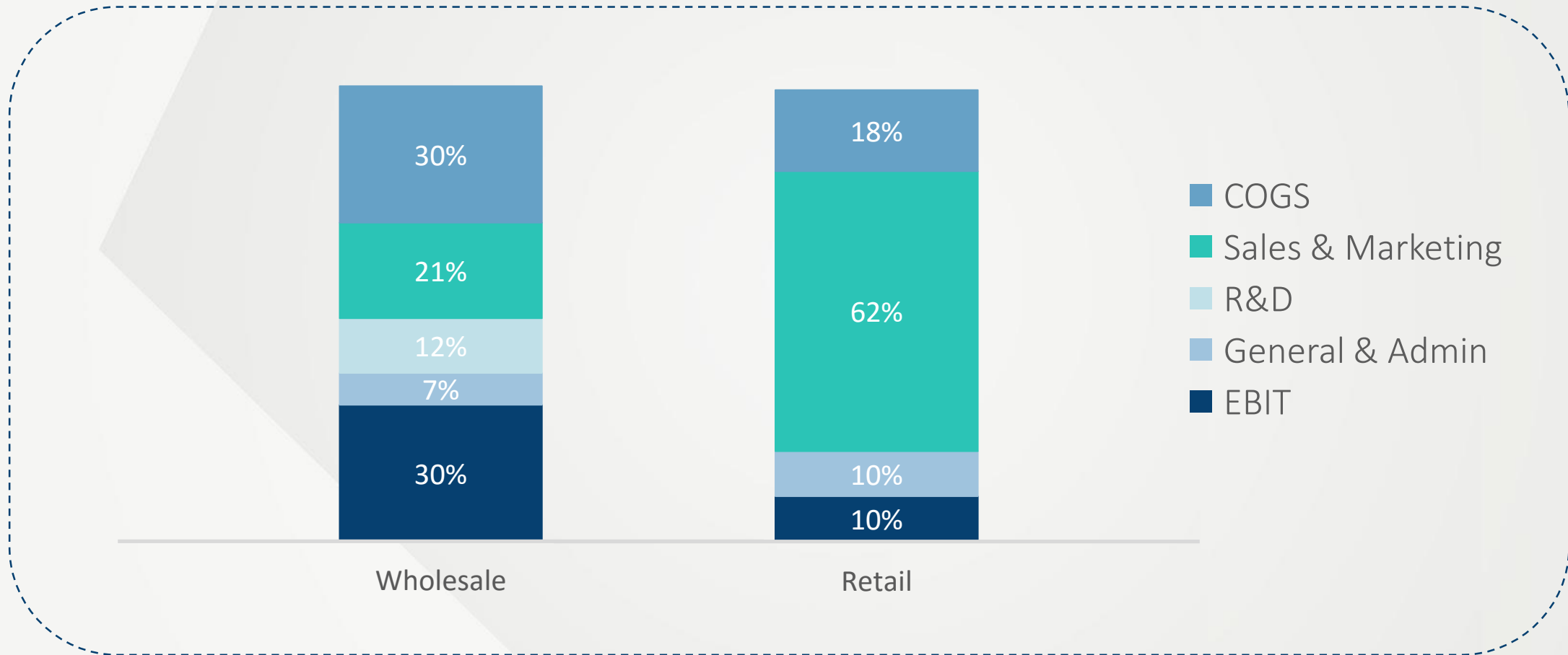
- Restructuring costs incurred in the first half of 2016 amounted to DKK 52 million
- Adjusted EBIT margin of 15.4% was adversely impacted by strong retail growth and a challenging half-year in Diagnostic Instruments, Hearing Implants and Sennheiser Communications
- EBIT skewed further than normal towards the second half-year

Group underlying development

	Adjusted income statement (restructuring costs)			FX adjustments		Adjusted income statement		
DKK million	2015	2016	Change	2015	2016	2015	2016	Change
Revenue	5,043	5,810	15.2%	-21	33	5,022	5,843	16.3%
EBIT	891	892	0.1%	59	17	950	909	-4.3%
EBIT margin	17.7%	15.4%				18.9%	15.6%	

- Revenue and EBIT for H1 2015 have been adjusted to reflect FX applied in H1 2016
- The impact of hedging and other transactional effects has been eliminated in revenue and EBIT for H1 2015 and H1 2016

Wholesale vs. retail



Note: The illustration above is a mechanical example showing percentage of revenue

Balance sheet

Assets			
DKK million	H1 2016	H1 2015	FY 2015
Intangible assets	6,300	4,273	5,977
Property, plant and equipment	1,754	1,641	1,768
Other assets	1,834	1,724	1,837
Non-current assets	9,888	7,638	9,582
Inventories	1,257	1,312	1,324
Receivables etc.	3,095	2,578	2,810
Cash	706	571	674
Current assets	5,058	4,461	4,808
Total assets	14,946	12,099	14,390

Equity and liabilities	H1	H1	FY
DKK million	2016	2015	2015
Equity	6,704	6,088	6,500
Non-current liabilities	2,681	1,276	2,761
Current liabilities	5,561	4,735	5,129
Equity and liabilities	14,946	12,099	14,390

Increase in balance is attributable to:

- Acquisitions
- Receivables

Cash flows

DKK million	H1 2016	H1 2015	FY 2015
Operating profit (EBIT)	840	880	1,878
Non-cash adjustments	160	153	326
Changes in working capital	-112	-192	-296
Dividends	8	79	79
CFFO	728	755	1,592
CFFI excluding acquisitions	-224	-212	-463
Free cash flows	504	543	1,129
Acquisitions	-229	-140	-1,633
Buy-back of shares	-439	-316	-605
Other financing activities	258	995	1,654
Net cash flows for the period	94	1,082	545



Outlook for 2016



Outlook for 2016


We expect to see a market unit growth rate of 4-5% in the hearing aid market, which will however be partly offset by a decline in the market's ASP due to continued mix changes and fierce competition. In terms of value, we expect to see a slightly positive market trend in 2016.

We expect 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 approx. 6% in 2016.

In 2016, EBIT is expected to be skewed further than normal towards the second half of the year due to, among other things, the timing of the Oticon Opn™ launch, losses on forward exchange contracts affecting H1 and seasonality in Hearing Implants.

We maintain our guidance for an operating profit (EBIT) of DKK 2.0-2.3 billion before restructuring costs, which are expected to total DKK 200 million in 2016



William Demant

Q&A



Appendix



Income statement (reported)

DKK million	H1 2016	H1 2015	Change	Change in local currencies
Revenue	5,810	5,043	15%	16%
Gross profit	4,349	3,743	16%	
<i>Gross profit margin</i>	74.9%	74.2%		
Research and development costs	-404	-369	9%	10%
Distribution costs	-2,786	-2,248	24%	27%
Administrative expenses	-334	-274	22%	25%
Share of profit after tax, associates and joint ventures	15	28	-46%	
Operating profit (EBIT)	840	880	-5%	
<i>Profit margin (EBIT margin)</i>	14.5%	17.4%		
Profit for the period	634	669	-5%	
Earnings per share (EPS), DKK	2.4	2.5	-4%	