

Company announcement no 2011-08

10 November 2011

Interim information, third quarter

Strong third quarter with high organic growth in the hearing aid business

Hearing aid market seems unaffected by fluctuations in world economy

- In the third quarter, the William Demant Holding Group continued its strong momentum, and the hearing aid business in particular generated high organic growth rates and captured significant market shares.
- Oticon Intiga, the world's smallest, fully wireless hearing aid, was launched on all major markets in September as scheduled.
- In the third quarter, the Group started buying treasury shares.
- The Group maintains its expectations of 2011 and thus expects the wholesale of hearing aids to exceed market growth by 6-8 percentage points and to continue to generate substantial growth in both revenues and earnings.

Market trends

The global market for hearing aids has in the third quarter seen decent unit growth, which is thought to be in the middle of our full-year expectations of 2-4% unit growth. This trend should be viewed in the light of a turbulent world economy in the period under review, where consumer confidence has been on the decline. The financial markets have expressed concern that the uncertain macro-economic prospects would cause end-users of hearing aids to exercise restraint when it comes to buying new hearing aids and that this would hamper growth in the hearing aid industry. We believe that this concern is exaggerated, since there is no apparent historical correlation between the state of the economy and the demand for hearing aids. The quality of life of millions of hearing-impaired people is closely connected with the use of modern hearing solutions and the underlying demand for hearing aids is intact.

The population of potential end-users is developing steadily and predictably, which will also be the case in the coming decades, so the risk of a sudden change in demand must be considered to be modest. Moreover, the majority of all hearing aids are purchased without any kind of reimbursement, and the effects of health reforms and budget cuts on the hearing aid industry are therefore hardly worth mentioning, unlike the effects of such reforms and cuts on other medtech industries. During the financial crisis in 2008/2009, only a few hearing aid manufacturers did not live up to their usual standard; an example being William Demant which did not generate the same high growth as usual. However, this was to a great extent due to internal challenges with the implementation of ground-breaking wireless technology, rather than due to a general recession in the world economy. We therefore consider the market risks to be limited – both in 2011 and going forward.

In the third quarter, the US hearing aid market saw overall unit growth of 1%. With a growth rate of just over 1%, the US private market has driven this growth and for the first time in several years, it exceeds growth in sales to Veterans Affairs (VA), which was flat in the third quarter.

In overall terms, the major European hearing aid markets saw quite decent growth in the third quarter, and we estimate that unit growth was around 4%. Markets such as France, Holland, Italy and Sweden have all shown high growth rates, and Germany and the UK have both seen fair growth on par with growth on the global hearing aid market. As a consequence of new subsidy rules that became effective on 1 July 2011, hearing aid sales in Switzerland have been extraordinarily high both in the second and in the third quarter, but we expect this trend to be followed by difficult conditions for growth in the coming quarters. The Japanese market for hearing aids continued the positive momentum from the second quarter and generated a low, single-digit growth rate.

In our estimation, the competitive situation has been stable in the third quarter, and the recently held EUHA congress in Germany did not give rise to a change of this perception. None of the leading hearing aid manufacturers used EUHA as a platform to launch new high-end hearing aids, so market focus is still on hearing aids in the mid-priced and low-end segments. This less favourable product mix is a natural consequence of the present product lifecycle in the industry, but of course also dampens average selling prices. On this basis, we have not found it necessary to change our estimation of the development in average selling prices on the market, which thus remain unchanged compared to our estimation after the first half-year 2011.

Hearing Devices

Again in the third quarter, the Group's core business – wholesale of hearing aids – generated high organic growth due to strong unit sales and thus captured significant market shares.

In the period under review, Oticon realised impressive sales – especially in the mid-priced and low-end segments. Oticon Acto and Oticon Ino thus continue the good momentum from the second quarter, and both product families have obtained a strong position in the present market, which is to a great extent dominated by such mid-priced and low-end products. Furthermore, Oticon continues to win market shares in the product niches paediatrics and Super Power hearing aids, so the Group's dedicated stake in Oticon Chili and Oticon Safari has come to fruition. Last, but not least, Oticon Agil sales continue to be satisfactory.

