

**Company announcement** no 2015-02

26 February 2015

**Publication of Annual Report 2014**

**EPS growth of 5% within guided range of 2-7%. Underlying EPS growth of 11%**  
**Free cash flow increased by 28%, reaching more than DKK 1 billion**

This announcement includes the highlights of the Annual Report:

- In 2014, consolidated revenue totalled DKK 9,346 million, matching a growth rate of more than 6% in local currencies of which organic growth accounted for more than half. Exchange rates had a negative impact on revenue of 2%.
- The Group's three business activities, Hearing Devices, Diagnostic Instruments and Hearing Implants, achieved revenue growth rates in local currencies of 5%, 11% and 36%, respectively.
- The reported operating profit (EBIT) amounted to DKK 1,761 million, equivalent to 1% growth. When adjusted for a negative exchange rate effect of DKK 50 million and a one-off loss on a customer loan of DKK 40 million, the underlying growth in EBIT was 7% compared with 2013. The underlying profit margin was 19.6%.
- The Group delivered 5% EPS growth, which is within the most recently announced range of 2-7% EPS growth. The underlying EPS growth was 11%.
- Cash flow from operating activities (CFFO) increased by 17% to DKK 1,495 million, corresponding to a cash conversion ratio of 85% (CFFO/EBIT). Free cash flow grew by as much as 28%, amounting to DKK 1,044 million.
- Oticon's new Inium Sense platform is currently being launched in all styles, at all price points and in all markets. This marks the biggest and broadest product launch ever undertaken by Oticon and will support the recent sales momentum achieved in our core business.
- In 2015, we expect to continue to generate growth in all of our three business activities, Hearing Devices, Diagnostic Instruments and Hearing Implants. We are guiding for an operating profit (EBIT) for 2015 in the range of DKK 1.7-2.0 billion.

*"The fact that we have delivered no less than 28% growth in free cash flow and reached a record level of more than DKK 1 billion is very satisfactory," says Niels Jacobsen, President & CEO of William Demant. "I am also pleased to see how well we managed to navigate through the changed market dynamics in the US hearing instrument market, thereby further strengthening our position in the independent channel and gaining momentum as the year progressed," Mr Jacobsen states.*

## Market conditions and business trends

### *Hearing Devices*

We estimate that global unit growth in 2014 was 5-6%, exceeding our normal expectations of 3-4% unit growth. In our opinion, the average selling price on the hearing aid market declined by 4-5% in 2014, primarily due to changed market dynamics in the US, a new reimbursement system in Germany and generally intensified competition. In terms of value, the overall market growth rate was, in our estimation, slightly positive.

In 2014, our core business – the development, manufacture and wholesale of hearing aids – realised an organic growth rate of 2%. This growth was driven by a satisfactory unit growth rate of 8% that more than offsets the decline in the Group's hearing aid wholesale average selling price (ASP) of more than 5%. The addition of one manufacturer's premium hearing aid brand to a big box retailer in the US lowered our own sales to this particular retailer up until late 2014 where it stabilised. These changes on the US market led to us launch commercial initiatives in our core business in the first half of the year, resulting in improved sales momentum in the second half. Because of the solid growth achieved in the US, we have regained the market shares we lost at the beginning of the year. Our market share with VA rose by a couple of percentage points in 2014, and a generally upgraded product offering has driven our improved performance in this important channel.

Growth was mainly driven by competitive products in the low-end and mid-priced segments and in the second half-year also by several product introductions based on the Inium platform, including the three cosmetically attractive wireless styles: designRITE, Invisible-In-the-Canal (IIC) and Completely-In-the-Canal (CIC). Bernafon launched their high-end product Juna in the fourth quarter of 2014, and this product has significantly strengthened Bernafon's product portfolio and has helped Bernafon regain some of their sales momentum.

Oticon's strong position in hearing care will be further strengthened by the launch of the new Inium Sense platform. The new platform is currently being launched in all styles, at all price points and in all markets and marks the biggest and broadest product launch ever undertaken by Oticon. By constantly learning more about the brain, we have been able to take BrainHearing™ to a new level by adding new technologies and features, which deliver improved signal processing that supports the way our brain processes sound. Inium Sense delivers 30% more processing power than the previous platform, thereby facilitating an extensive range of new features and new end-user benefits:

- **Soft Speech Booster™:** A new feature that increases the understanding of soft speech sounds by up to 20%.
- **Tinnitus treatment including Tinnitus SoundSupport™:** State-of-the-art tinnitus feature that sets new standards, as it is the first solution to offer built-in ocean sounds in addition to a large number of sound options and adjustment controls.
- **Water resistance:** Nano-coated and IP58 certified water resistant instruments.
- **Inium Sense Feedback Shield:** Next-generation feedback management, offering four times more efficient feedback suppression.

With Oticon Alta2, Nera2 and Ria2, we introduce a brand new generation of our most popular Performance families, including a new smaller and more discreet miniRITE style in all three families and at all price points. Combined with the multiple, cosmetically attractive, wireless hearing instruments already launched in the second half of 2014, these substantial product introductions reinforce our competitiveness in 2015.

