

William Demant



# Presentation of Annual Report 2016

23 February 2017



# Agenda

- Changes within the William Demant Group
- Highlights 2016
- Hearing Devices
- Hearing Implants
- Diagnostic Instruments
- Personal Communication
- Strategic initiatives
- Financials
- Outlook 2017
- Q&A





# Changes within the William Demant Group



# Niels Jacobsen

Steps down as President & CEO of William Demant Holding to become CEO of William Demant Invest  
1 April 2017

- After 25 years as a member of the Executive Board of William Demant Holding, Niels Jacobsen steps down as President & CEO
- Nominated for election to the Board of William Demant Holding at the annual general meeting on 27 March. If elected, the Board intends to elect him Deputy Chairman
- Will become CEO of William Demant Invest

## Curriculum vitae

- Born in 1957
- M.Sc. in Economics from Aarhus University
- Part of the executive management of William Demant since 1992
- President & CEO of William Demant since 1998

## Board positions

- A.P. Møller - Mærsk (deputy chairman)
- KIRKBI (deputy chairman)
- Össur (chairman)
- Jeudan (deputy chairman)
- Confederation of Danish Industry (member of the central board)



# Søren Nielsen

The Board of Directors of William Demant Holding appoints COO & Deputy CEO new President & CEO

- The changes will take effect on 1 April 2017 where Søren Nielsen will officially assume his new position
- Executive Board to consist of Søren Nielsen and René Schneider (CFO)
- Will continue as President of Oticon

## Curriculum vitae

- Born in 1970
- M.Sc. in Industrial Management and Product Development, Technical University of Denmark (DTU)
- COO and Deputy CEO since 2015
- President of Oticon since 2008
- Employed with William Demant since 1995

## Board positions

- Sennheiser Communications (board member)



# Board of Directors of William Demant Holding

Board of Directors of William Demant Holding intends to elect Niels B. Christiansen new Chairman

- Current Chairman of the Board, Lars Nørby Johansen, will not stand for re-election and has been nominated for the position as chairman of the board of the Oticon Foundation where he will replace Niels Boserup
- The Board intends to elect Niels Jacobsen as new Deputy Chairman of the Board
- The other Board members, Peter Foss, Benedikte Leroy and Lars Rasmussen, all accept re-nomination and are expected to be re-elected

## Curriculum vitae

- Born in 1966
- Master of Science in Engineering, Technical University of Denmark (DTU), and MBA, INSEAD in France
- McKinsey & Co, consultant
- GN Netcom, President & CEO
- Danfoss, President & CEO

## Board positions

- Axcel (chairman)
- A.P. Møller - Mærsk (board member)
- William Demant Holding (board member)
- Technical University of Denmark (DTU) (board member)



# Executive Board and Management after 1 April 2017

High seniority and  
lots of experience ....



Søren Nielsen  
President & CEO



René Schneider  
CFO



Arne Boye Nielsen  
Diagnostics



Niels Wagner  
Retail



Svend Thomsen  
Finance

# A strong platform for future growth

... and a vision to make **a life-changing difference** to people living with hearing loss





# Highlights 2016



# Highlights 2016

**13%**

Strong revenue growth of 13% with organic growth of 6%



Oticon Opn and retail activities drove strong growth



US retail and Hearing Implants performed below expectations



Growth in Diagnostic Instruments in line with estimated market growth



Execution on strategic initiatives on track

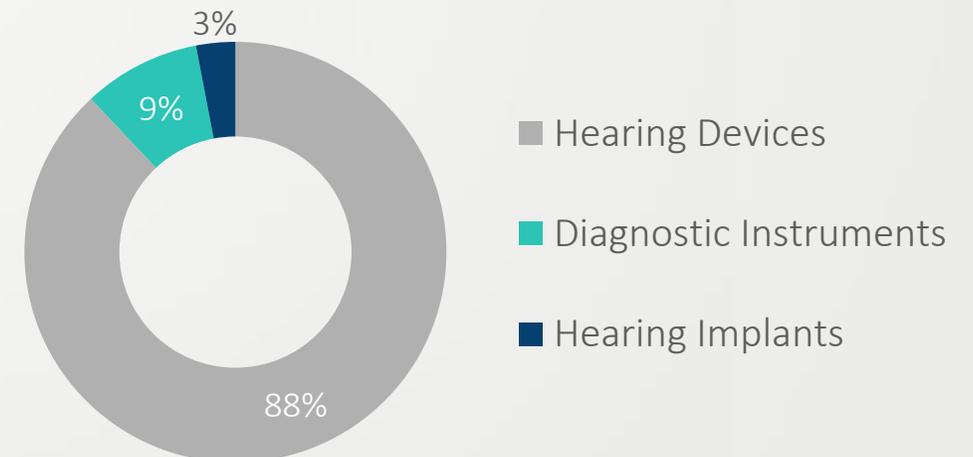
**12%**

EBIT increased by 12% to a record-high DKK 2,130 million before restructuring costs

