Company announcement no 2017-09

9 November 2017

Interim Management Statement covering the period year-to-date

Continued strong performance in line with our expectations
Hearing aid wholesale business continues to deliver strong organic growth driven by Opn
2017 outlook maintained: EBIT of DKK 2.3-2.6 billion

- The strong performance by the Group in the first half of the year has continued into the second half, and we have seen strong revenue growth year-to-date, although we are also seeing the effect of comparative figures becoming somewhat tougher during the second half-year.
- Year-to-date, Hearing Devices has performed strongly, the main driver of organic growth being our wholesale business, which has delivered market share gains based on solid growth in both volumes and the average selling price (ASP), mainly driven by Oticon Opn. The growth trajectory into the second half-year has become increasingly ASP-driven due to positive geographical, product and channel mix shifts, whereas volume growth rates were below volume growth rates in the first half-year. Our retail business has year-to-date delivered an organic growth rate in line with the estimated market growth rate with additional revenue growth from acquisitions.
- Hearing Implants has continued its strong momentum from the first half-year, with particularly strong performance by our cochlear implants business sparked by a combination of some large tender orders for our previous product generation and an increased uptake of the Neuro system. Also our bone-anchored hearing systems business has succeeded in continuing its growth trajectory into the second half of the year.
- In Diagnostic Instruments, growth in the second half-year has continued in line with growth in the first half-year. This is mainly due to strong organic growth in North America, South America and Asia.
- The strong performance by the Group has translated into a continuation of the strong free cash flow generation from the first half-year into the second.
- We maintain our outlook for growth in sales in 2017 in all the Group's three business activities, and we continue to guide for an EBIT of DKK 2.3-2.6 billion before restructuring costs of around DKK 175 million.

"2017 is set out to be a very good year for the William Demant Group, and I'm pleased to see that we continue our strong performance. We keep seeing positive effects of our continued roll-out of Opn and the open sound paradigm, and we now offer high-quality stereo streaming to Opn hearing aids from any device without compromising on audiology, rechargeability or size. It remains on top of our hearing healthcare agenda to continue to offer innovative solutions and to drive new technological advances," says Søren Nielsen, President & CEO.

William Demant Holding A/S
Kongebakken 9
2765 Smørum
Denmark
+45 3917 7300
william@demant.com
www.demant.com
CVR 71186911

Hearing Devices

Market trends

In the US hearing aid market, the unit growth rate was approx. 3-4% in the first ten months of the year, mainly driven by growth in the commercial market of almost 4% according to statistics from the Hearing Industries Association (HIA). In the same period, sales to the large public channel, Veterans Affairs (VA), grew by a little more than 1%. In Europe, we estimate that the average unit growth rate for the first nine months of the year was approx. 2% with an only marginally positive unit growth rate in the UK and a roughly flat unit growth rate in Germany. For Japan and Australia, we estimate that unit growth year-to-date has been slightly negative. Overall, we continue to see the global unit growth rate for this year slightly below the Group's general expectations of a 4-6% unit growth rate per year.

We still estimate that the average selling price (ASP) on the global hearing aid wholesale market has been relatively stable, with the positive effect from new high-end product launches counterbalancing the slight pressure caused by channel mix shifts and a highly competitive business environment. We consider the overall retail pricing environment to be stable despite significant regional and local differences.

Wholesale

Our hearing aid wholesale business has continued its strong performance from the first half-year, resulting in a strong organic growth rate above the market growth rate, although we are also seeing the effect of comparative figures becoming somewhat tougher during the second half-year. While growth in the first half-year was primarily driven by higher volumes, growth in the second half-year is becoming more the result of a higher ASP due to a number of positive mix shifts. Volume growth rates into the second half-year were below volume growth rates in the first half-year. Year-to-date, we have seen solid growth in both volumes and the ASP, and we have succeeded in gaining market share throughout the year.

We have seen a continued positive product mix shift, which is mainly attributable to Oticon Opn continuing to perform very well. We continue to successfully drive our audiological agenda with the open sound paradigm, which resonates well with customers and end-users and is underpinned by new evidence of improved speech understanding and reduced listening effort. End-user feedback remains very positive, and the expansion in June of our Opn product portfolio with rechargeability, new styles and new features has helped widen and deepen the segments that we can address. With our recent announcement at EUHA of the introduction of the new ConnectClip, we now enable end-users to stream phone calls and music in high quality to both ears from any modern smartphone (including Android devices). Based on Bluetooth Low Energy (BLE), this improved connectivity comes without any compromises on audiology, rechargeability or hearing aid size and thus helps us expand our open sound paradigm to a wider audience.

The new product families, Zerena from Bernafon and Enchant from Sonic, which were launched in early summer and introduced 2.4 GHz connectivity in these brands, also help improve product mixes for both brands.

