William Demant

Hearing Devices

Søren Nielsen

COO, William Demant

Niels Wagner

President of Retail, William Demant

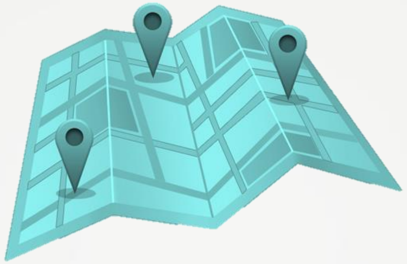
Agenda

- Hearing aid market
- Hearing aid wholesale
- Hearing aid retail

Solid structural growth drivers in hearing devices

Demography

- Growing ageing population
- Increasing life expectancy



Increasing points of sales

- Greenfield store openings
- New channels being tested with a few showing sustainability
- Increased marketing
- Increased access to reimbursed hearing aids

Emerging markets

- Demography
- Growing penetration rates
- Improved healthcare systems
- Higher average income
- Improved access to hearing aids

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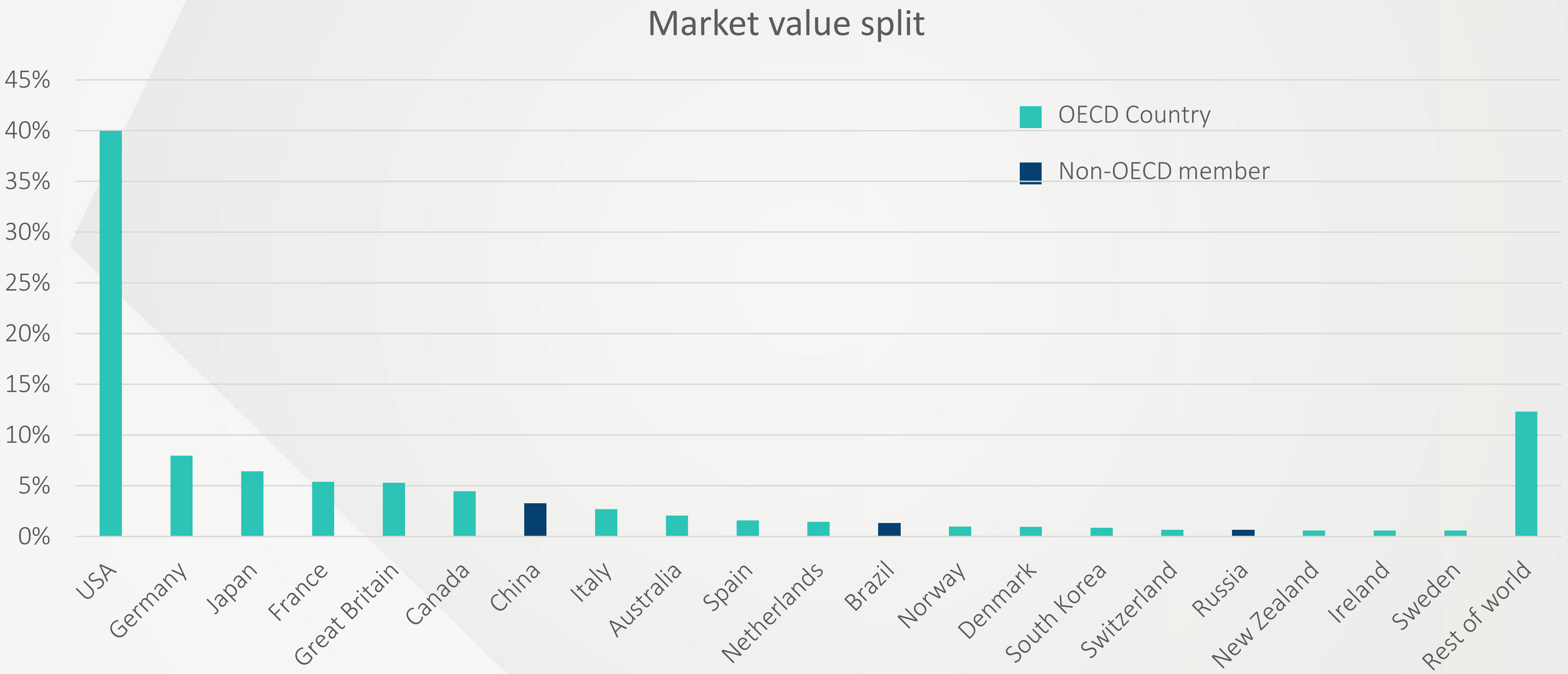
OECD countries continue to dominate



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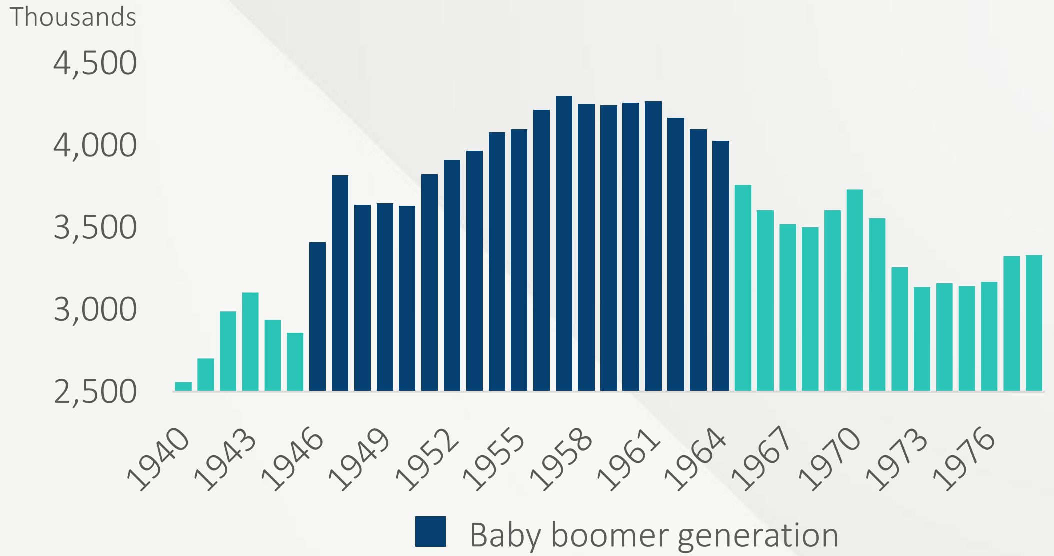
Underlying growth driven by baby boomers

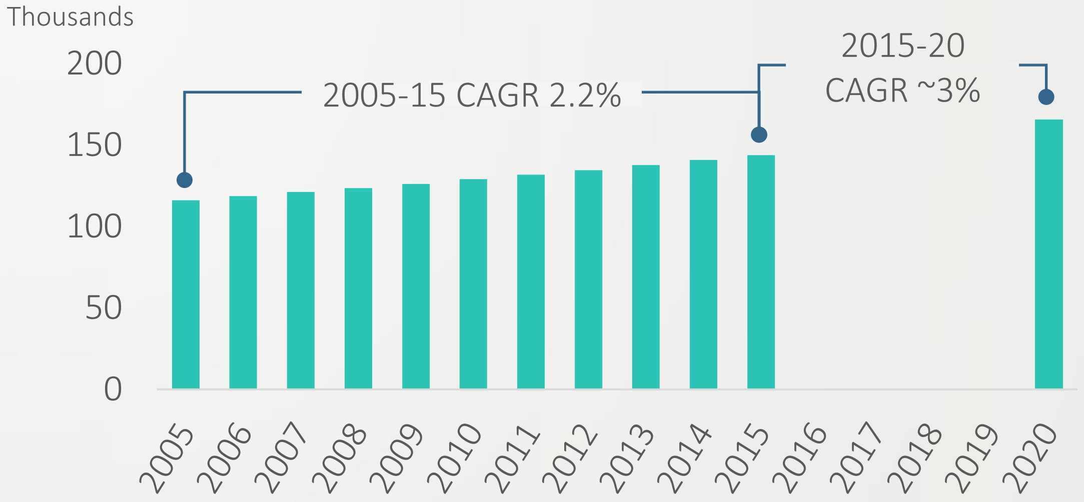
Baby boomers will drive growth for the next 10-15 years

70 years old	~69 years old	Increasing longevity	Active and tech-savvy
Age of the first baby boomers	Average age of first-time user	We live longer and longer	Characteristics of the baby boomers

US birth rates (1940-1978)



70+ population (OECD countries)