# Revenue by business activity

DKK million	FY 2016	FY 2015	Change	Change in local currencies
Hearing Devices	10,515	9,213	14%	14%
Diagnostic Instruments	1,089	1,072	2%	3%
Hearing Implants	398	380	5%	7%
<b>Total</b>	<b>12,002</b>	<b>10,665</b>	<b>13%</b>	<b>13%</b>

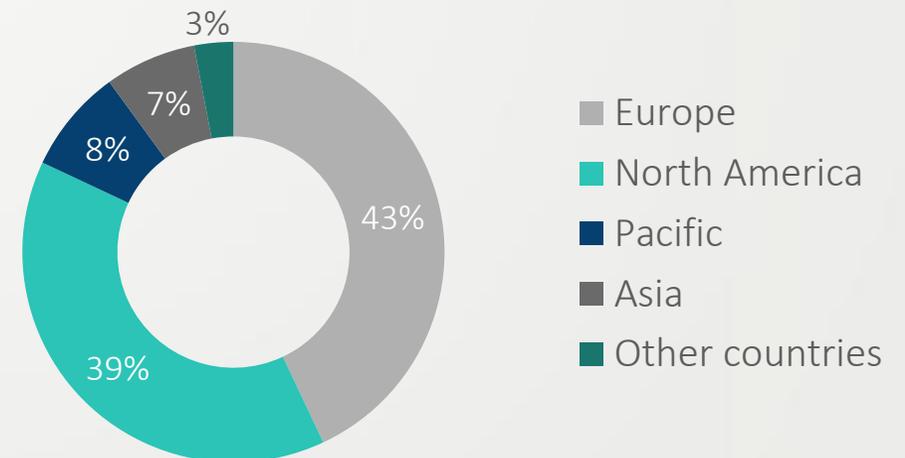
- In 2016, total revenue reached DKK 12 billion
  - Growth of 13% with 6% organic growth and 7% growth from acquisitions
  - Slightly negative net exchange rate effect of less than 1 percentage point



# Revenue by geography

DKK million	FY 2016	FY 2015	Change	Change in local currencies
Europe	5,123	4,136	24%	26%
North America	4,719	4,472	6%	5%
Pacific	911	859	6%	7%
Asia	861	815	6%	6%
Other countries	388	383	1%	5%
<b>Total</b>	<b>12,002</b>	<b>10,665</b>	<b>13%</b>	<b>13%</b>

- Significant growth in Europe, which was the largest region in 2016 in terms of revenue
  - Audika a main contributor to growth
- Solid growth in all other regions



A blue, sleek hearing aid device is shown against a dark blue background. The device has a curved, ergonomic shape. A clear, flexible tube is attached to the side, leading to a small, dark, circular component, likely a microphone or a sensor. The device is positioned diagonally across the frame. A semi-transparent grey horizontal band is overlaid across the middle of the image, containing the text "Hearing Devices".

# Hearing Devices

# The hearing aid market in 2016

In 2016, we estimate the market unit growth rate was in line with our updated estimate of 4-6% growth and that the global average selling price (ASP) was slightly down resulting in an estimated market growth in value terms of 1-3%

- 5% underlying market unit growth in the US driven by private market whereas unit growth in Veterans Affairs (VA) was only approx. 2%
- Unit growth in Europe at the upper end of 4-6% with solid growth in large markets such as Germany and France as well as the private market in the UK
- Global ASP was slightly down in 2016, due to fierce competition as well as country and channel mix shifts

Global market unit growth  
of 4-6% in 2016



# Hearing Devices: Wholesale highlights

Organic growth for our Wholesale business was 6% in 2016 compared to an estimated market value growth rate of 1-3%

