

## The Chairman's report at William Demant Holding A/S' annual general meeting on Monday 27 March 2017 at 4 pm

It is now the 10th and last time – but I will come back to that – that I am standing here and delivering my report on the past year's events in the hearing healthcare company William Demant Holding. It has always been a pleasure and often also with great satisfaction. 2016 was a particularly good year, and it is with both pleasure and satisfaction that the Board looks back on the past year.

I would like to start my report by briefly outlining the financial results achieved in the past year. I will then dive into the three central business areas in our hearing healthcare Group: the business activities Hearing Devices, Hearing Implants and Diagnostic Instruments. I will also touch on Sennheiser Communications. After giving an outline of the dynamics of our hearing healthcare strategy, I will briefly talk about the recently announced Management change. Lastly, I will touch upon the special topics that are an integral part of a general meeting.

### Looking back on the past year

Let us start with the financial key figures and our guidance for 2017:

- The Group generated revenue of just over DKK 12 billion, corresponding to a double-digit growth rate of 13%.
- After a strong finish to the year, the Group's operating profit rose by 12% to a record DKK 2.13 billion before restructuring costs.
- Driven by the very successful Oticon Opn hearing aid, the organic growth rate in our wholesale of hearing aids reached 6%.
- Growth in revenue in our retail business was 30% in local currencies of which 8 percentage points can be attributed to organic growth.
- Earnings per share was DKK 5.5, or an increase of 4% compared to 2015.
- In 2017, we expect to achieve solid growth in our three business activities, and for the coming year, we thus expect an operating profit in the interval of DKK 2.2-2.5 billion before restructuring costs.

Those were the key figures, which Niels will elaborate on later. Now, I would like to dive into special events in our different business activities:

## Hearing healthcare

### Hearing Devices

Our core business – the development, manufacture and wholesale of hearing aids – finished the year on a high note in terms of organic revenue growth. This is mainly due to the launch of Oticon's hearing aid Opn in June 2016.

Oticon Opn is based on an entirely new and very powerful platform called Velox. The hearing aid distinguishes itself by performing sound processing extremely fast, and we have described this technology as a paradigm shift. By that, we mean that Opn picks up the *entire* sound picture, sorts the sounds and sends the relevant sounds to the user's hearing aids. That is different from what other hearing aids on the market do, which

focus on individual sources of sound. By picking up the entire sound picture, Opn enables the user to better understand speech – also in noisy surroundings. It is paramount for hearing aid users that they get better opportunities to interact in noisy surroundings without experiencing fatigue, physical strain and limitations. And that is exactly what Opn does.

Oticon Opn is also the world's first Internet-connected hearing aid. That means that the users get access to a lot of new functions and applications in their everyday life. It may sound a bit abstract. The most concrete image we have used to explain Internet hearing aids to new users and professionals is the doorbell. It is now possible to connect a digital doorbell to the hearing aid and receive the sound of the doorbell directly in the ears when somebody rings the bell. We have only just opened the door, in a manner of speaking, to this connectivity universe, but we see it as a pivotal part of our ambition to create products based on the users' needs.

Opn has now been on the market for more than half a year, and surveys confirm that what we have is a truly ground-breaking product that provides the user with a far better hearing experience. We expect that Opn will also in the future help us win market shares.

Towards the end of the year – more specifically in November – we saw a steep climb in our sales to the important sales channel Veterans Affairs in the US. We thus reached a market share of 11%, which we intend to build on in 2017. Also at the end of 2016, we expanded the Opn product family by adding two new members, Opn 2 and Opn 3. The fact that Opn is now available at more price points and in more styles will contribute to us maintaining our good momentum in 2017.

### *Retail*

In the past six or seven years, we have increased our focus on retail. It is an area where we are seeing more acquisitions and strategic collaborations, which was also the case in 2016. In overall terms, William Demant's retail business is in a generally favourable position: We enjoy high growth rates, and in many markets, we have exceeded the market growth rate. Our US retail business, which is the largest in the Group, has however been impacted by restructuring and the integration of new IT systems. Growth has therefore been lower here than in other regions, but in overall terms, we are still satisfied with the profitability in our US retail business. In Europe, we have done really well in retail, while working on integrating our French retail chain, Audika, which we acquired at the end of 2015. And let me say that we have been quite successful.

### **Hearing Implants**

If we take a look at our hearing implants business, Oticon Medical, it is important to distinguish between two business areas: Bone-anchored hearing systems, an area in which we have been active for quite some time and enjoy a solid market position, and cochlear implants, which represent the latest and maybe most advanced treatment of hearing loss – a treatment that in reality makes it possible for deaf people to hear.

