Company announcement no 2018-11 6 November 2018

Interim Management Statement covering the period year-to-date

Strong organic growth in wholesale of hearing aids exceeding market growth rate in value
Ongoing roll-out of new products by all hearing aid brands supporting growth in units and value
Maintaining outlook for EBIT of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million

- Year-to-date, the Group has seen satisfactory development with substantial organic growth as well as growth from acquisitions.

- Organic growth in Hearing Devices has been driven by strong performance by our wholesale business, which has delivered market share gains in value based on the continued success of Oticon Opn as well as strong traction in our Bernafon and Sonic brands. We continue to see increased sales of value-added products and accessories, such as our rechargeable solution and ConnectClip. To maintain our leading position we continue to invest heavily in R&D, and in order to support our unit growth, we have recently launched several new products across all brands, including custom products and product families in the Essential category, which are all based on our latest technology platform.

- Our retail business has continued to deliver low organic growth, and despite recent improvements in our US retail business, our overall retail activities are expected to deliver an organic growth rate for the full year in line with the low organic growth seen in the first half-year.

- In our cochlear implants (CI) business, we have continued the roll-out of our Neuro system by forming many new relationships with important clinics and thereby delivering significant growth in several key Neuro markets. In September, we published our Reliability Report 2018, showing excellent results for our Neuro Zti implant. We have seen a negative impact on sales from our decision to reduce our activity level in select CI markets with lower prices, and consequently our total Hearing Implants business activity is likely to generate lower growth in the second half-year than in the first half-year. Our bone anchored hearing systems (BAHS) business has delivered modest growth, slightly above the estimated market growth rate.

- Our Diagnostic Instruments business activity has continued its momentum from the first half-year and has delivered strong organic growth and market share gains. Growth has been broadly based across brands, product categories and geographies.

- Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, has seen continued strong performance driven by high growth in the Gaming and Mobile segments and solid growth in the CC&O segment despite tough comparative figures.

- We maintain our expectation to generate substantial organic sales growth in 2018 with expected exchange rate effects of around -3%, including the impact of exchange rate hedging. We maintain our full-year outlook for an EBIT of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million. We still expect to buy back shares worth DKK 1.5-2.0 billion with a gearing multiple of 1.5-2.0 measured as NIBD (net interest-bearing debt) relative to EBITDA.

“I’m pleased to see that we continue to deliver substantial organic growth in a highly competitive hearing healthcare market. We are meeting competition with innovation demonstrated by our significant expansion in recent months of our product portfolio across all hearing aid brands. Besides helping us deliver growth in sales and earnings, continued innovation also enables us to deliver on our promise to make a life-changing difference to people living with hearing loss,” says Søren Nielsen, President & CEO of William Demant Holding.
Hearing Devices

Market trends

We estimate that the global hearing aid market has year-to-date seen growth rates in line with our general expectation of 4-6% unit growth per year. Unit sales in the US increased by approx. 6% according to statistics from the Hearing Industries Association (HIA), with 7% growth in the commercial part of the US market and 2% growth in Veterans Affairs (VA). We estimate that unit growth in Europe has been 3-4% driven by France and Germany, whereas the UK, which is the region’s largest market in terms of volume, has seen a slightly negative unit growth rate of around 1% due to negative growth in the large public channel, NHS. Unit growth rates in both Japan and Australia have been solid, but on the decline in the third quarter.

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 the ASP, but we believe that this has – at least partly – been offset by positive mix shifts in terms of geography and products due to the fact that an increasing number of hearing instruments have become rechargeable and come with various accessories. ASPs on the hearing aid retail market vary significantly across markets because of differences in reimbursement schemes, market structures and customer preferences. However, we estimate that retail pricing in individual channels has remained relatively stable.

Wholesale

Our hearing aid wholesale business has delivered strong organic growth in value above the estimated market growth rate, so we have succeeded in building on the market share gains we have obtained since the launch of Oticon Opn in 2016. Year-to-date, the ASP has due to positive mix changes been the growth driver, with increasing sales to independent hearing care professionals, a higher Premium share in all our brands of the overall product mix and strong growth in North America. In addition, and as also stated in our Interim Report in August 2018, three factors materially impacted the mix between unit growth and ASP growth in the first half-year, but when adjusting for these, we have seen underlying growth in both units and the ASP. We have so far delivered positive unit growth in the second half-year. As was the case in the first half-year, continuously increasing sales of value-added products and accessories, such as our rechargeable solution and ConnectClip, have impacted our production costs.

We have seen strong momentum in North America with high organic growth rates in both Canada and the US. Growth in the US was driven by increasing sales to independent hearing care professionals, although we have seen increased competition in this part of the market into the second half-year. We have seen particularly strong sales to VA where we grew our unit market share to 20.6% in September 2018 compared to 13.8% in September 2017, corresponding to a growth rate of 49%. This is first and foremost a result of the introduction of new products in May 2018, including our rechargeable solution and ConnectClip with connectivity to Android or any other modern smartphone. At the beginning of November, we introduced our Oticon Opn custom styles, which have further strengthened our offering to the VA.