- Strong organic growth of 7% in H2 driven by the launch of Oticon Opn 1 in June which expanded premium sales
  - Unit growth of 3% in H2 (10% in H1)
  - ASP increased 4% in H2 (-4% in H1)
- Bernafon and Sonic saw very satisfactory growth rates



# Hearing Devices: Wholesale in Europe

- In Europe, full year organic growth for our wholesale business was strong, particularly in H2, driven by major markets such as the UK, Germany, Italy and France
- We have increased our market share with the NHS in the UK where we remain the largest supplier
- A growing share of wallet with Audika following our acquisition in 2015 also drove growth during the year



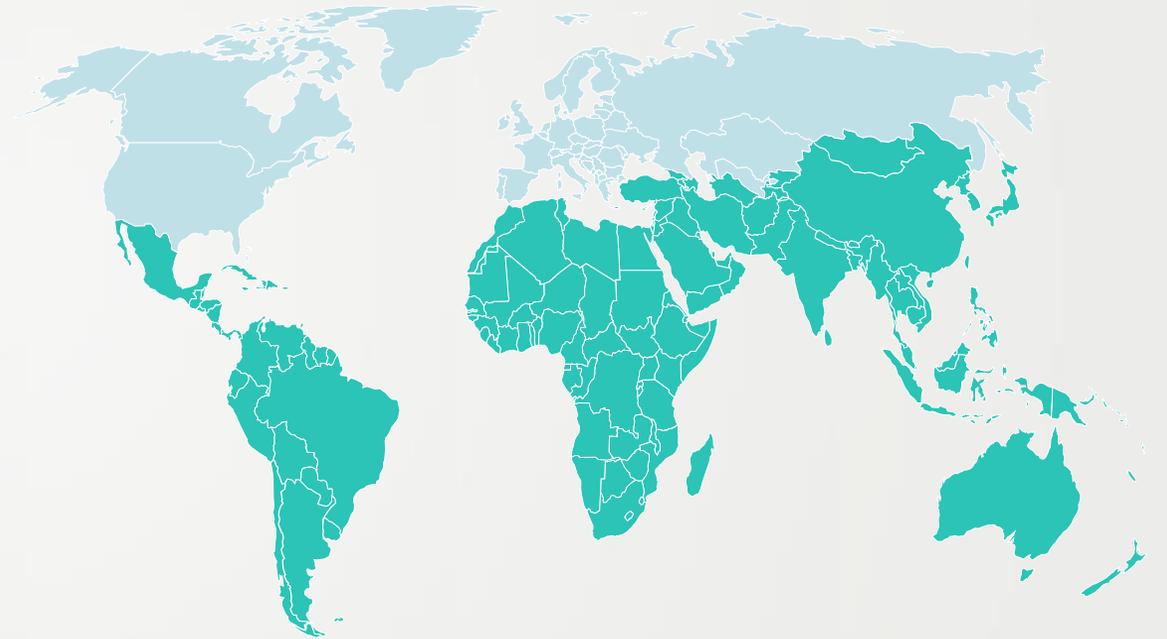
# Hearing Devices: Wholesale in North America

- Oticon Opn has significantly strengthened our position with the independent segment in the US
- Material increase in unit market share with Veterans Affairs in the US from 7% to 11% after launch of Oticon Opn to that channel in November
  - Market share remained at 11% in December 2016 and January 2017
- Some lost sales attributable to forward integration by our competitors
- Strong performance in Canada throughout the year



# Hearing Devices: Wholesale in other regions

- Solid growth in our wholesale business in **Pacific** led by a strong H2 in both Australia and New Zealand
- Our wholesale business in **Asia** also saw satisfactory growth with Japan and China as main drivers
- Growth in **Other countries** was mainly driven by Brazil



# Hearing Devices: Retail highlights

Our retail business grew revenue by 30% in local currencies, driven by both significant organic growth of 8 percentage points and acquisitive growth of 22 percentage points