We have also seen positive ASP effects from geographical and channel mix shifts, with particularly strong organic growth rates in North America. This trend has been driven by strong growth in sales to both independents and VA. As far as the latter is concerned, our market share almost doubled to 13.8% in September compared to 7.0% in the same period last year measured in hearing aid units. With effect from the beginning of November this year, we introduced our Opn 1 miniRITE-T and BTE13PP styles to this channel along with our tinnitus feature, which has further strengthened our offering.

In Europe, we have experienced some headwind from the acquisition by a competitor of a large retail chain, which has led to reduced volumes in certain regions, although the effect on revenue has been less significant. So far, the timing of orders from the NHS in the UK has also had a negative effect on volumes in the second half-year, but a positive effect on the overall ASP. Meanwhile, we continue to grow our wholesale volumes to our own retail business and independents and overall, our volume growth in Europe has so far been moderate in the second half. Organic growth in Asia has been strong year-to-date, with China as a main growth driver.

Retail

The organic growth rate of our retail business has year-to-date been in line with the estimated market growth rate, while we also continue to add revenue from acquisitions made primarily in North America. While we have seen the impact of the slight softening of market unit growth, we see no reason why this trend should not reverse to the growth levels dictated by structural trends. Australia, where we operate a sizeable retail business, is one of the markets that have seen negative growth during the year.

Generally speaking, performance tends to be stronger in markets where we operate consolidated retail chains than in those markets where our retail activities are more fragmented. Canada, the UK and France are all examples of mature retail operations with strong growth momentum, whereas the US is an example of a more fragmented market where the consolidation of acquired activities into a coherent operational set-up remains a complex task.

Hearing Implants

Overall, Hearing Implants has succeeded in continuing its strong organic growth from the first half of the year based on a strong product offering and new approvals.

Particularly our cochlear implants business has seen strong growth in the second half-year where we have delivered some large tender orders placed by export markets for our previous product generation, which has negatively impacted the overall ASP. Furthermore, we have seen an increased uptake of the Neuro system due to launches in new markets in combination with a dedicated sales effort in more established markets. We recently released our first reliability report for the Neuro Zti implant with excellent results, and with the Neuro 2 external processor and the new Genie Medical fitting software to be launched around year-end, we will have a highly compelling product offering.

Also our bone-anchored hearing systems business has succeeded in carrying its strong momentum into the second half of the year driven by Ponto 3. The Ponto 3 SuperPower, in particular, is performing strongly, and we continue to see positive clinical results in terms of improved speech understanding.

Diagnostic Instruments

In Diagnostic Instruments, growth generated in the second half-year has so far been in line with the strong growth delivered in the first half-year, mainly driven by North America, South America and Asia. Although the comparative figures for the same period last year are fairly favourable, the strong performance year-to-date reflects a combination of healthy markets, solid sales execution and strong product portfolios. The latter were further strengthened by the presentation of new products from several of our brands at the recently held EUHA congress in Nuremberg, Germany.

Personal Communication

Sennheiser Communications, our joint venture with Sennheiser KG, has seen the positive momentum in its underlying business (excluding inventory effects) continue from the first half of the year into the second half-year with positive contributions from all three segments, i.e. CC&O, Mobile and Gaming. However, growth has been negatively impacted by inventory reductions in the second half-year.

Other matters

Strategic initiatives

We are still executing on our strategic initiatives and based on the cost base for 2016, we maintain our expectation of total annual cost savings of DKK 200 million, once the initiatives are fully implemented. Expected restructuring costs for 2017 remain unchanged at DKK 175 million of which DKK 83 million was spent in the first half-year.

Share buy-back

Year-to-date, the Company has bought back shares worth DKK 661 million in total. As of today, the Company’s holding of treasury shares corresponds to approx. 1.56% of the share capital.

We aim at a target gearing multiple of 1.5-2.0 measured as NIBD (net interest-bearing debt) relative to EBITDA, and as indicated in our Interim Report 2017, we expect the level of share buy-back to be higher in the second half of 2017 than in the first.

Outlook for 2017

We maintain our 2017 outlook as stated in our Interim Report 2017, including our expectation to generate growth in sales in all the Group’s three business activities: Hearing Devices, Hearing Implants and Diagnostic Instruments.

For 2017, we continue to guide for an EBIT of DKK 2.3-2.6 billion before restructuring costs of around DKK 175 million.

****

Further information:
Søren Nielsen, President & CEO
Phone +45 3917 7300
www.demant.com

Other contacts:
René Schneider, CFO
Søren B. Andersson, VP IR
Mathias Holten Møller, IR Officer
Trine Kromann-Mikkelsen, Media