

Company announcement no 2019-02

19 February 2019

**Strong revenue growth of 9% in local currencies exceeding the market growth rate
8% growth in EBIT (6% adjusted) with unprecedented level of resources used to drive future growth
New platform enabling Oticon to launch premium products with significant audiological improvements
Outlook 2019: EBIT of DKK 2.65-2.95 billion and share buy-backs of a minimum of DKK 1.2 billion**

- Consolidated revenue for 2018 amounted to DKK 13,937 million, corresponding to a growth rate of 6%. We saw substantial organic growth, which contributed with 7 percentage points, while acquisitive growth contributed with 2 percentage points and exchange rate effects with -3 percentage points.
- In Hearing Devices, growth in local currencies amounted to 9%. Our hearing aid wholesale business delivered a strong performance with organic growth of 9% and thus gained market share in value despite a slowdown in growth towards the end of the year. Based on a new high-performing platform, Oticon will over the coming weeks launch new premium products proven to deliver even better speech understanding than the ground-breaking Oticon Opn™ thanks to new breakthrough technologies. The launch also includes our first lithium-ion-based rechargeable batteries. Furthermore and in line with our multi-brand strategy, our Bernafon and Sonic brands will launch new strong product portfolios during the second quarter of 2019, and we also expect to introduce our first Philips-branded hearing solutions to the market in the second quarter of 2019 as well. Our hearing aid retail business delivered growth of 9% in local currencies mainly driven by acquisitive growth of 8%, whereas organic growth was 1%, however with material differences between our markets.
- Our Hearing Implants business activity delivered 10% underlying organic growth, when adjusting for our decision to reduce our activity level in select cochlear implants (CI) markets with lower prices. In our CI business, underlying growth exceeded the estimated market growth rate of 10-12 % driven by the roll-out of Neuro 2 with improved momentum in key European markets towards the end of the year. Our bone anchored hearing systems (BAHS) business delivered a modest growth rate slightly above the market growth rate, which we estimate was flat in 2018 due to the lack of product introductions. Towards the end of the first half of 2019, our BAHS business will introduce a new Ponto sound processor based on a brand new platform, offering superior audiology and a range of improved functionalities. On a reported basis, growth in Hearing Implants was 5% in local currencies, all of which was organic growth.
- Diagnostic Instruments saw exceptional growth of 12% in local currencies, almost entirely attributable to organic growth, and with an estimated market growth rate of around 5%, we thus gained further market share. We saw strong performance across brands, product categories and geographies.
- Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, delivered strong underlying growth of 25% (46% reported) and materially grew its contribution to the Group's EBIT to DKK 104 million.
- Overall, consolidated operating profit (EBIT) grew by 6% and amounted to DKK 2,652 million before restructuring costs of DKK 120 million, which is in line with the announced outlook range of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million (the original guidance for an EBIT of DKK 2.55-2.85 billion before restructuring costs of DKK 150 million was revised in August 2018). Unchanged from 2017, the adjusted EBIT margin of 19.0% was positively impacted by the strong growth generated by our hearing aid wholesale business, despite the fact that the business allocated more resources to continued innovation, and also by Diagnostic Instruments and Sennheiser Communications, whereas the low organic growth in the hearing aid retail business had a dilutive impact on the margin. Reported EBIT grew by 8% to DKK 2,532 million, corresponding to an EBIT margin of 18.2% or an increase of 0.5 percentage point

on 2017. Reported profit for the year increased by 4% to DKK 1,830 million, and earnings per share (EPS) increased by 7% to DKK 7.32.

- Cash flow from operating activities (CFFO) decreased by 13% to DKK 1,765 million before restructuring costs due to an increase in our net working capital, resulting from low inventory levels at the beginning of the year and preparations for upcoming product launches, as well as some tax payments made in 2018 relating to 2017 and 2019.
- The Demant Group expects to generate organic sales growth above market level in 2019, accelerating through the year as we start seeing the effect of new product launches. Based on exchange rates as of 18 February 2019 and including the impact of exchange rate hedging, we expect a positive exchange rate effect on revenue of 1% in 2019. We are guiding for a reported operating profit (EBIT) of DKK 2.65-2.95 billion in 2019. We expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion. We aim for a gearing multiple of 1.8-2.3 measured as net interest-bearing debt (NIBD) relative to EBITDA, corresponding to an unchanged gearing multiple of 1.5-2.0 before the implementation of IFRS 16.

"I am proud of the past year's results, which confirm that in 2018, we took a big step towards fulfilling our purpose to make life-changing differences through hearing health. We continue our growth trajectory by taking market shares and clearly demonstrating the positive effects on health of our specialised solutions. Not only do we deliver tangible results in the short run – one of the highlights being 12% growth in our Diagnostic Instruments business activity – but we also keep developing our Group for future achievements by investing significantly in all business activities and key areas, such as R&D and digitalisation. With the launch of a new hearing aid platform, Oticon is now ready to go to market with new premium products, taking the pioneering audiology in Oticon Opn even further, and I am confident that we are in good shape to meet our ambitions for 2019," says Søren Nielsen, President & CEO of Demant.

Niels B. Christiansen
Chairman of the Board

Søren Nielsen
President & CEO

The full Annual Report 2018 for William Demant Holding A/S totalling 130 pages is attached to this announcement.

Demant will host a conference call on 19 February 2019 at 14:00 CET. To attend this call, please use one of the following dial-ins: +45 3544 5577 (DK), +44 3333 000 804 (UK) or +1 6319 131 422 (US). The pin code is 49351310#. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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	2018	2017	2016	2015	2014	Change 2017-2018
Key figures, DKK million						
Revenue	13,937	13,189	12,002	10,665	9,346	6%
Gross profit	10,784	10,026	9,030	7,895	6,813	8%
Gross profit, adjusted*	10,825	10,064	9,102	7,895	-	8%
R&D costs	1,009	919	839	763	680	10%
EBITDA	2,978	2,742	2,346	2,203	2,055	9%
Amortisation and depreciation etc.	446	404	404	325	294	10%
Operating profit (EBIT)	2,532	2,338	1,942	1,878	1,761	8%
Operating profit (EBIT), adjusted*	2,652	2,504	2,130	1,902	-	6%
Net financial items	-164	-111	-101	-69	-70	48%
Profit before tax	2,368	2,227	1,841	1,809	1,691	6%
Profit for the year	1,830	1,759	1,464	1,439	1,327	4%
Financial ratios						
Gross profit margin	77.4%	76.0%	75.2%	74.0%	72.9%	-
Gross profit margin, adjusted*	77.7%	76.3%	75.8%	74.0%	-	-
EBITDA margin	21.4%	20.8%	19.5%	20.7%	22.0%	-
Profit margin (EBIT margin)	18.2%	17.7%	16.2%	17.6%	18.8%	-
Profit margin (EBIT margin), adjusted*	19.0%	19.0%	17.7%	17.8%	-	-
Earnings per share (EPS), DKK	7.32	6.84	5.53	5.30	4.80	7%
Return on equity	25.7%	24.0%	21.5%	23.7%	24.7%	-

Earnings per share (EPS) is per share of nominally DKK 0.20.

*Adjusted for one-off costs related to restructuring activities in 2016-2018.