Source: William Demant estimates and data from OECD.stat and US Census

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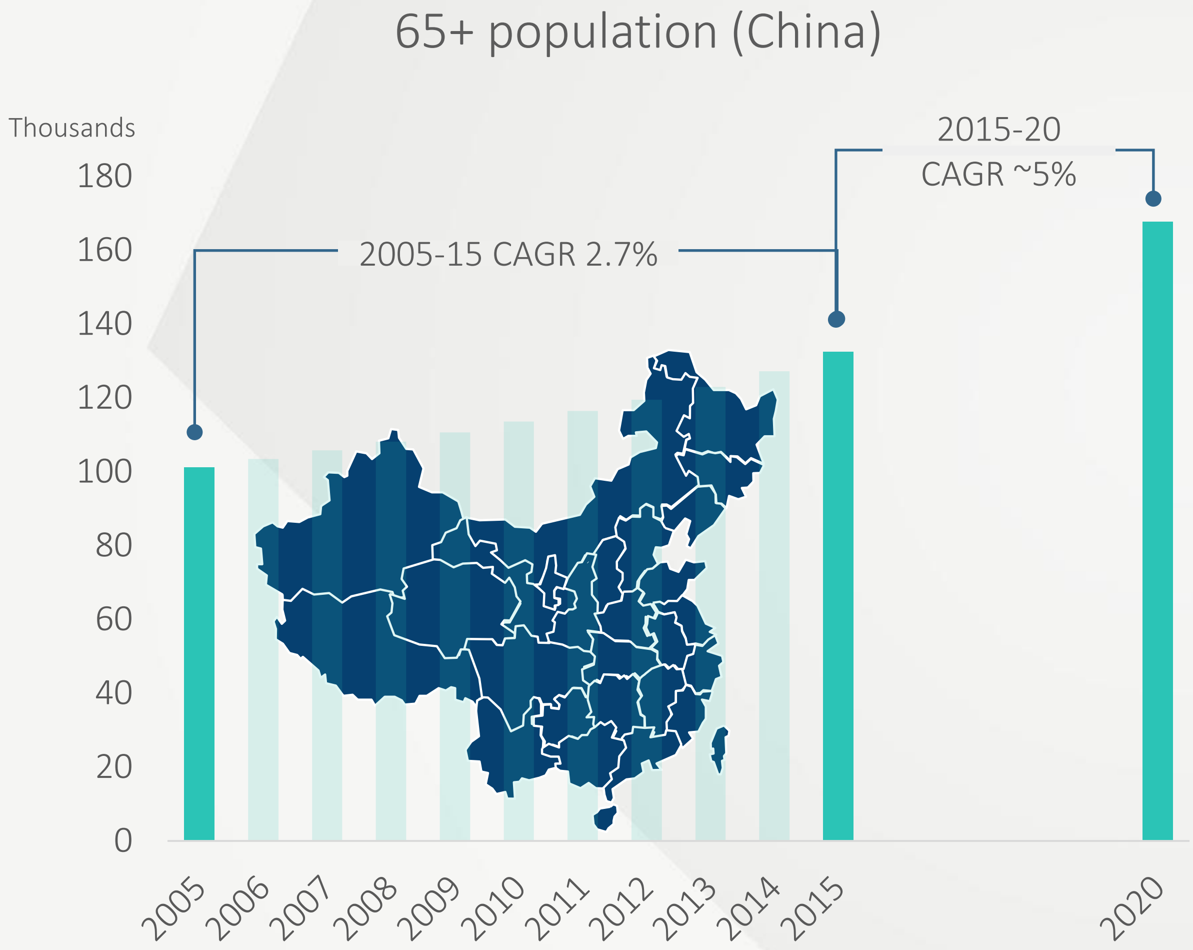
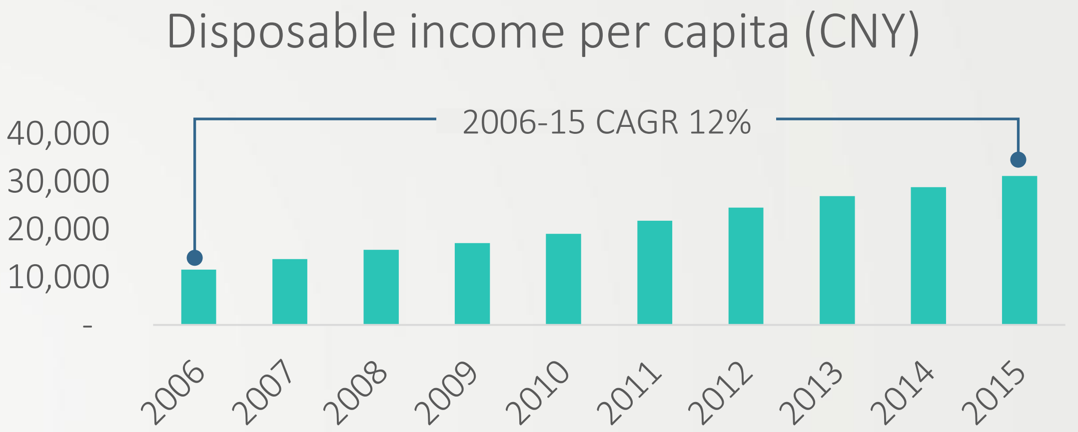
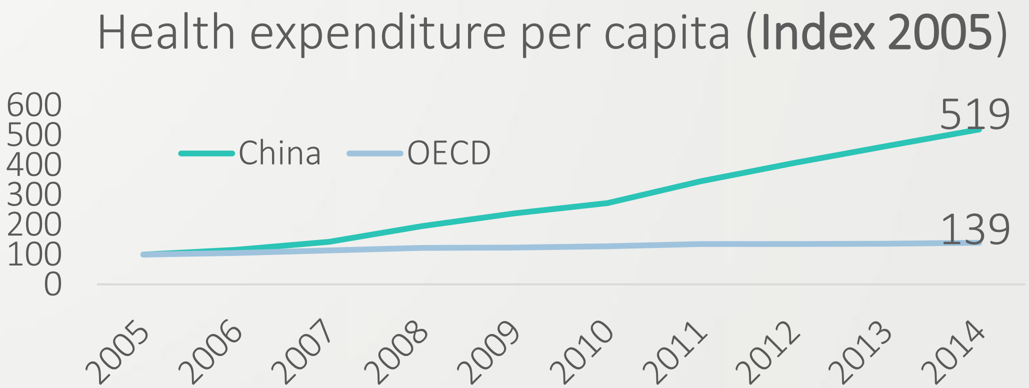
China's emerging senior market





Large regional differences (rural vs. urban)



OECD still factor >10x (4,746$ vs 419$)

Source: OECD stat and National Bureau of Statistics of China

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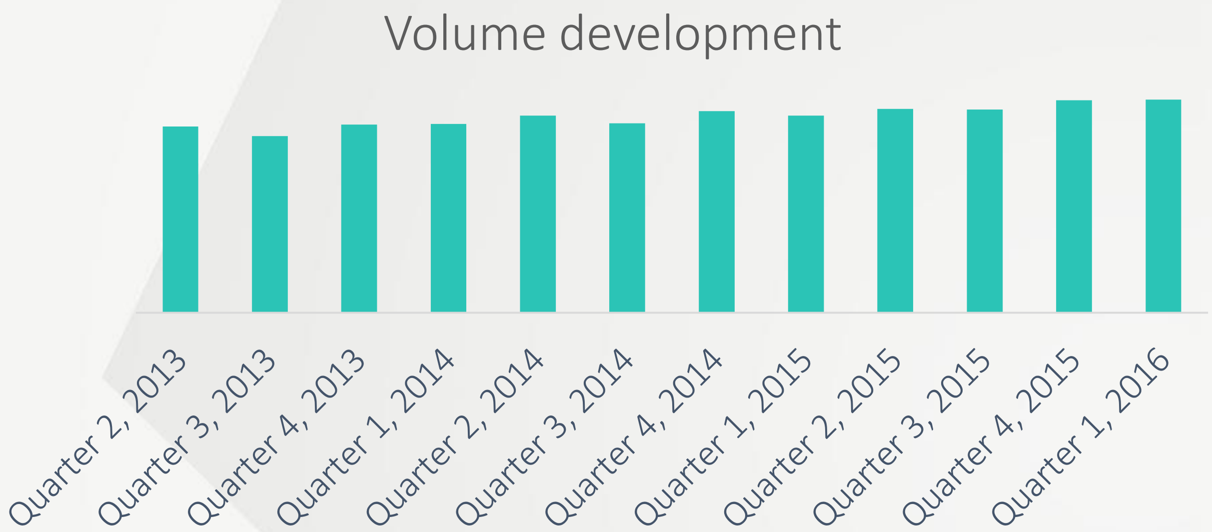
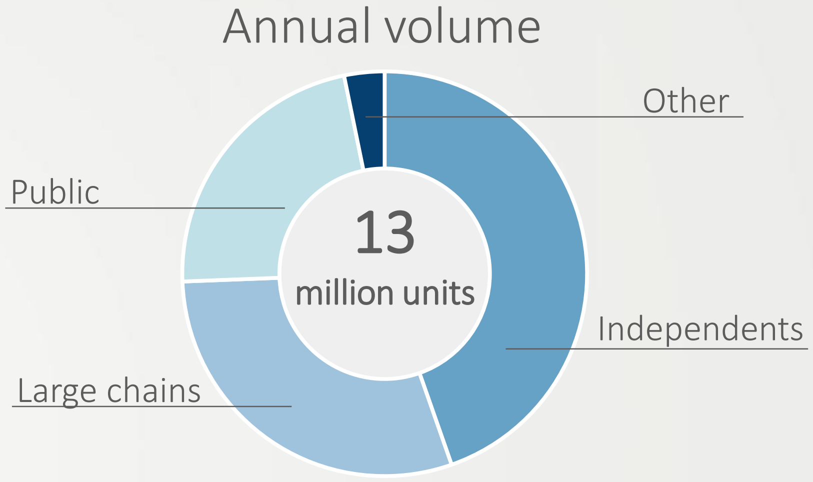
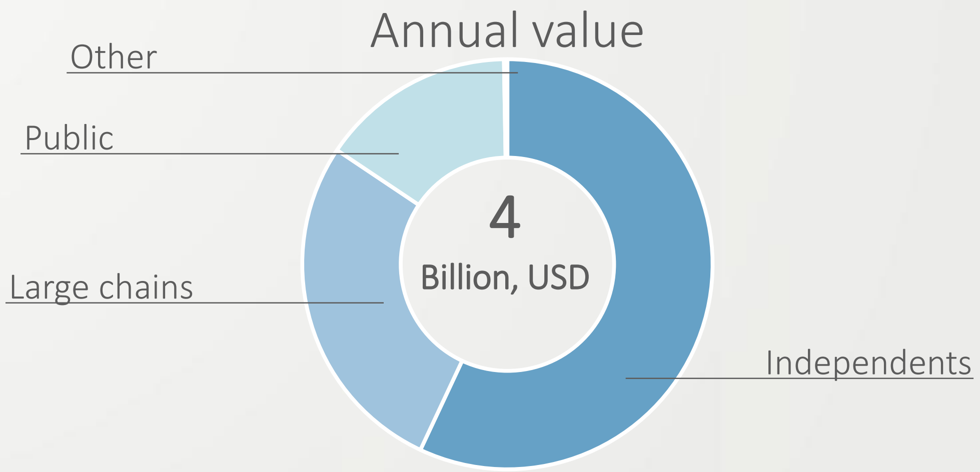
Global market development