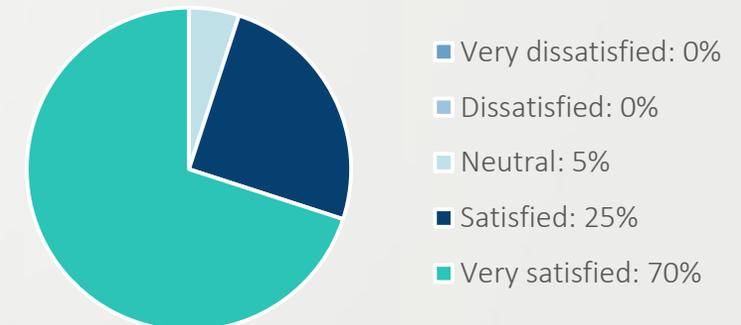
- In Europe, we saw strong growth in our well-established retail organisations
  - Acquisition of French retail chain, Audika, in 2015 a key contributor following successful integration into the Group
  - Strong performance in most other markets in Europe
- Organic growth in our US retail business was slightly negative, which was mainly due to the ongoing consolidation and roll-out of IT systems
- Canada performed very well
- The higher growth in our Retail business in H1 compared to H2 is primarily a result of the timing of the Audika acquisition in 2015

# Successful new paradigm with Oticon Opn

- Oticon Opn was launched in June 2016 in the high-end segment
- Opn 2 and Opn 3 launched in the upper mid-priced and the mid-priced segments in late 2016
- Very positive reactions from end-users according to a recent survey<sup>1</sup>
  - Share of 'very satisfied' was 70% surpassing the 47% reported for hearing devices in general in the MarkeTrak 9 study
  - 96% reported 'better' (31%) or 'much better' (65%) hearing while wearing Opn hearing devices compared to before they had Opn
- We will continue to strengthen the Opn product range in 2017, which will be an important growth driver



End-user satisfaction rates<sup>1</sup>

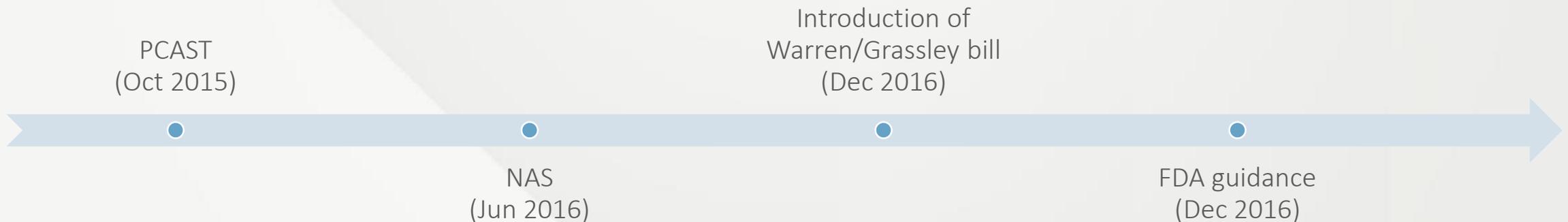


<sup>1</sup> Own survey among 700 users of Oticon Opn: [www.hearingreview.com/2017/01/consumer-responses-oticon-opn-hearing-aid](http://www.hearingreview.com/2017/01/consumer-responses-oticon-opn-hearing-aid)

# US OTC category

Renewed focus in the US on increasing penetration of hearing aids by improving innovation, affordability and accessibility

- New FDA guidance issued on 7 December 2016 confirmed that the FDA does intend to consider and address the recommendations made by PCAST and NAS in the future, “...including those regarding a regulatory framework for hearing aids that can be sold directly OTC to consumers, without the requirement for consultation with a credentialed dispenser.”
- We believe safety and efficacy for the end-user are crucial factors for penetration and satisfaction rates and we support hearing aids, OTC or not, being regulated as medical devices



# Hearing Implants



# Hearing Implants highlights

In 2016, we saw organic growth of 7% in Hearing Implants, which was below expectations at the beginning of the year

- Soft performance of cochlear implants (CI) in a number of oil-dependent markets but improving momentum towards the end of the year due to the Neuro CI
  - Clinics in 17 countries have now performed Neuro implantations and results from more than 350 active users are very encouraging
- In bone-anchored hearing systems (BAHS), sound processor sales grew less than expected but the implant part of the business saw satisfactory growth
  - Ponto 3 family, including the Ponto 3 Super Power, was launched in Q4 2016 in selected markets with strong uptake
- New regulatory approvals expected during 2017 for both Neuro and Ponto 3, which will help drive further geographical expansion



A hand holding a blue and white diagnostic instrument, possibly a stylus or probe, over a tablet. The instrument has a blue tip and a white body with a blue button. A black cable is attached to the back. The tablet is blue and white, with the brand name 'MICO' visible at the bottom. The background is a plain white surface.