As far as bone-anchored hearing systems are concerned, we introduced a brand new product, Ponto 3, at the end of 2016, which came off to a very good start. With this type of products, the time span between launching and selling a product is very short, which is more or less the same with hearing aids. It is somewhat different when it comes to cochlear implants, which is still a new business area for us and an area where we are still in the process of building relations. It is a tough long-distance race that requires you to get access to doctors and surgeons. Oticon Medical has worked very hard on rolling out Neuro, our first in-house developed cochlear implant, which we can be really proud of. In 2016, we performed cochlear implantations in

clinics in 17 different countries, and we have thus gathered results from more than 350 active users. It is a long haul, but we are still convinced that this business activity has long-term growth and earnings potential.

### **Diagnostic Instruments**

In our line of business, we are seeing a growing need to focus our research and development efforts on software development. For one thing, we need to be at the forefront of future end-user requirements for digital solutions, but we also need to stay one step ahead when it comes to trends in the public sector in relation to eHealth. Our diagnostics business launched a software-based assessment tool in 2016, and we have since then expanded heavily in this area.

Although Diagnostic Instruments generated modest growth, the business activity cemented its leading position on the market for diagnostic equipment. As was the case the year before last, our diagnostics business was also in 2016 impacted by the fact that the oil-dependent countries put fewer orders out to tender. Hence the modest growth. But particularly the second half-year saw improvements in our diagnostics business – improvements driven by new products and better momentum in key markets in Europe as well as in the US and Australia.

### **Sennheiser Communications**

In addition to our broad and deep knowledge of all aspects of hearing technology, we benefit greatly from our involvement in Sennheiser Communications. This joint venture gives us valuable insight into the consumer electronics market. Sennheiser Communications manufactures headsets and solutions for the professional Call Center & Office, CC&O, market as well as headsets for gaming and other entertainment. Obviously, through this involvement we have access to knowledge about opportunities in consumer electronics and also hearables, which means hearing amplifiers, which should be distinguished from hearing aids.

And let me say that Sennheiser Communications is doing very well in their line of business. By way of example, Sennheiser Communications' revenue rose by 12% to DKK 749 million in 2016.

### **Hearing healthcare**

As is probably a well-known fact, we no longer focus on just one business area, but on all aspects of hearing healthcare. We have an ambition to grow and develop our position in all areas. Our approach is to work with a long-term horizon instead of focusing on quick results achieved in the short run. Some of the ways in which this approach manifests itself is in our investment in hearing implants and in our work to expand the Group and increase our revenue, so that in a manner of speaking, the cake becomes bigger.

The basis of and premise for being in the hearing healthcare business are in place. We offer a broad spectrum of products, and we have considerable market shares in most of the areas where we are active. We therefore have a rather unique position compared to our competitors in the hearing healthcare industry. By virtue of not only our investments, but also our DNA, William Demant is a high-tech, innovative company that is close to its customers and the end-users in all parts of the business. This foundation is pivotal for creating growth, but creating growth also requires us to develop and improve across our Group. We do this by focusing our attention on creating synergies and by launching a range of strategic initiatives.

We have come far, but we have not reached the finish line yet. As far as the commercial aspects – creating sales synergies – are concerned, we must continue to use the contacts and points of entry we have built in one business area to open doors for other parts of our business. We have also come far in building a cost-

efficient organisation, which includes our extensive work to create a common IT platform. These strategic initiatives will contribute to increase the economies of scale across the entire Group.

When it comes to our research and development organisation, we still have great potential for sharing technologies across our business activities, while increasing our competitiveness. Against this backdrop, we are in the process of consolidating our research and development activities in Poland and Denmark at two key locations, which means that we will move these activities away from Bern in Switzerland. This consolidation should result in maximum output from the many millions of kroner we invest each year in research and development. In 2016 alone, we invested more than DKK 800 million in this area.

Operations are also an important contributor to earnings growth. In 2016, we took an important step towards making the factory in Stettin, Poland, our production hub. This means transferring our production activities from Thisted in Denmark and by the end of 2018 closing down the factory here. From our employees both in Thisted and in our research and development department, who will be affected in one way or the other, we have seen an extremely professional and dedicated approach. Such an approach is far from being a matter of course and therefore very commendable.

The more than 12,000 people in William Demant world-wide really deliver. Each and everyone has contributed to the good results we have achieved in 2016, and I would like to take this opportunity to thank all our competent and dedicated employees who have once again made a great effort for the Company.