- Stabile volume growth with small volatilities
- Slow change in country and channel mix
- Independents continue to grow
  - However stronger and stronger tie-ins

Source: William Demant estimates and official market statistics

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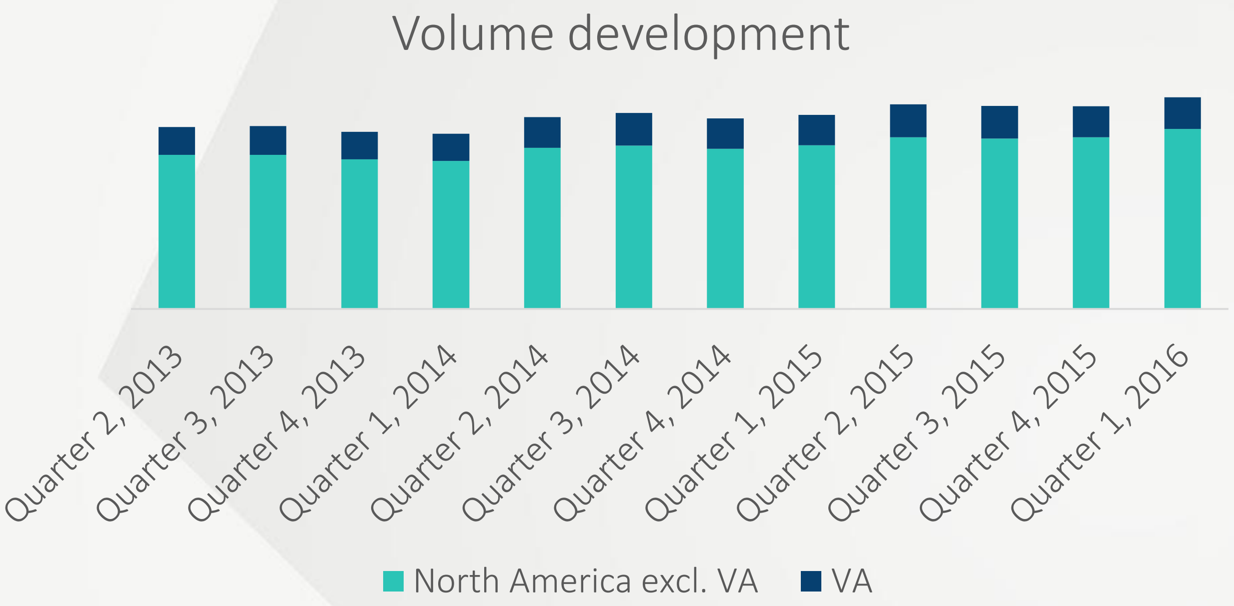
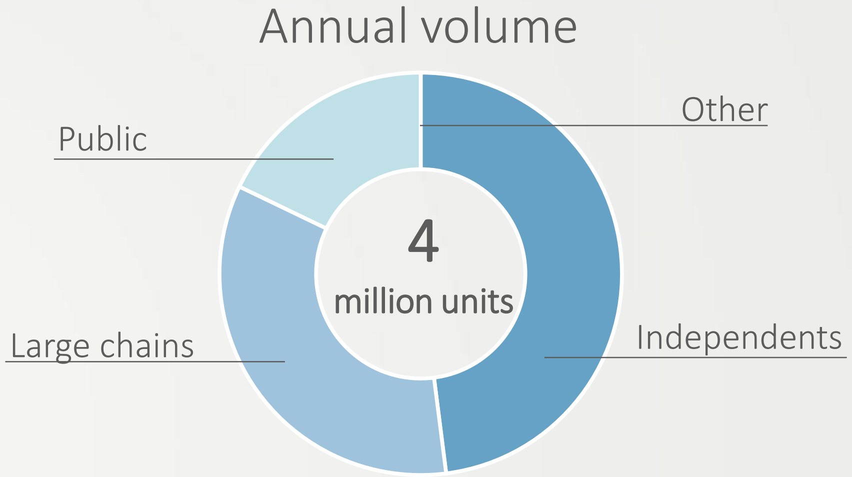
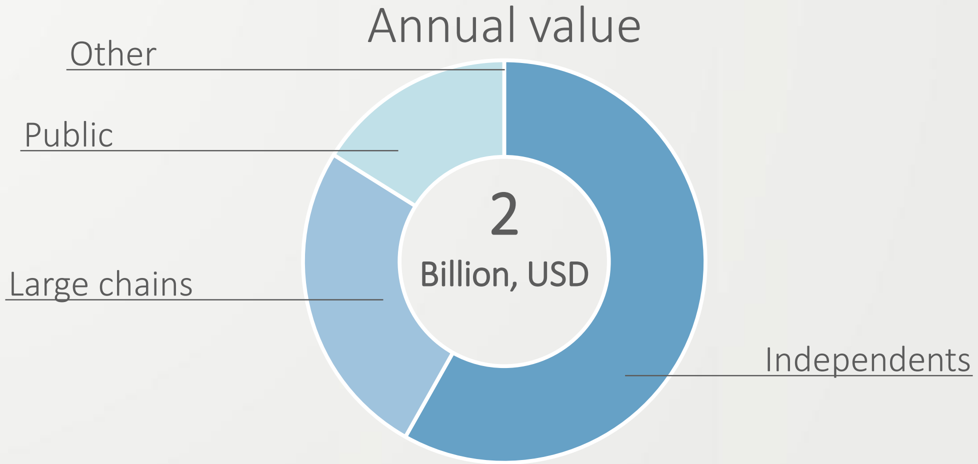
North America market development







- Major players growing
- Growing number of independents seek support from networks and buying groups
- Average selling prices in wholesale continue to decline due to growth of major players as well as fierce competition