# Diagnostic Instruments

# Diagnostic Instruments highlights

With growth of 3% in local currencies in 2016, Diagnostic Instruments grew in line with the market growth rate of 0-2% and cemented its leading market position

- Challenging market conditions hampered growth in a number of oil-dependent markets in South America, the Middle East and Africa
- Strong growth in Asia and the Pacific region with key drivers being China and Australia, respectively
- In 2016, we established our newborn hearing screening business in the US which holds growth potential



A blurred background image of a desk. In the foreground, there is a black headset with a microphone. Below it, a notebook with a dark cover and white pages is visible. In the bottom left corner, a smartphone is partially visible with its screen lit up. The overall scene is dimly lit, suggesting an office or study environment.

# Personal Communication

MB 660

# Personal Communication

- In 2016, Sennheiser Communications grew its revenue by 12% to DKK 749 million driven by solid growth in all three segments: Mobile, Gaming and CC&O
- Increasing capacity costs related to product development and distribution, particularly in Unified Communication



(DKK million)	FY 2016	FY 2015
<b>Revenue</b>	749	668
<b>Gross profit</b>	320	289
<i>Gross profit margin</i>	42.7%	43.3%
Capacity costs	-188	-163
<b>Operating profit (EBIT)</b>	132	126
<i>EBIT margin</i>	17.6%	18.9%
Tax on profit for the year	-29	-30
<b>Profit for the year</b>	103	96
William Demant Holding share of profit, 50%	51	48

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# Strategic initiatives



# Strategic initiatives

As previously announced, we have defined several *strategic initiatives* to be implemented in 2016 to 2018 to create the best possible platform for future growth. All the restructuring projects are on track

Initiatives	Financial impact
<ul style="list-style-type: none"><li>• Transfer of activities from the production site in Thisted (Denmark) to Poland has been initiated</li><li>• Egan site has been closed down and all activities have been transferred</li><li>• Successful ramp-up in Mexico continues</li><li>• R&amp;D in Bern is being transferred to Denmark and Poland during 2017</li><li>• New site for R&amp;D software development has been opened in Warsaw and is expanding</li></ul>	<ul style="list-style-type: none"><li>• Expected total restructuring costs of DKK 500 million over full period</li><li>• Restructuring costs of DKK 188 million recognised in 2016</li><li>• For 2017, restructuring costs are expected to amount to DKK 200 million</li><li>• Annual savings of around DKK 200 million when initiatives are fully implemented in addition to scale effects on future growth</li></ul>



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# Financials



# Income statement

(DKK million)	Reported 2016	Restructuring costs	Adjusted 2016	Adjusted 2015	Growth
Revenue	12,002	0	12,002	10,665	13%
Gross profit	9,030	-72	9,102	7,895	15%
<i>Gross profit margin</i>	75.2%		75.8%	74.0%	
Research and development costs	-839	-55	-784	-763	3%
Distribution costs	-5,654	-36	-5,618	-4,675	20%
Administrative expenses	-676	-25	-651	-603	8%
Share of profit, associates and joint ventures	81	0	81	48	69%
Operating profit (EBIT)	1,942	-188	2,130	1,902	12%
<i>Profit margin (EBIT margin)</i>	16.2%		17.7%	17.8%	

# Group underlying development

DKK million	Adjusted			Hedging		FX		One-offs		Underlying		
	2016	2015	<i>Change</i>	2016	2015	2016	2015	2016	2015	2016	2015	<i>Change</i>
Revenue	12,002	10,665	13%	46	158		-161			12,048	10,662	13%
EBIT	2,130	1,902	12%	46	158	-28	-33	-35	17	2,113	2,044	3%
<i>EBIT margin</i>	17.7%	17.8%								17.5%	19.2%	

- Revenue and EBIT figures are adjusted for effects from hedging as well as from exchange rate translation
- EBIT is adjusted for effects from one-offs
  - 2015: DKK 17 million related to earn-out adjustments and other one-offs
  - 2016: DKK -35 million related to fair value adjustment of non-controlling interests and earn-out adjustments