## **Management change**

As announced at the publication of the Annual Report 2016, we will see some changes in the Management of William Demant Holding: President & CEO, Niels Jacobsen, has decided to step down after 25 years at the helm of William Demant Holding to take up a position as President of William Demant Invest. The present COO, Søren Nielsen, will become new President & CEO of William Demant Holding. Later at this annual general meeting, I will revert to the two gentlemen, but I think that we should already now give them both a big hand!

At the same time as the Management change, we will see a number of changes in the Board of Directors of William Demant Holding and in the board of the Company's majority shareholder, the Oticon Foundation. I will not accept renomination, but I have been nominated as new chairman of the Oticon Foundation. Niels Boserup has decided to retire. These changes will take place after the Oticon Foundation's annual meeting on 25 April. The Board of Directors of William Demant Holding must thus elect a new Chairman today. It is expected that a present Board member, Niels B. Christiansen, will be appointed new Chairman. Niels Jacobsen offers himself for election to the Board and is expected to be appointed Deputy Chairman. The interaction between Niels B. Christiansen as an independent Chairman and Niels Jacobsen as a very experienced Deputy Chairman will in the Board's opinion be an optimal set-up.

We believe that the timing is right. Just recently, Niels Jacobsen celebrated his 25th anniversary, and we can look back on a good year and a remarkable development. Even though the price of our share dropped slightly in 2016, the market reacted positively after publication of our financial statements and the Management change, so our share is right now one of the best performing shares in the Danish C20 index.

We planned the Management and Board changes on the basis of three important parameters: 1) We want to ensure both continuity and renewal in the Group's companies, and 2) we must be prepared to meet the

development in a dynamic and extremely competitive MedTech business, and lastly 3), we have a clear strategy, which we want to pursue.

With Søren Nielsen, who has been instrumental in establishing our hearing healthcare strategy, we retain solid managerial skills and great experience in the Company. And he will be backed by a strong and experienced Management team, consisting of CFO René Schneider, Arne Boye Nielsen, who is head of our diagnostics business, Niels Wagner, who is head of our retail business, and Executive Vice President of Finance, Svend Thomsen.

## **Other matters**

Before I round off, I would like to make a few comments on our communication and also on our share buy-back, corporate governance, women in managerial positions and remuneration policy:

### **Communication**

In 2016, William Demant upgraded its website, and the new design recurs in our Annual Report 2016. Both the website and the Annual Report now provide a clearer picture of who we are and what we want to achieve with our hearing healthcare strategy. The Annual Report also distinguishes itself in that the different business activities are now clearly separated, which makes it possible to quickly get an overview of all the events of the year.

### **Share buy-back**

As announced previously, the Company has carried through a three-year programme, the purpose of which has been to buy back shares. When the programme ended on 31 December 2016, the Company had bought back shares worth just over DKK 2.5 billion, which is within the announced interval. In 2017, we expect to continue to buy back shares. The share buy-back will consist of the free cash flow that arises other than the cash flow we need for value-creating acquisitions.

### **Corporate governance**

The Board of Directors and Executive Board consider the work on corporate governance an ongoing process and regularly assess the extent to which the recommendations must be implemented in the Company. We have also in 2016 responded to the Danish *Recommendations on corporate governance* according to the “comply or explain” principle. We still comply largely with the recommendations. A complete report is available on our website.

### **Women in managerial positions**

At top Management level and down through the entire organisation, we strive towards ensuring diversity, which also means increasing the number of women at the Group’s different Management levels. We have a defined policy that we work from and evaluate at regular intervals – concrete examples being initiatives in such areas as communication, recruitment and hiring. I would, however, like to stress that competencies are always key when positions are filled at all levels in the Group. Since we started to record this number, we have increased the total proportion of female managers from 11% in 2009 to 20% in 2016. Unfortunately, we saw a small decrease from 2015 to 2016 of 1 percentage point. In our planned work on talent development, we have therefore included a diversity perspective.

As far as the number of female Board members is concerned, we set a target in 2016 to the effect that by 2020, the Board of Directors must have at least two female members. Today, we have one female Board member.

### **Remuneration policy**

The Group has a simple remuneration policy: The Chairman's fee is three times the basic fee, and the Deputy Chairman's fee is twice the basic fee. Last year, the basic fee was raised by DKK 50,000 to DKK 350,000, and it was also decided to introduce a fee for the audit committee. The Director's fee in William Demant is at the low end of the level characteristic of the companies in the Danish C20 index. Last year, it was also decided to introduce the possibility of offering the Executive Board an annual stay-on payment. The Board is of the opinion that the remuneration of the Executive Board is fair and competitive.

### **Final remarks**

Now, I would like to give the word to Niels. It is a historic event to ask you for the last time after 25 years to go through the Group's financial statements for 2016.

Niels, the floor is yours.