Source: William Demant estimates and official market statistics

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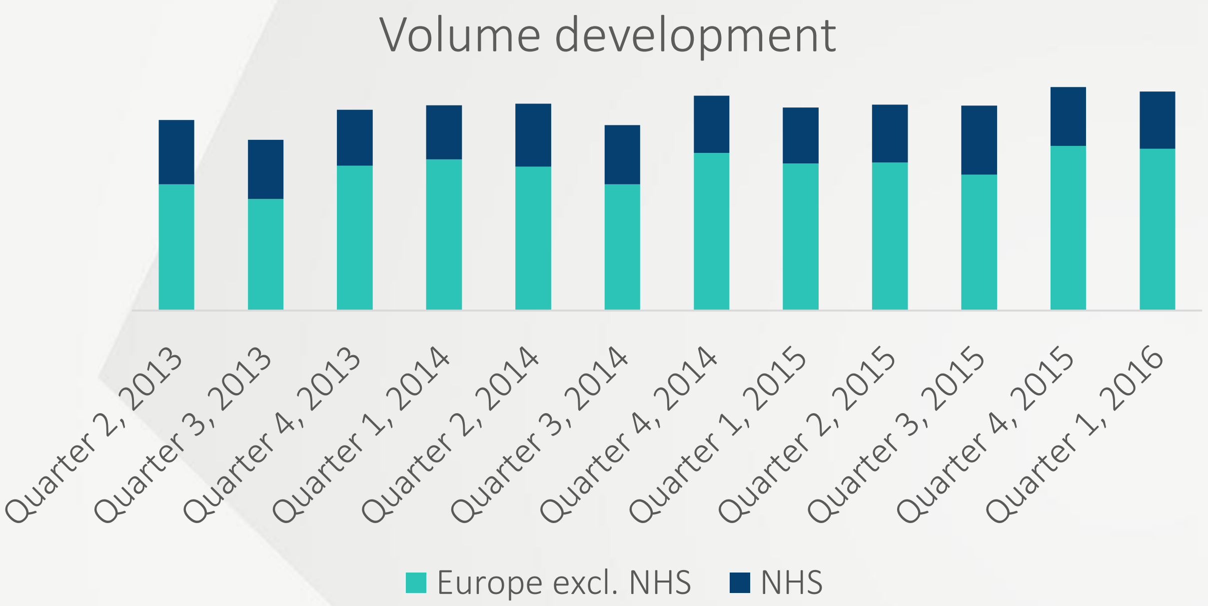
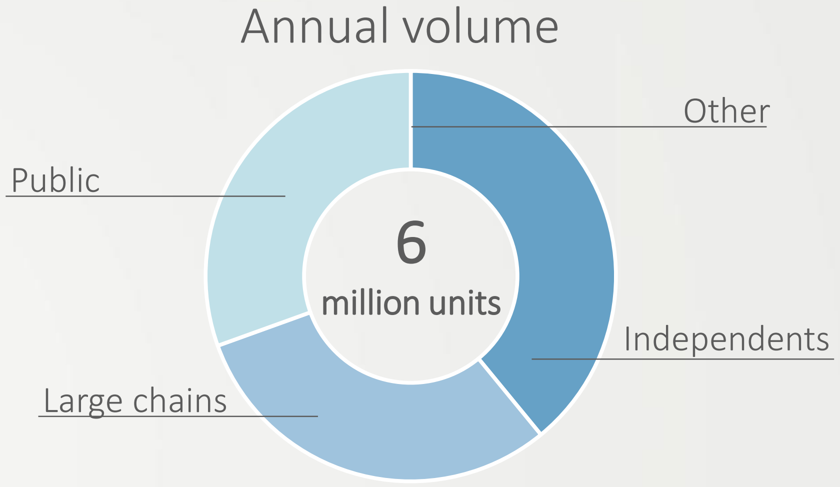
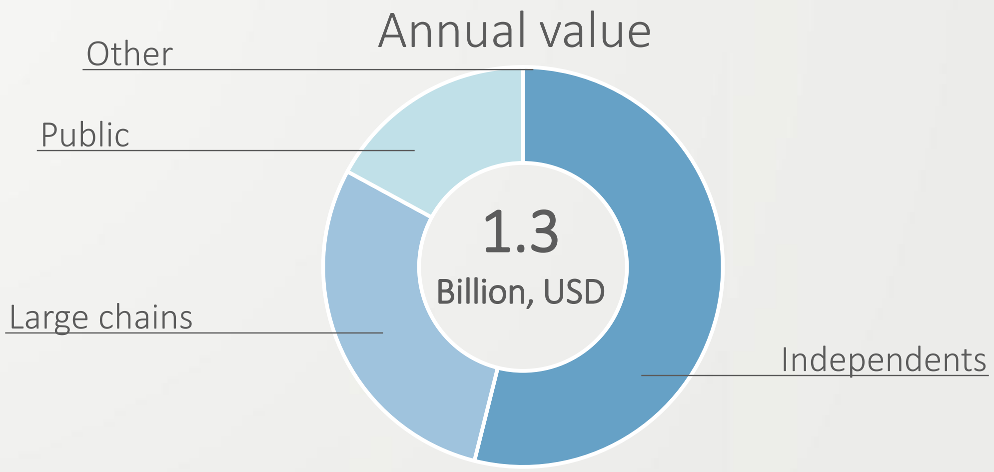
European market development







- Germany returning to normal growth rates
- France, Italy and UK maintaining encouraging growth rates
- Scandinavia still developing at a slow pace

Source: William Demant estimates and official market statistics

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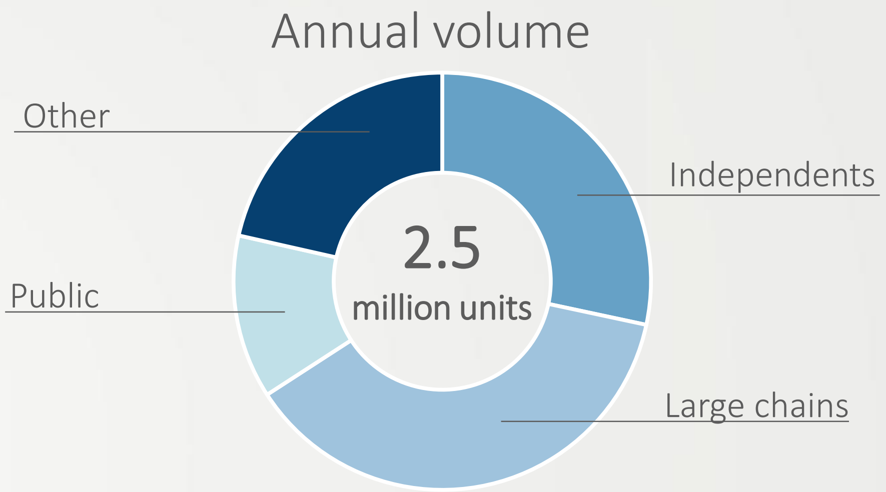
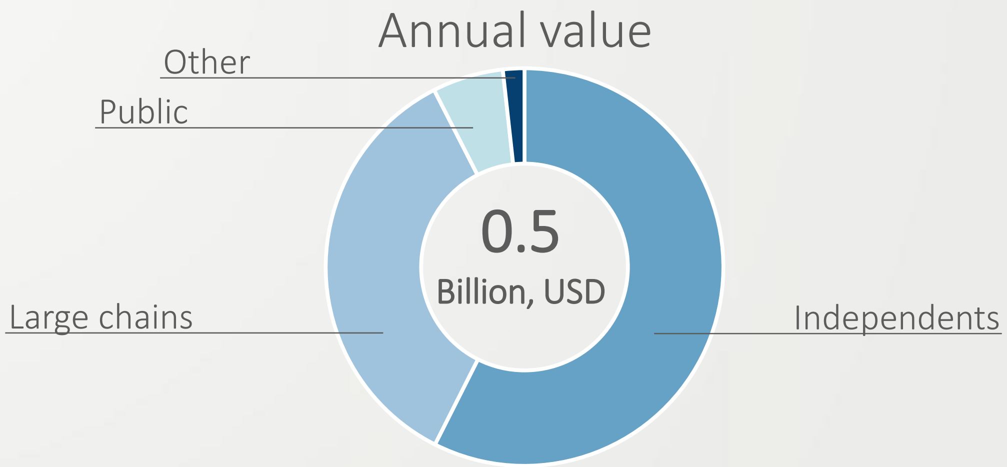
Asia Pacific

- Low penetration in Asia
- Highly unregulated in many markets





Source: William Demant estimates and official market statistics

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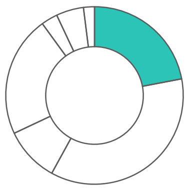
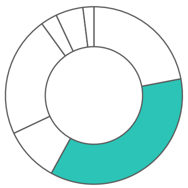
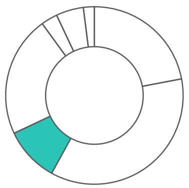
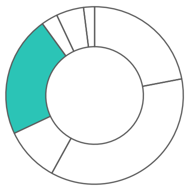
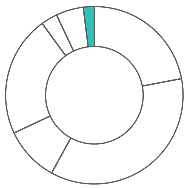
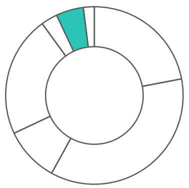
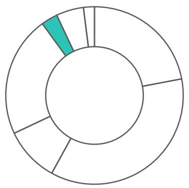
Hearing aid distribution channels

	Public/ hospital settings	Conventional independents	Value-added wholesalers	Conventional retail chains	Direct online sales	Specialty retailers	Multi-line retailers
Description	• **Professional procurement** • Work with manufacturers with high audiological content and the ability to demonstrate user benefits via clinical studies etc. • Capacity is often the main challenge, and **efficient fitting processes** and highly reliable products are the main drivers	• Owners are an integral part of the operation and typically have a background in hearing instruments and are **dedicated and specialised** • Often **loyal to their main suppliers** based on long term relationship and maybe also financial tie-ins to their suppliers	• More and more Independent businesses seek help with value-added resellers compete in commercial markets • This service is normally financed through negotiation of **discounts with suppliers** • Typically require a high-priced market with margins to finance these services	• Typically have strong marketing and process control as well as strong, central, corporate functions • Strong focus on low purchase price • **High marketing spend** • They expect leading suppliers and always up-to-date technology	• Model currently tested in many shapes and forms in a number of markets • Challenge is to combine the internet with the need for personal counselling and fitting of the hearing instruments • Still very difficult to run a stand alone business	• Pharmacies, opticians etc. • In some markets, attractive alternative source of revenue for opticians • Leveraging on existing traffic • Professional and commercial retailers who expect products that are easy to sell	• Big-box retailers • Professional – but not specialised • They work with high traffic and low margins • They look for partners who can generate the best retail value • They want top-tier brands • **Low marketing spend**
Level of specialisation	Specialised professional						Complementary business
Players	NHS		elite HEARING NETWORK, AHAA, AUDIGY GROUP	amplifon, KIND HEARING	audibene einfach gut hören, embrace hearing	Fielmann, Boots, Specsavers	COSTCO WHOLESALE, Sam's CLUB
Market split (volume 2015)							