In Europe, we have seen solid organic growth led by France, Spain and Italy, whereas growth rates in Germany and the UK were impacted by the loss of sales to a large customer acquired by a competitor as well as negative growth in the NHS.

Outside our two largest regions, we saw strong organic growth in Asia led by China and Japan.
On the product side, Oticon Opn continued to be a key driver of our strong performance, as it remains a superior product in the marketplace with its winning combination of industry-leading audiology, dual-frequency radio and a flexible rechargeable solution. Our launch last year of the 2.4 GHz-enabled Bernafon Zerena and Sonic Enchant product families has also contributed to growth. In particular, the launch of Zerena has helped us increase Bernafon’s market share in the US.

In order to maintain our leading position in the current competitive landscape, we continue to invest heavily in R&D. We have recently launched several new products, including custom products, in all three hearing aid brands and at all price points. In addition, we have introduced our latest technology platform at two lower price points and in multiple styles across all three brands and also added HearingFitness, the world’s first hearing fitness app. With these new products, we widen the reach of our technology, help improve the quality of life for even more hearing-impaired people and support our volume growth.

Retail

Our retail business has delivered low organic growth and is expected to deliver an organic growth rate for the full year in line with the 1% organic growth seen in the first half-year, however with material differences between individual markets:

In North America, growth has been driven by acquisitions, as we continue to make bolt-on acquisitions in both the US and Canada, e.g. the acquisition in the first half of the year of the remaining shares of a store network, which was previously recognised as investments in associates. Naturally, these acquisitions have also added to growth in our distribution costs. Organic growth in the US has improved gradually into the second half of 2018, even though it is still below the market growth rate. We continue our journey to roll up and consolidate the significant number of acquired entities into one single operating unit. We are very focused on continuing to improve systems and processes, and effective lead generation and brand harmonisation remain key for driving growth and are therefore important parts of our ongoing efforts.

In Europe, our retail business in France under the Audika brand has delivered a very solid 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, and Poland continues to contribute positively to organic growth in the region.

In Australia, market growth has been negatively impacted by changed market conditions, with a higher share of free-to-client hearing aids resulting in ASP pressure. We have been able to partly compensate for this by improving our unit sales. However, we have seen low efficiency in our lead generation.

Hearing Implants

In our cochlear implants (CI) business, we have continued the roll-out of our Neuro system by forming many new relationships with important clinics and thereby delivering significant growth in several key Neuro markets. Furthermore, we have almost concluded the successful upgrade of existing Neuro One users to the unique Neuro 2 external sound processor in markets where we have obtained product approval. Based on evaluations of the upgrades, we expect to see a gradual positive sales uptake and also to free up some resources from the upgrade programme to commercial activities. In September, we published our Reliability Report 2018, showing excellent results for our Neuro Zti implant, which will contribute to further strengthening our clinical evidence base. We have seen a negative impact from our decision to reduce our activity level in select CI markets with lower prices, and consequently our total Hearing Implants business activity is likely to generate lower growth in the second half-year than in the first half-year where organic growth was 9%.
Our bone anchored hearing systems (BAHS) business has delivered modest growth, albeit above the estimated market growth rate. The Ponto 3 SuperPower offers the highest output ever by an abutment-level sound processor and is seen as the preferred solution in an increasing number of markets.

**Diagnostic Instruments**

In Diagnostic Instruments, we have continued the very positive momentum and delivered strong organic growth. The market for our solutions is healthy and has slightly exceeded our general estimate of 3-5% growth per year, but we nonetheless believe that we succeeded in gaining further market share. In terms of geographies, growth has been centred in North America, our largest region, and in Europe and the Pacific region, but all regions contributed positively to growth.

**Personal Communication**

Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, has seen continuously strong performance driven by high growth rates in the Gaming and Mobile Music segments and a solid growth rate in the Enterprise Solutions (CC&O) segment despite tough comparative figures.

As communicated in September, we and Sennheiser have decided to end our successful joint venture and let the business segments of Enterprise Solutions (CC&O) and Gaming headsets continue as an independent business as part of the William Demant Group and the business segment of Mobile Music headsets as part of the Sennheiser Consumer business. The separation is scheduled to take place on 1 January 2020. Until then, Sennheiser Communications will continue as before, while Sennheiser and William Demant prepare the separation in order to ensure a seamless and smooth transition for employees, customers, suppliers and partners.

**Other matters**

*Strategic initiatives*

We continue to execute on our strategic initiatives according to plan, and compared to the cost base for 2016, we maintain our expectation of annual cost savings of around DKK 200 million when the initiatives are fully implemented. Expected restructuring costs for 2018 remain unchanged at DKK 120 million.

*Share buy-back*

The Company has year-to-date bought back shares worth a total of DKK 1,447 million. As of today, the Company’s holding of treasury shares corresponds to approx. 2.3% of the share capital.

**Outlook for 2018**

We maintain our expectation to generate substantial organic sales growth in 2018, with expected exchange rate effects of around -3%, including the impact of exchange rate hedging. We maintain our full-year outlook for an EBIT of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million. We still expect to buy back shares worth DKK 1.5-2.0 billion with a gearing multiple of 1.5-2.0 measured as NIBD (net interest-bearing debt) relative to EBITDA.
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