In the period under review, organic revenue growth in our retail activities was in line with market growth in the markets where we operate. Especially Europe, but also Australia, contributed to this organic growth.

#### *Diagnostic Instruments*

Our business activity Diagnostic Instruments realised revenue of DKK 975 million, or a satisfactory growth rate of 11% in local currencies of which 10 percentage points are attributable to organic growth. The global market for diagnostic equipment is estimated to have grown by 5% in 2014, and the business activity has thus significantly increased its market share.

As previously announced, the upgrade of our ERP system and the transfer of production to a new manufacturing facility have, however, resulted in delivery bottlenecks in Diagnostic Instruments. Most of the issues hit us in the first half of the year, and most of the issues were resolved in the second half of 2014. We expect the delivery situation to be normal again in the first half of 2015.

#### *Hearing Implants*

In our Hearing Implants business activity, we are steadily working towards fulfilling our long-term ambition of becoming one of the world's leading manufacturers of hearing implants. The business activity delivered a growth rate of 36% in local currencies in 2014 of which 25 percentage points could be attributed to organic growth. The acquired growth is related to the acquisition of the French cochlear implant business Neurelec in April 2013, which is now branded under the Oticon Medical name.

In 2015, we will reach a major milestone with the launch of the first Oticon Medical cochlear implant system under the Neuro brand name. The Neuro system is the result of a very ambitious implant and sound processor project. New and very important implant features and also the integration of signal processing and audiology features from Oticon hearing aids are key improvements. The Neuro launch is the biggest activity in Oticon Medical ever, and the launch process will require significant resources and take up to 18-24 months. In 2015, we will furthermore launch a new surgery concept for bone-anchored hearing systems that will make the procedure faster, even more cosmetically attractive and fully reversible. Towards the end of the year, we will launch a new implant for the Ponto system, which will enable faster loading and higher stability.

#### *Other areas*

Sennheiser Communications, our joint venture with Sennheiser KG, manufactures both professional and consumer headsets for the gaming, mobile phone and CC&O (Call Center and Office) segments. As a result of the Group's implementation of new IFRS accounting standards on 1 January 2014, Sennheiser Communications is no longer proportionately consolidated into the Group's financial statements, but is instead recognised under *Share of profit after tax, associates and joint ventures*. Therefore, Sennheiser Communications will continue to contribute to Group earnings, and we will continue to provide relevant information on this business.

In 2014, Sennheiser Communications realised a satisfactory 16% organic growth rate, thereby exceeding the market growth rate. As mentioned in our Annual Report 2013, sales in 2013 were positively impacted by the one-off sale of Sennheiser Communications' inventory to Sennheiser KG, which means that in 2014, underlying sales growth was even higher than realised sales growth. Growth was especially pronounced in the CC&O segment driven by Unified Communication (UC).

## Financial review

In 2014, consolidated revenue totalled DKK 9,346 million, corresponding to a growth rate of well above 6% in local currencies of which organic growth accounted for more than half. Acquired growth can mainly be attributed to the full-year effect of acquisitions made in 2013, since we have only made a small number of acquisitions in 2014. Exchange rates had a negative impact on revenue of 2%.

In connection with the consolidation and standardisation of the financial procedures of 70-80 acquired retail entities in the US, we have identified inaccuracies in the balance sheets of some of these entities, resulting in adjustments of certain balance sheet items in the acquired businesses. These adjustments affect the income statement, and a further analysis has concluded that DKK -12 million relates to 2014. The remaining DKK -31 million relates to prior-period errors and has in compliance with IAS 8 been restated in the comparative figures for 2013, as it is not practically possible to determine the specific prior period in which the errors occurred. These costs will not be recognised as one-off costs, as opposed to what we have previously communicated. As mentioned in our Interim Information on the third quarter of 2014, we have incurred a loss on a customer loan in the US. This one-off amount totals DKK 40 million (against our previous expectation of around DKK 50 million) and has been recognised as a distribution cost in our 2014 financial statements.

Operating profit (EBIT) for the year totalled DKK 1,761 million, or an increase of 1% compared with reported EBIT in 2013. If adjusted for the negative exchange rate effect of DKK 50 million and the one-off loss on a customer loan of DKK 40 million, the underlying EBIT growth was 7%. The underlying profit margin was 19.6%. Furthermore, the full-year effect of the acquisition of distribution activities and Neurelec in 2013 had a significant dilutive effect on our profit margin, so bearing this in mind, we find the development in our profit margin satisfactory.

Earnings per share (EPS) were DKK 23.8, which is a rise of 5% on last year and within the most recently announced guidance range of 2-7%. The underlying EPS growth was 11%.

Consolidated cash flow from operating activities (CFFO) increased by 17% to DKK 1,495 million in 2014. This is equivalent to a very high cash conversion ratio of 85% (CFFO/EBIT). The free cash flow amounted to DKK 1,044 million, or an increase of as much as 28%.