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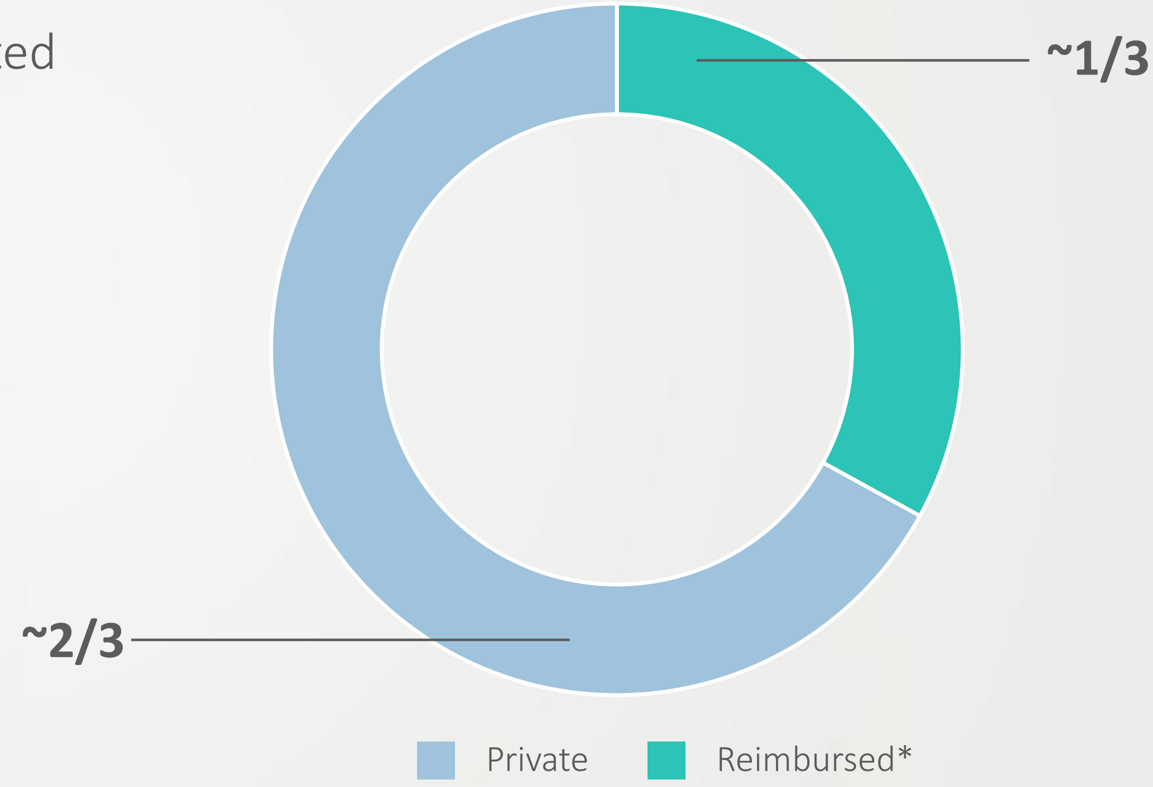
Regulation and reimbursement

Changes to reimbursements and regulation are made from time-to-time (examples):

- Germany: Increase in reimbursement, but only limited co-payment
- Netherlands: Lowering of reimbursement
- Denmark: Lowering of reimbursement
- Switzerland: Lowering of reimbursement

No major changes to regulation and reimbursements are expected in the foreseeable future



Note: Reimbursed*: Markets where a public subsidy system is in place.

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Status of the current hearing aid market

Centralised market

- Top 5 markets continue to hold >70% of the global market value
- Stable markets
- Top 5 – all baby boomer countries

Retail consolidation

- Dispensers consolidating in different forms and sizes
  - Networks and buying groups
  - Retail chains
  - Manufacturers

Wholesale value shrinking proportionally

- Average selling prices continue to decline
- High competition for market shares among manufacturers

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William Demant Wholesale business

Our strategy

- Grow market share through strong and innovative R&D effort combined with global multi-brand strategy
- Effective infrastructure to ensure competitive cost base

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oticon PEOPLE FIRST

bernafon Your hearing · Our passion

SONIC Everyday Sounds Better

Multi-brand strategy

Gain market share in a diverse distribution system

Truly global reach

Through our hearing healthcare platform, expand our global market reach

Technology innovation

Deliver a commercially attractive, innovative product range based on proprietary technology

Attractive partner

Strong and attractive service and support package for customers and channels with specific needs

Successful multi-brand strategy

- Differentiated brand strategy, positioning and customer targeting
- To be different where it matters, e.g. products/features, people (customer interface), communication and services
- To share where possible, e.g. back office, production/logistics and technology/platform development
- Internal governance

Utilise synergies across brands without jeopardising the individual brand value and brand recognition

Platform elements	**Integrated circuits**	**Algorithms/ features**	**Design**
Platform sharing	Maximum		Minimum

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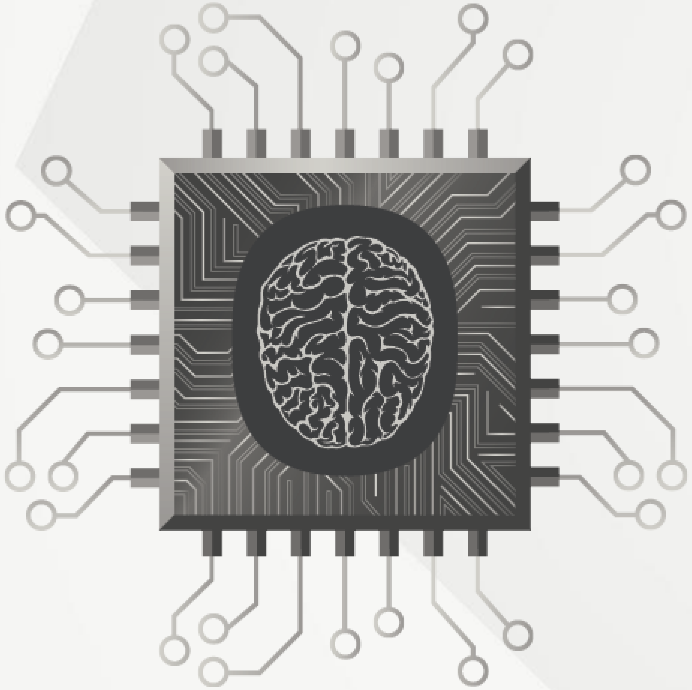
Leading hearing aid technology innovation



Powered by Velox™

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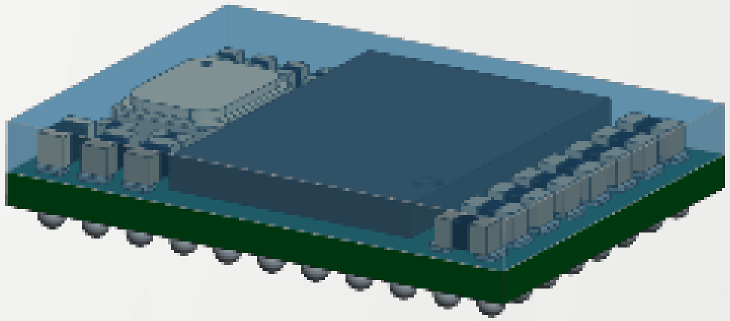
Giant leap in innovation

Extreme processing power – without sacrificing power
Unique capability, enabling superior audiology

	Velox™	Inium Sense
Technology (nm)	65	130/180
Transistors (M)	64.5	8.7
Die size FE+DSP FE+DSP+RF (mm2)	15.8 23.5	23.7 -
DSPs	7+1	1
Channels	64	16
Max input dynamic (dB SPL)	113	93



Module: 5.8 x 4.2 x 1 mm3 = 24,4 mm3

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TwinLink® technology

Near Field Magnetic Induction

Near Field Magnetic Induction (NFMI) is used to interface binaurally between hearing instruments

- A short range (1-1.5 m) wireless system
- Operates at <15 MHz (Oticon 3.84 MHz) and only needs <10% of the transmission power of RF (e.g. 2.4 GHz) systems
- Is immune to radio frequency interference and is not degraded by the human body blocking the field

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TwinLink® technology

Radio frequency (2.4 GHz)

2.4 GHz Bluetooth Smart® RF is suited for interfacing with consumer devices

- Long-distance capability
- Acceptable power consumption for media consumption and phone calls
- Standardisation eliminating the need for intermediate devices
- Higher current consumption (>10x compared to NFMI)
- Complex hearing instrument antenna design

Market leading 2.4 GHz performance

Proprietary developed chip delivering superior performance

- Oticon's 2.4 GHz IC radio is among the best in class across all industries with respect to current consumption
- Receiver performance has significant advantage
- Opn™ uses 35% less power than the market benchmark when streaming from an iPhone
- Oticon Opn™ is prepared to meet future possible interference from expanding LTE traffic in neighbouring frequency bands (i.e. 2.3 GHz/2.5 GHz)

	Oticon	**Nordic (current)**	**Nordic (new)**
Chip size [mm2]	7.9	13.2	9.6
Supply voltage [V]	1.0 to 1.7	1.8 to 3.6	1.7 to 3.3
2.4 GHz 1Mbps sensitivity [dBm]	-96	-93	-96
Rx peak current [mA] (1 Mbps 2.4 GHz)	5.5 (1.2V)	13 (1.8V)	10.9 (1.7V)
Tx peak current [mA] (1 Mbps 2.4 GHz)	8.5 (1.2V)	10.5 (1.8V)	9.6 (1.7V)