The design instrument Oticon Intiga was launched according to schedule on all major markets in September, and the world's smallest, fully wireless hearing aid was well received by hearing aid dispensers and end-users alike. This was not least the case at the EUHA congress in Germany in October where Oticon Intiga drew a lot of positive attention. It is still early on in the introduction, but we are convinced that Oticon Intiga will contribute considerably to growth in the remaining part of 2011 and into 2012. With the launch of Intiga, Oticon also completes what must be described as one of the absolutely strongest product portfolios in the hearing aid industry – a portfolio whose aim it is to ensure that Oticon captures further market shares in the coming quarters.

In the third quarter, Bernafon generated decent unit growth – also in the low price categories. Bernafon Chronos has been well received and is expected to improve the product mix.

The integration of Otix Global is almost finalised and the gradual improvement of the company's operation is progressing according to plan. In addition to the successful integration of Sonic, the company's product portfolio has been strengthened on an ongoing basis. We still expect a neutral to slightly positive contribution from Sonic's operating activities.

At the end of the quarter, the Group has a market share of 11% with VA. Sales to the National Health Service (NHS) in the UK have developed positively and the Group has increased its market share with the NHS.

The Group's retail activities continue the positive momentum gained in the first half-year, and growth in the third quarter now exceeds the underlying growth in the markets where the Group has own retail activities. Growth is broadly founded and the optimisations initiated in parts of the business have come to fruition.

Oticon Medical, which develops, manufactures and sells bone-anchored hearing systems, continues – according to plan – to grow sales in both new and existing markets. The company's product portfolio is an important reason for its success, and an increasing number of studies confirm Oticon Medical's leading position in the field of sound processing.

Other business activities

In the third quarter, Diagnostic Instruments continued its very satisfactory increase in revenues and saw fair organic growth in a market characterised by growing price competition. The increase in revenues can also be attributed to acquisitions, including the acquisition of a number of SIDs (Special Instrument Distributor) in the USA as well as the acquisition of Otix Global's diagnostic distribution activities and MedRx, the US manufacturer of PC-based audiometer boxes.

In the same period, Personal Communication generated decent organic growth, even if this growth is slightly lower than in the first half-year. Traditionally, Sennheiser Communications is more affected by the state of the market than our other Group companies, but despite macro-economic unrest, the company continued to generate fair growth in the third quarter. Phonic Ear continues to see increasing competition from the hearing aid manufacturers, which – to an increasing extent – deliver substitute devices to the hearing impaired, e.g. TV and phone solutions. This trend has resulted in declining sales in Phonic Ear.

Expectations

We maintain our 2011 expectations as announced in our *Interim Report 2011*, including our expectation that growth in the wholesale of hearing aids will exceed market growth by 6-8 percentage points. Also, we expect to generate substantial growth in both revenues and earnings. If we exclude the acquisition of Otix Global and the associated non-recurring costs, we forecast a continued rise in our profit margin in 2011 compared with 2010, and we also expect to generate a fair double-digit growth rate in operating profits (EBIT).

Other matters

In the third quarter, we started buying treasury shares and have in this quarter acquired a total of 212,175 shares at a total value of DKK 85 million. Going forward, we expect to continue to use our free cash flow (excluding acquisitions) to buy treasury shares.

The Oticon Foundation, which owns approx. 59% of the share capital of William Demant Holding, has informed the Company that it will today transfer the main part of its shareholdings in the Company to William Demant Invest A/S (WDI), a fully owned subsidiary of the Oticon Foundation.

With this share transfer, the Oticon Foundation will gather all its business activities in WDI, enabling any surplus funds to be invested as effectively as possible across WDI companies.

After this transaction, the Oticon Foundation will still control approx. 59% of the share capital of WDH, of which approx. 57% will be owned indirectly via WDI and approx. 2% will be owned directly by the Oticon Foundation. Voting rights and decisions regarding purchasing and selling of WDH shares remain with the Foundation.

The new structure pertaining to the Foundation's ownership of WDH shares corresponds to the structure to be found in a number of other major commercial foundations in Denmark. The Oticon Foundation's aim to control a total of 55-60% of WDH's share capital remains unchanged.



Further information:

Niels Jacobsen, President & CEO
Phone +45 39 17 71 00
www.demant.com

Other contacts:

Stefan Ingildsen, SVP Finance
Søren B. Andersson, VP IR
Morten Lehmann Nielsen, IR Manager