

Company announcement no 2018-06

8 May 2018

Interim Management Statement covering the period year-to-date

**Continued strong performance by the Group in line with our expectations
Innovative products driving strong organic growth in hearing aid wholesale business
2018 outlook maintained: EBIT of DKK 2.55-2.85 billion**

- The strong momentum in our Group has continued, and we have seen substantial organic growth rates across our business activities.
- Hearing Devices has delivered solid organic growth sparked by strong performance by our wholesale business, which – due to the continued success of Oticon Opn as well as new products from Bernafon and Sonic – continues to gain market share in value. Positive changes in product, channel and geography mixes have driven an increase in the average selling price (ASP). Our retail business has delivered low organic growth with material differences between individual markets, however it continues to contribute to overall market share gains for the Group.
- Hearing Implants has seen organic growth in line with estimated market growth of 10-15%. As far as the cochlear implants business is concerned, Neuro 2 received the CE mark at the end of February. Our initial focus is to upgrade existing Neuro One users to the new Neuro 2 sound processor and we have yet to see growth accelerate, which we, however, expect to happen gradually throughout the year as more new patients are being implanted.
- Our Diagnostic Instruments business activity has continued its positive momentum from last year and has seen strong organic growth, especially in Europe.
- We maintain our expectation of substantial organic sales growth in 2018 and a negative exchange rate effect on revenue of around 4%, including the impact of exchange rate hedging. We continue to guide for an EBIT of DKK 2.55-2.85 billion before the announced restructuring costs of DKK 150 million. We also continue to aim at a gearing multiple of 1.5-2.0 measured as NIBD (net interest-bearing debt) relative to EBITDA, and we still expect to buy back shares worth DKK 1.5-2.0 billion.

“I’m pleased to see that all our business activities have performed well in the first months of the year. There’s no doubt that our innovative products impress customers and end-users alike, particularly our outstanding hearing aid Oticon Opn, which continues to expand its reach and help more and more people hear better. And our direction is clear, we offer a broad spectrum of hearing healthcare solutions, which at the end of the day all revolve around creating a life-changing difference for people with hearing loss,” says Søren Nielsen, President & CEO of William Demant Holding.

Hearing Devices

Market trends

We estimate that the unit growth rate in the global hearing aid market has been in line with our expectations of 4-6% growth, though possibly towards the lower end of the range, as lower demand by the NHS in the UK was a drag on overall growth in the first quarter of the year. Driven by the commercial market, the unit growth rate in the US, the world's largest hearing aid market, was just below 6% in the first quarter according to statistics from the Hearing Industries Association (HIA), whereas we saw a slightly negative unit growth rate in the large public channel, Veterans Affairs (VA). In Europe, the average unit growth rate was impacted by the negative growth in demand by the NHS, whereas we saw solid growth rates in Germany and France in the first quarter. In Japan, unit growth was in the mid-single digits in the first quarter and in Australia, the unit growth rate was in the high single digits.

We still estimate the growth rate in the global hearing aid wholesale market to be 2-4% in value, as we believe that the development in the average selling price (ASP) has been flat to slightly negative. Channel mix shifts and a competitive business environment continue to put pressure on ASP, but we believe that this has at least partly been offset by positive geographical and product mix shifts. The changing channel mix in wholesale is naturally also seen in the retail market, but we consider the retail pricing in individual channels to be relatively stable.

Wholesale

Our hearing aid wholesale business continues the momentum gained last year and has delivered a strong organic growth rate significantly above the estimated market growth rate in value. We continue to see positive mix changes underpin our ASP and hence our growth, with increasing sales to independent hearing care professionals, a higher share of new premium products from all brands in the overall product mix and strong growth for us in North America. Meanwhile, the loss of sales to a large customer, which was acquired by a competitor in 2016, as well as both lower purchases by the NHS and large, but low-priced, tender orders placed in the comparative period had a negative impact on unit sales. Units have thus not been a driver of growth in the period.

As mentioned above, Oticon Opn accounts for an increasing part of the overall product mix, and it is still clearly differentiated in the marketplace with its focus on providing end-users with superior audiology based on the open sound paradigm and our BrainHearing rationale. At the recent US hearing aid convention, AudiologyNOW! (AAA), we presented a study showing that Oticon Opn enables hearing-impaired users to cope with the same level of background noise as people with normal hearing. These findings have added to the ever-increasing evidence base behind Oticon Opn. At the AAA convention, we also presented new tools in the world of digital opportunities: Oticon RemoteCare™, a remote counselling and follow-up solution, the purpose of which is to enhance the interaction between the hearing care professional and the end-user, and HearingFitness™, the world's first hearing fitness tracking technology, which was developed to help users get the most out of their hearing.

With last year's launch of the Zerena and Enchant product families by Bernafon and Sonic, respectively, we have also improved product mixes within these brands, which has enabled us to further lift our overall wholesale ASP. The addition of a 2.4 GHz connectivity offering has helped us improve the attractiveness of the products and has specifically helped Bernafon grow its market share in a number of markets, including the US.