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Benefits of in-house design

Electronics designed for running directly on 1V battery

- Optimised current consumption
- No efficiency loss from battery to integrated circuits (IC)

Size and integration advantages

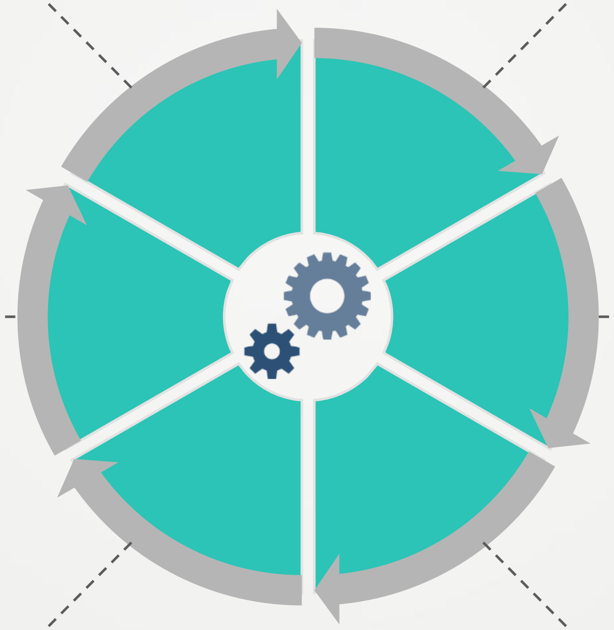
- Smaller IC dies with aspect ratios optimised for the hearing instrument application
- Full access to all layers in the IC and SW enabling higher integration
- Optimised modularity for size and quality
- Reduced IC die cost including NRE
- Efficient and high-quality production through design for manufacturing

Driving technological leadership

Innovation and performance as key to market leadership

Custom interface (how to fit to people)

Ultra-low power chip design, incl. advanced wireless systems



Wireless system integration and connectivity

Advanced digital signal processing

Micromechanics and high performance electro-acoustics incl. antenna design

Strong audiological insight and fitting systems development

Keeping leadership to create motivation and engagement

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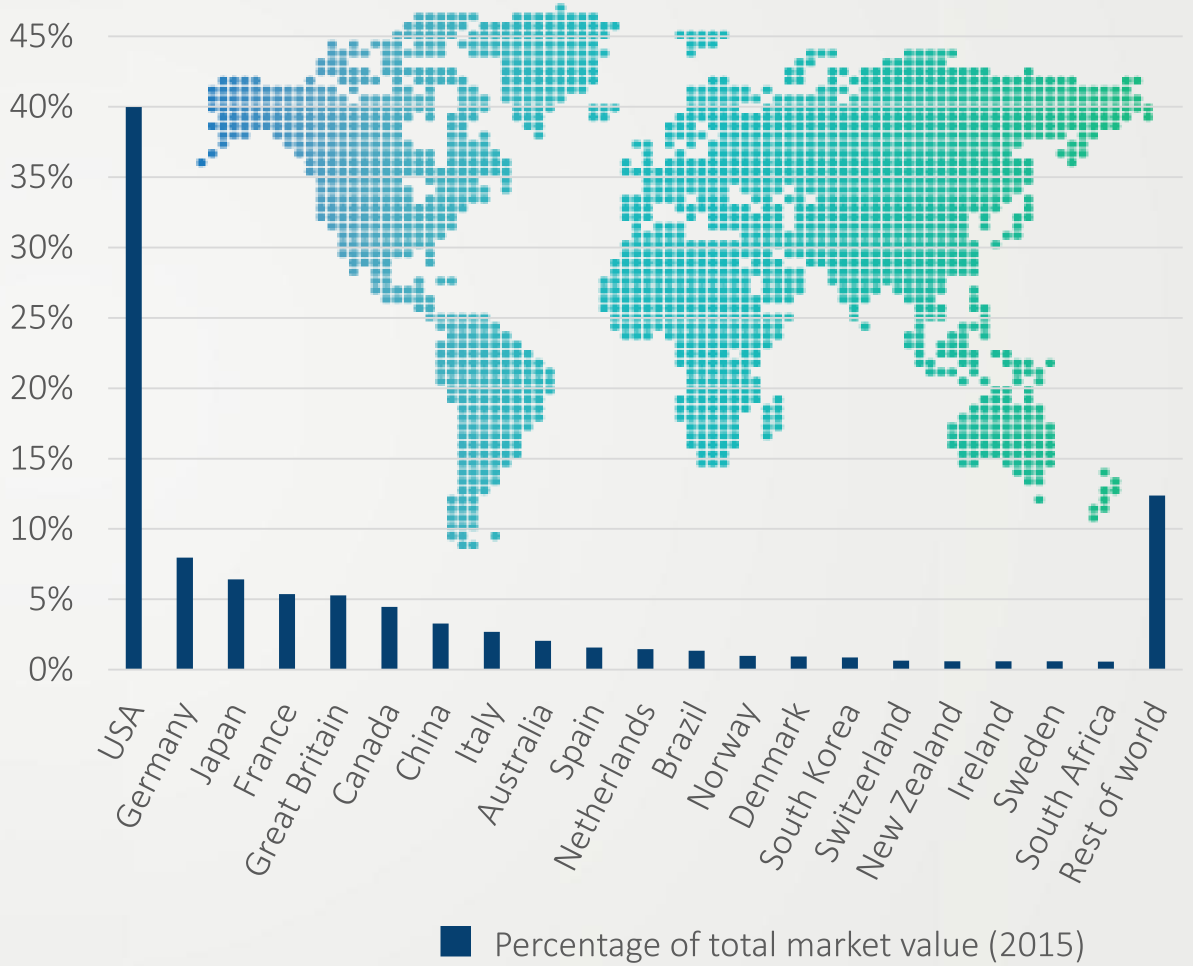
Expand our global reach into new markets

Building presence in new markets

- Build relationship with new distributors
- Open sales company where necessary, e.g.
  - Myanmar – 2015
  - Turkey – 2014
- Leverage on our other business activities
  - Diagnostic Instruments has access to many potential new customers
  - Hearing Implants has access to the medical channels



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William Demant's global wholesale footprint

Continue to be the desired partner for our customers

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Well positioned to continue growth in hearing aids

Technology leadership

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oticon bernafon SONIC Interacoustics gsi MAICO amplivox MedRx Micromedical oticon Phonic Ear frontrow SENNHEISER

Multi-brand strategy

Global presence

DGS

Strong cost base

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Retail business

Niels Wagner
President of Retail in William Demant Holding A/S

- Born in 1971
- Cand. Oecon, Aarhus University
- President, Retail in William Demant since 2007
- Vice President, Retail, GN ReSound 2006-2007
- Sales Director, Synoptik, 2003-2006
- General Manager, Oticon Australia, 2000-2003

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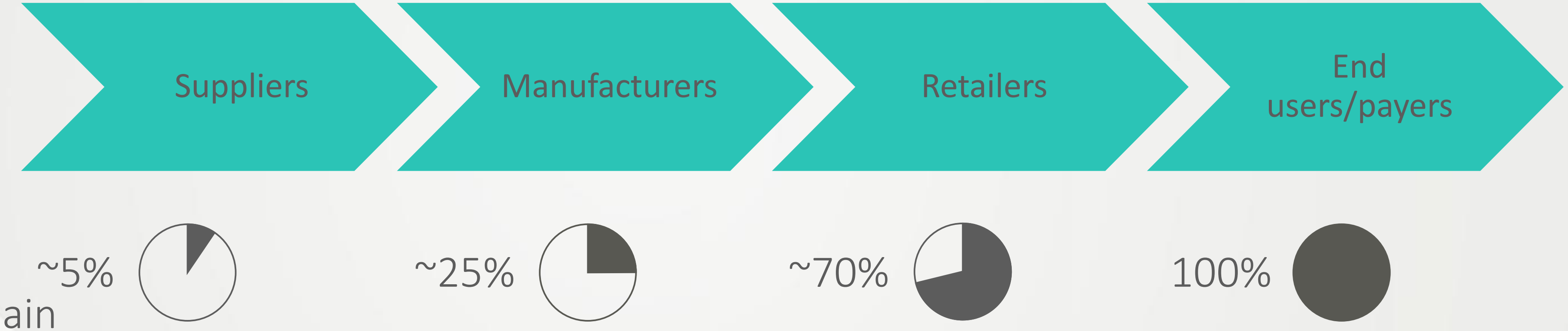
Hearing aid market value chain