## Other matters

In 2014, the Company bought back 1,899,279 shares at a total amount of DKK 887 million. Year-to-date, the Company has bought back an additional 135,599 shares worth DKK 64 million, bringing the Group's total amount of treasury shares to 2,236,403.

On 17 February 2015, the Group announced that we have entered into exclusive negotiations for the potential purchase of 53.9% of the share capital of Audika, a leading network of hearing care providers in France, from the controlling shareholder Holton at a price of EUR 17.78 per share. If successful, the purchase of a controlling interest will commit William Demant to commence a mandatory public tender offer for the remaining 46.1% of the outstanding share capital of Audika, which is listed on Euronext in Paris. Based on a price of EUR 17.78 per share, the entire transaction will amount to an equity value of EUR 168 million. Audika will launch an information and consultation process with the relevant employee representatives in accordance with French law. Furthermore, the acquisition of the controlling interest in Audika is subject to approval by the French competition authority. Time-wise, the mandatory public tender offer is expected to close in June 2015 at the earliest, but more likely in the second half of 2015.

## Outlook 2015

In 2015, we expect to generate growth in sales and earnings in the Group's three business activities: Hearing Devices, Diagnostic Instruments and Hearing Implants.

As far as the hearing aid market is concerned, we expect to see unit growth of 3-4%, which will however be dented by a decline in the market's average selling price due to continued mix changes and fierce competition. In terms of value, we expect to see flat to slightly positive market trends in 2015. The anticipated growth in 2015 in our own hearing aid wholesale activities is based on the solid momentum gained towards the end of 2014, which has continued into 2015 and has been further fuelled by Oticon's major global product launch in the first quarter of 2015. Oticon's new products will from the very start be globally available in all styles and at all price points.

In Diagnostic Instruments, we expect a continuation in 2015 of the sales momentum we experienced in the second half of 2014 in a market that is expected to grow by 2-4% in value.

In Hearing Implants, i.e. cochlear implants and bone-anchored hearing systems, we expect to deliver double-digit growth rates in 2015 measured in value.

The appreciation of several of the Group's invoicing currencies, most notably the US dollar, is expected to have an estimated 4-5% positive impact on reported Group revenue in 2015 based on exchange rates in early 2015 and including the impact of exchange rate hedging. However, the resulting positive exchange rate impact on the Group's earnings will partly be offset by the translation of the Group's Swiss R&D cost base into Danish kroner. The full positive impact on operating profit of the Group's strengthened invoicing currencies is postponed due to currency hedging.

Acquisitions made in 2014 and in 2015 up until today will impact revenue by less than 1% in 2015. Our ongoing efforts to improve the Group's efficiency through the entire value chain will continue. We will thus build and implement a new global ERP system, establish shared services for our back-office functions, further centralise our ITE production and repair services and put our new global distribution centre in Poland into operation. Also, our cost base will continue to be impacted by our expansion in Hearing Implants, especially driven by R&D and distribution activities. All these major undertakings are meant to deliver value for the Group in the medium to long term, but will in the short term, which means also in 2015, naturally have a dilutive effect on the Group's profitability, as it has also been the case in recent years.

All in all, based on the Group's expected revenue growth in 2015 and on our continued efforts to improve our efficiency and to build a future growth platform in Hearing Implants, we are guiding for an operating profit (EBIT) for 2015 in the range of DKK 1.7-2.0 billion.

The guidance provided above does not include any impact of the outcome of the current negotiations to acquire Audika.

Lars Nørby Johansen  
Chairman of the Board

Niels Jacobsen  
President & CEO

*The full Annual Report 2014 for William Demant Holding A/S totalling 90 pages will be published immediately after this announcement.*



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	2014	2013	2012	2011	2010	Development 2013-2014
<b>Key figures, DKK million</b>						
Revenue	9,346	8,959	8,555	8,041	6,892	4%
Gross profit	6,813	6,518	6,127	5,777	4,959	5%
Operating profit (EBIT)	1,761	1,736	1,653	1,709	1,430	1%
Net financial items	-70	-72	-132	-103	-116	-3%
Profit before tax	1,691	1,664	1,521	1,606	1,314	2%
Profit for the year	1,327	1,286	1,151	1,199	988	3%
Assets	11,219	10,318	8,777	7,646	6,786	9%
Equity	5,584	5,056	4,059	3,304	2,443	10%
Cash flow from operating activities (CFFO)	1,495	1,282	1,272	1,381	826	17%
<b>Financial ratios</b>						
Gross profit margin	72.9%	72.8%	71.6%	71.8%	71.9%	-
Profit margin (EBIT margin)	18.8%	19.4%	19.3%	21.3%	20.7%	-
Earnings per share (EPS), DKK	23.8	22.7	20.2	20.6	16.9	5%
Return on equity	24.7%	28.0%	31.8%	41.7%	49.5%	-

*Key figures and financial ratios for 2013 have been restated due to new accounting policies and due to errors in prior periods, they have been corrected in the financial figures for 2013. Key figures and financial ratios for 2010-2012 have not been restated. Please refer to Annual Report 2014 for a further description.*