# Cash flow statement

(DKK million)	2016	2015	Growth
Operating profit (EBIT)	1,942	1,878	3%
Cash flow from operating activities	1,679	1,592	5%
Adjusted cash flow from operating activities	1,756	1,602	10%
Cash flow from investment activities before acquisitions	-456	-463	2%
Free cash flow before acquisitions	1,223	1,129	8%
Acquisitions and divestment of enterprises, participating interests and activities	-336	-1,633	-79%
Buy-back of shares	-1,050	-605	74%
Other financing activities	421	1,654	-75%
Net cash flow for the period	258	545	-53%

- Adjusted cash flow from operating activities (CFFO) increased 10% compared to 2015
- The cash flow effect of restructuring costs was DKK -77 million
- Cash flow to acquisitions decreased significantly compared to 2015 where Audika was acquired
- Share buy-backs increased to DKK 1,050 million

# Balance sheet

Assets (DKK million)	2016	2015
Intangible assets	6,768	5,977
Property, plant and equipment	1,742	1,768
Other non-current assets	1,909	1,837
<b>Non-current assets</b>	<b>10,419</b>	<b>9,582</b>
Inventories	1,300	1,324
Receivables etc.	3,119	2,810
Cash	710	674
<b>Current assets</b>	<b>5,129</b>	<b>4,808</b>
<b>Total assets</b>	<b>15,548</b>	<b>14,390</b>

Equity and liabilities (DKK million)	2016	2015
Equity	6,966	6,500
Non-current liabilities	2,748	2,761
Current liabilities	5,834	5,129
<b>Total equity and liabilities</b>	<b>15,548</b>	<b>14,390</b>
Net interest-bearing debt	4,036	3,703

- The increase in the Group's assets can mainly be attributed to goodwill resulting from acquisitions
- Net interest-bearing debt increased by DKK 333 million to DKK 4,036 million resulting in a gearing multiple (NIBD/EBITDA) of 1.7x

# Dividend and share buy-back policy

- During the recently completed share buy-back programme for the period from 2014 to 2016 the Group bought back shares worth DKK 2.5 billion. This was within the guided interval of DKK 2.5-3.0 billion and even though we also acquired Audika in 2015
- We expect continued strong cash flow in 2017 and going forward
- We will continue to prioritise value-adding investment opportunities and acquisitions. Any available cash not being used for investment or acquisition purposes will be used to buy back shares
- We aim at a target gearing multiple of 1.5-2.0x measured as net interest-bearing debt (NIBD) relative to EBITDA

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# Outlook 2017



# Outlook 2017

We expect a unit growth rate of 4-6% with a low, single-digit decline in the market's average wholesale price due to competition and possible mix effects. In terms of value, we thus expect the wholesale market to grow by 1-3% in 2017 as was also the case in 2016.

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We expect to generate growth in sales in all the Group's three business activities: Hearing Devices, Hearing Implants and Diagnostic Instruments.

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Based on exchange rates in early 2017 and including the impact of exchange rate hedging, we expect a positive exchange rate impact on revenue of around 1% in 2017. Acquisitions made in 2016 will also impact consolidated revenue by approximately 1% in 2017.

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We aim at a target gearing multiple of 1.5-2.0x measured as net interest-bearing debt (NIBD) relative to EBITDA.

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**Operating profit (EBIT) of DKK 2.2-2.5 billion before the announced restructuring costs of around DKK 200 million.**

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# Q&A



## MEET US

24 February	<b>Copenhagen</b> (Danske Bank)
27 February	<b>London</b> (DNB)
28 February	<b>London</b> (Morgan Stanley conference)
28 February	<b>London</b> (Credit Suisse conference)
1 March	<b>Frankfurt</b> (Carnegie)   <b>Geneve</b> (Nordea)   <b>Dublin</b> (SEB)
8-9 March	<b>New York</b> (Handelsbanken)
9 March	<b>Zurich</b> (Goldman Sachs)
10 March	<b>Milan</b> (Kepler Cheuvreux)
14 March	<b>Paris</b> (Exane BNP Paribas conference)
15-16 March	<b>Amsterdam</b> and <b>Brussels</b> (Danske Bank)
4 April	<b>Boston</b> (Credit Suisse)   <b>Toronto</b> (ABG Sundal Collier)
5 April	<b>New York</b> (Jefferies)   <b>Chicago</b> (Citi)
6-7 April	<b>Indianapolis</b> (AudiologyNOW! 2017)

## FINANCIAL CALENDAR 2017

27 March	Annual general meeting
9 May	Interim Management Statement
14 August	Interim Report 2017
9 November	Interim Management Statement

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