Percentage of value chain

~30% wholesale profit margin

~10% retail profit margin

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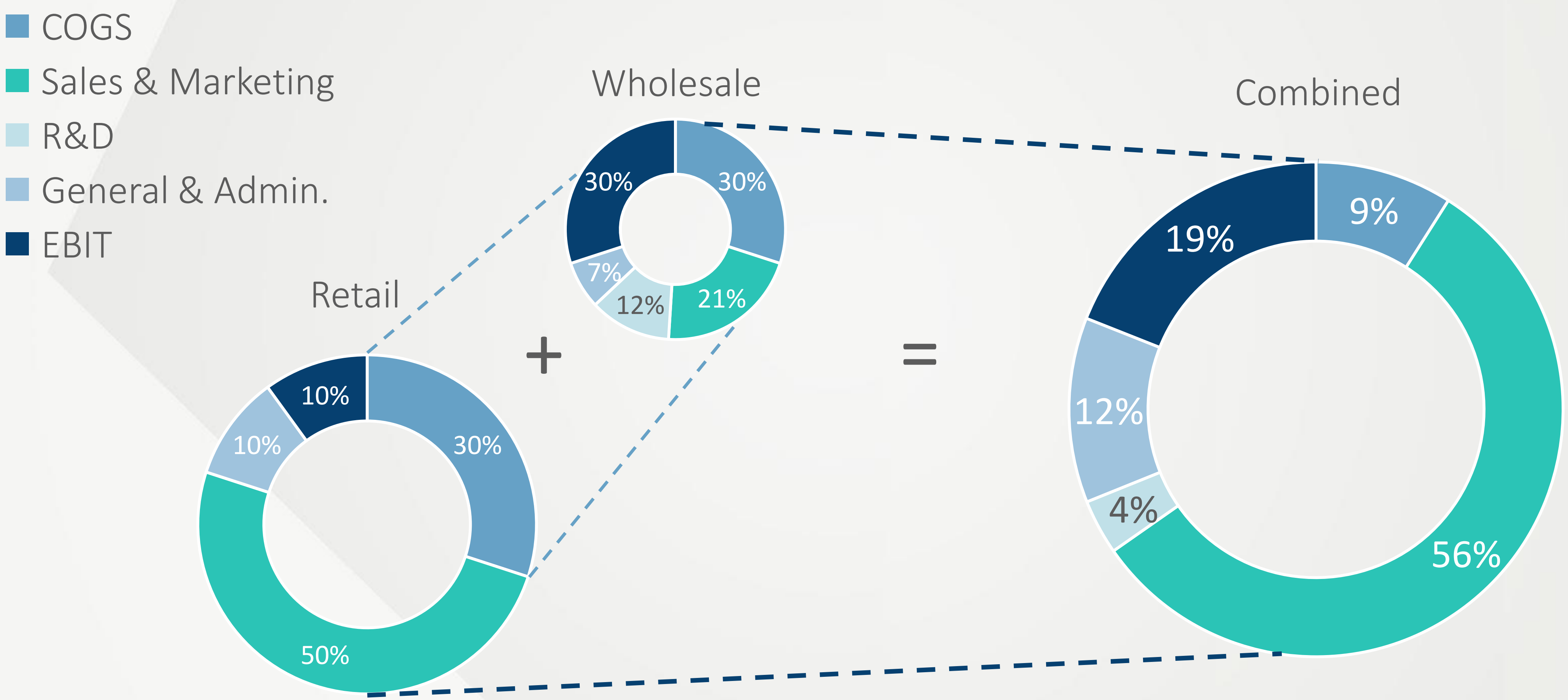
Consolidating retail with wholesale accounts



Note: The illustration above is a mechanical example, showing percentage of revenue without possible synergies etc.

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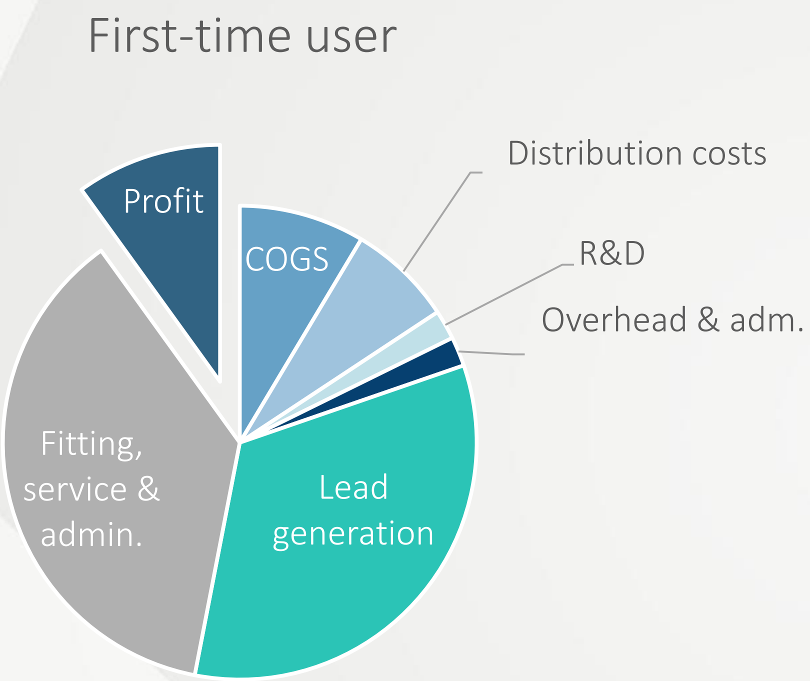
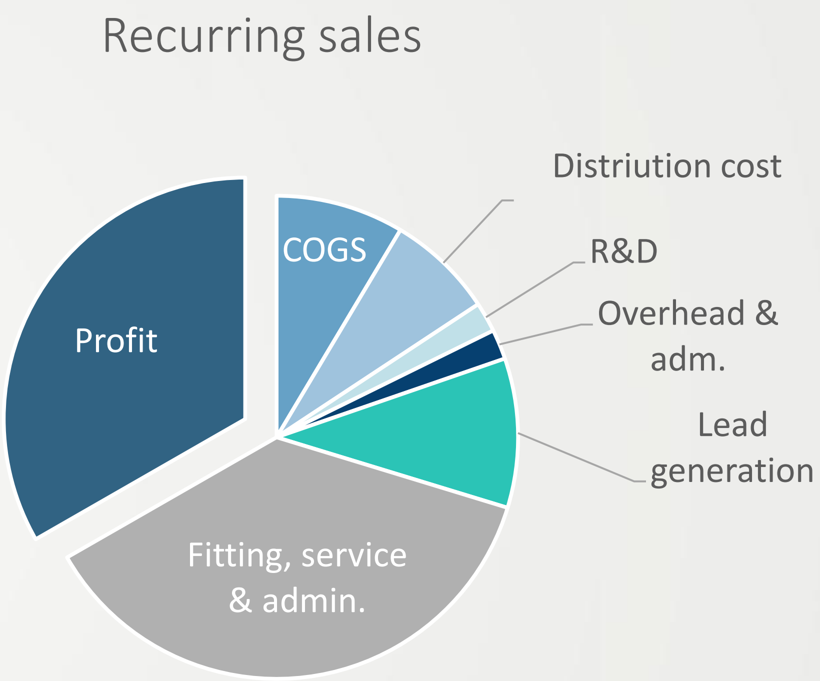
Recurring sales are key to profitability





- Material up-front investments in lead generation
  - Lead generation remains expensive
  - Relatively low conversion to sales

- Recurring sales offer attractive earnings
  - Lower lead generation cost
  - High earnings potential from users getting older

Note: Above illustration, is an example of manufacturer owned retail and does not include cost synergies

Retail is a defensive, but important, value driver

In addition to securing distribution – retail contributes by:

Getting closer to the end-user

- Closer end-user interaction, ensuring right product development and innovation as well as the ability to influence end-users

New technologies across retail and wholesale

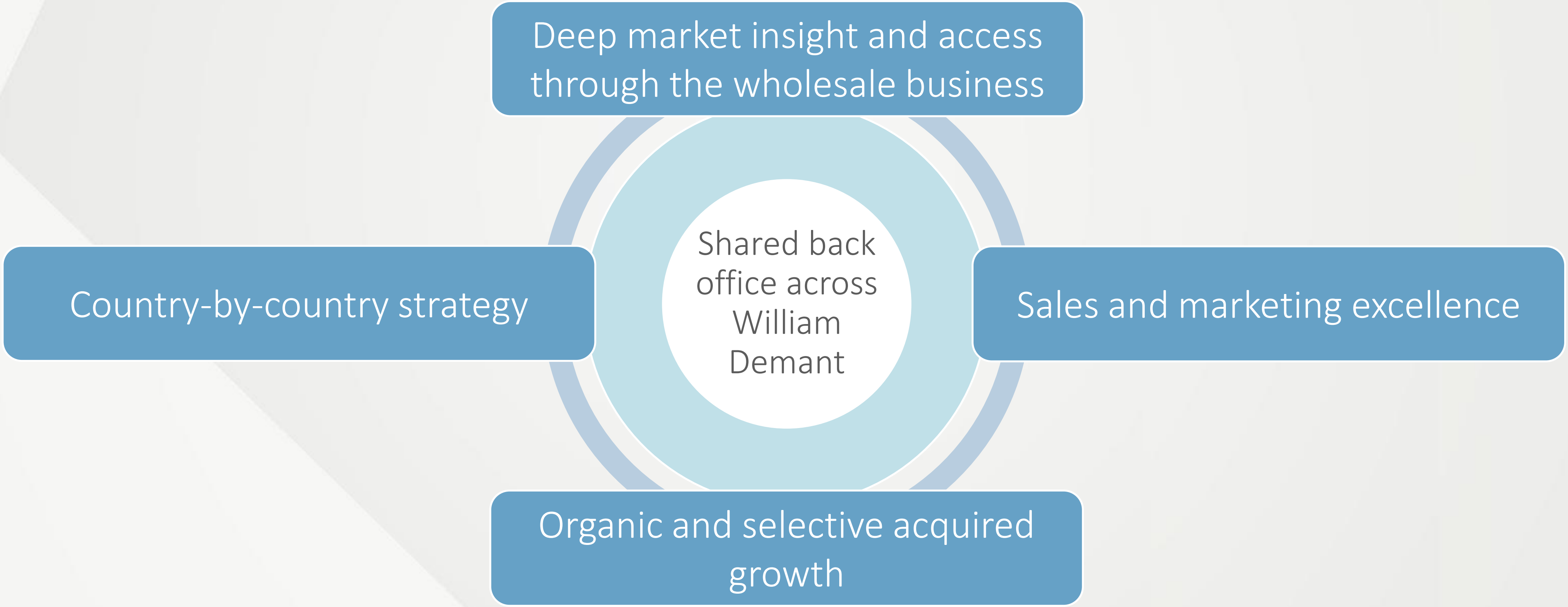
- Technology for optimising fitting flow and efficiency developed between wholesale and retail