As already indicated, we have again seen positive ASP effects from geographical and channel mix shifts, with strong organic growth rates in North America, especially in the US, due to increased sales to independent hearing care professionals, growing unit sales through our own retail network as well as strong year-over-year growth in sales to VA. Measured in hearing aid units sold, our market share with VA was 15% in March, which is the most recent month for which we have data. By comparison, our market share with VA was 12% in March last year. At the beginning of May, we launched several new products to VA, including our rechargeable solution and ConnectClip with connectivity to Android™ or any other modern smartphone. Both should help us maintain the positive momentum in this channel.

In Europe, we have in France seen significant growth in sales to both independents and our own Audika retail network. In Germany, where we have seen the biggest impact of the aforementioned loss of sales to a large customer, we have been able to more than replace these lost sales by sales to new customers. Volumes have naturally been negatively impacted by this change in channel mix, but overall, the organic growth in Europe has been solid.

Led by increasing sales in China where the hearing aid market continues to develop at a high pace, organic growth in Asia has been strong. Both South Korea and Japan also contributed nicely to this growth.

Retail

Our retail business has delivered low organic growth with material differences between individual markets.

In Europe, our retail business in France under the Audika brand continues to perform very well, and it has delivered a strong organic growth rate above the market growth rate. We also continue to make bolt-on acquisitions in France, adding to our presence in the market. Although a smaller market, Poland also contributed positively to organic growth in the region, whereas we saw negative growth in Sweden due to adverse market conditions.

In North America, growth has been driven by acquisitions, as we continue to do bolt-on acquisitions in both the US and Canada. Organic growth in the US has been below the market growth rate, as we continue our journey to roll up and consolidate the significant number of acquired entities into one single operation. We are very focused on continuing to improve systems and processes, and effective lead generation remains key for driving growth and is an important part of our ongoing efforts. Canada continues to deliver solid organic growth.

In Australia, market growth has been negatively impacted by changed market conditions, with a higher share of free-to-client hearing aids resulting in a pressure on the ASP. Despite this, our retail business has seen improved productivity compared to 2017.

The share of own products sold through our retail network is increasing gradually, and our retail business thus continues to contribute to the overall market share gains for the Group.

Hearing Implants

We estimate that the hearing implants market is growing by 10-15% per year, and year-to-date, our Hearing Implants business has seen an organic growth rate in line with this. Our bone anchored hearing systems business has delivered satisfactory organic growth driven by the Ponto 3 Super Power, by

particularly strong performance in North America and by some significant tender orders in other markets. In our cochlear implants business, our new sound processor, Neuro 2, received the CE mark at the end of February, and since our initial focus is on upgrading existing Neuro One users to the new Neuro 2 sound processor, we have yet to see growth accelerate. In combination with the timing of certain tenders, this means that we expect growth to gradually increase throughout the year.

As mentioned, our customers' focus has been on upgrading existing Neuro users to the new Neuro 2 to initially test the new product and fitting software and to a less extent on implanting new patients. Feedback from the more than 250 patients that have now been fitted with Neuro 2 as well as from clinics is very positive. We continue to see an increase in the number of clinics that have included the Neuro system in their product portfolio, and once we start rolling out Neuro 2 to new patients, we will see the commercial effect of the launch. Recently, we have also completed the inclusion of patients for our clinical study aimed at securing FDA approval for the Neuro system in the US market, and we expect to file an application for pre-market approval in 2019 with expected final approval in 2020. Overall, we continue to invest in innovation, distribution and clinical support to be able to reap the future benefits of this significant growth opportunity.

Diagnostic Instruments

In Diagnostic Instruments, we have maintained last year's positive momentum and seen a strong organic growth rate. We believe that we are well-positioned in a healthy market thanks to the combination of highly innovative product portfolios across our brands, a strong distribution set-up and additional growth from new business areas. Interacoustics has performed particularly well, but otherwise growth has been broadly based across brands. In terms of geographies, growth has been centred in Europe, but all regions contributed to overall growth.

Personal Communication

Sennheiser Communications, our joint venture with Sennheiser KG, has reported very strong growth, and although some of this growth is a result of inventory effects, it mainly reflects the positive momentum in its underlying business. The Gaming and Mobile segments were the growth drivers, while the contribution by the CC&O segment to overall growth was smaller than in the same period last year.

Other matters

Strategic initiatives

We continue to execute on our strategic initiatives according to plan, and when the initiatives are fully implemented, we still expect annual cost savings of around DKK 200 million compared to the cost base for 2016. Expected restructuring costs for 2018 remain unchanged at DKK 150 million.

Share buy-back

Cash flow generation has been maintained at a high level in line with expectations, and the Company has bought back shares worth a total of DKK 431 million year-to-date. As of today, the Company's holding of treasury shares corresponds to approx. 0.65% of the share capital.

Outlook for 2018

We maintain our expectation of substantial organic sales growth in 2018 and a negative exchange rate effect on revenue of around 4%, including the impact of exchange rate hedging. We continue to guide for an EBIT of DKK 2.55-2.85 billion before the announced restructuring costs of DKK 150 million. We also continue to aim at a gearing multiple of 1.5-2.0 measured as NIBD (net interest-bearing debt) relative to EBITDA, and we still expect to buy back shares worth DKK 1.5-2.0 billion.

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