Developing consumer competences in retail

- Better understanding of the consumer journey and the dispensers' business challenges

William Demant's retail strategy

Defensive retail strategy



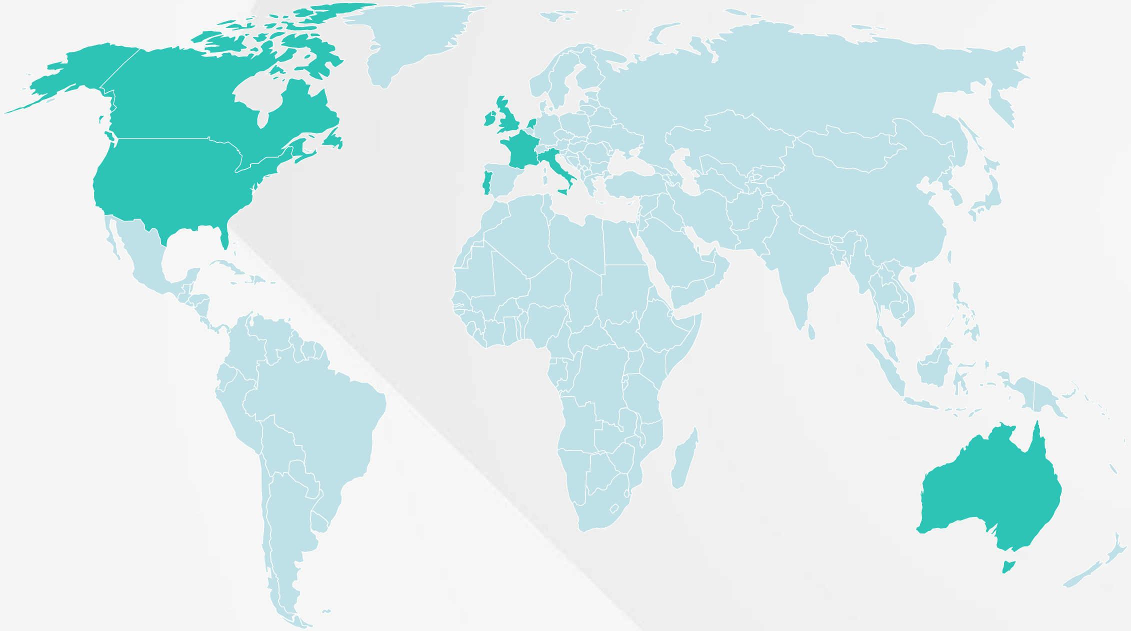
Retail benefits our wholesale business

Insight into understanding our wholesale customers' business challenges

Building competences in lead generation	Carefully planned retail expansion
Lifetime support including exit	Extended transition from wholesale to retail

Survey: Choice of clinic and brand positioning

Consumer research with 2,452 respondents in 9 markets*



Top 5 drivers of choice for visiting a clinic

1. It was an easy clinic/place to get to (accessible)
2. It offered a free hearing test (tactical)
3. It had a good reputation in general (brand image)
4. It was easy to get an appointment (accessible)
5. It was known for expertise (brand image)

Brand position most likely to motivate customers to visit a clinic

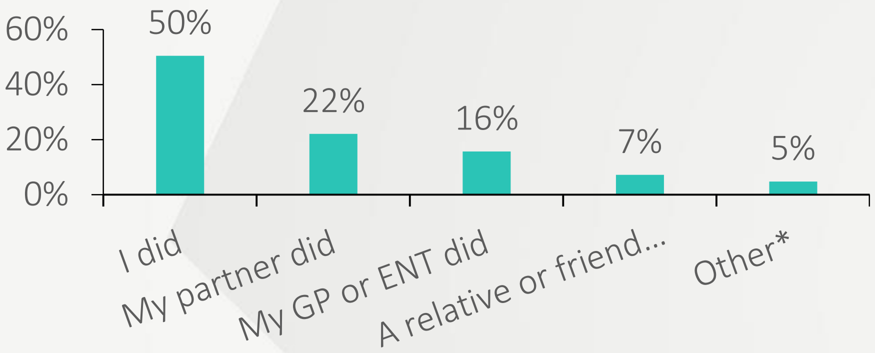
1. Experts in audiology (23%)
2. Cutting-edge technology (19%)
3. Value for money (18%)
4. Best service (10%)
5. Customer centric (9%)

***Research description**

The focus of the survey was to identify drivers for choice of hearing care clinic and optimal brand positioning for a hearing care retailer. The consumer survey was a web-based survey with stimuli material. Respondents were recruited through local web panels. All respondents have at some point visited a hearing care retailer and are therefore able to relate to this situation. The survey cover both non-users and users of hearing aids and relatives.

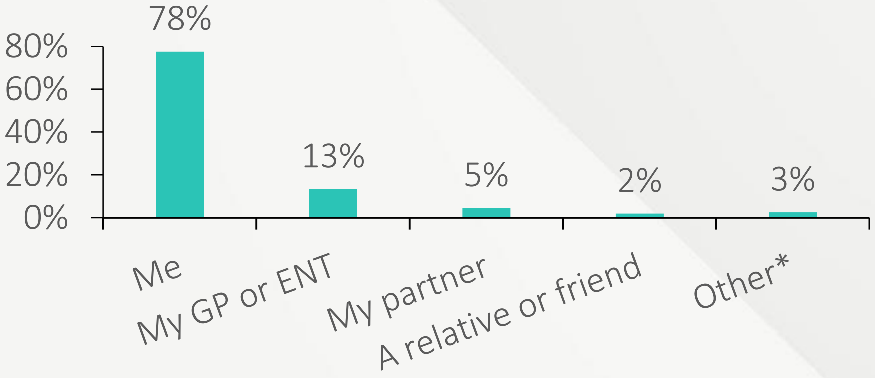
End-user insights

Who motivated you the most to visit a clinic?



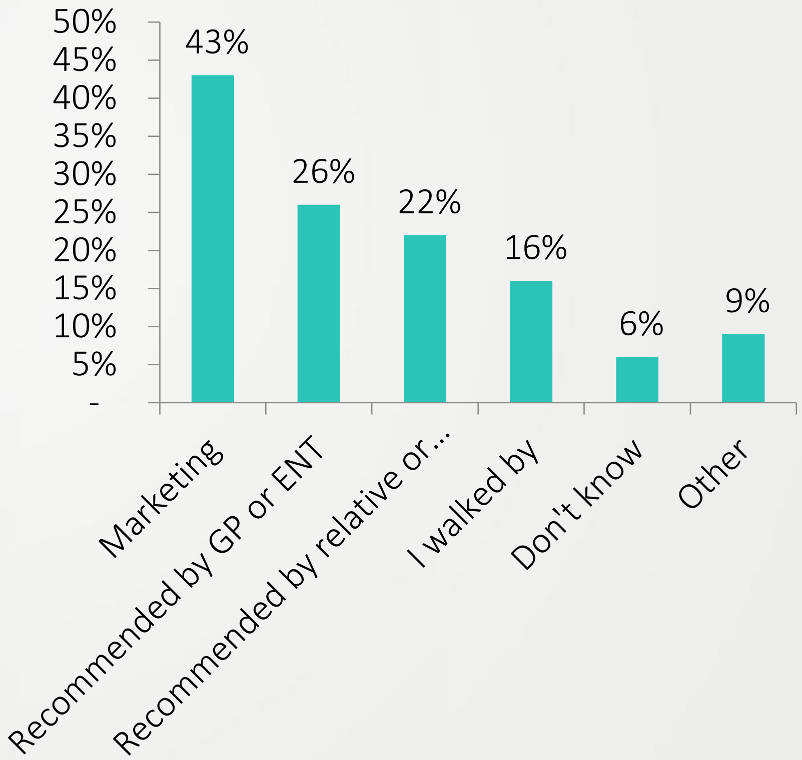
Users make their own choice

Who decided which specific clinic to visit?



Users decide which specific clinic to visit

What made you aware of the clinic?



Marketing is the key driver of awareness

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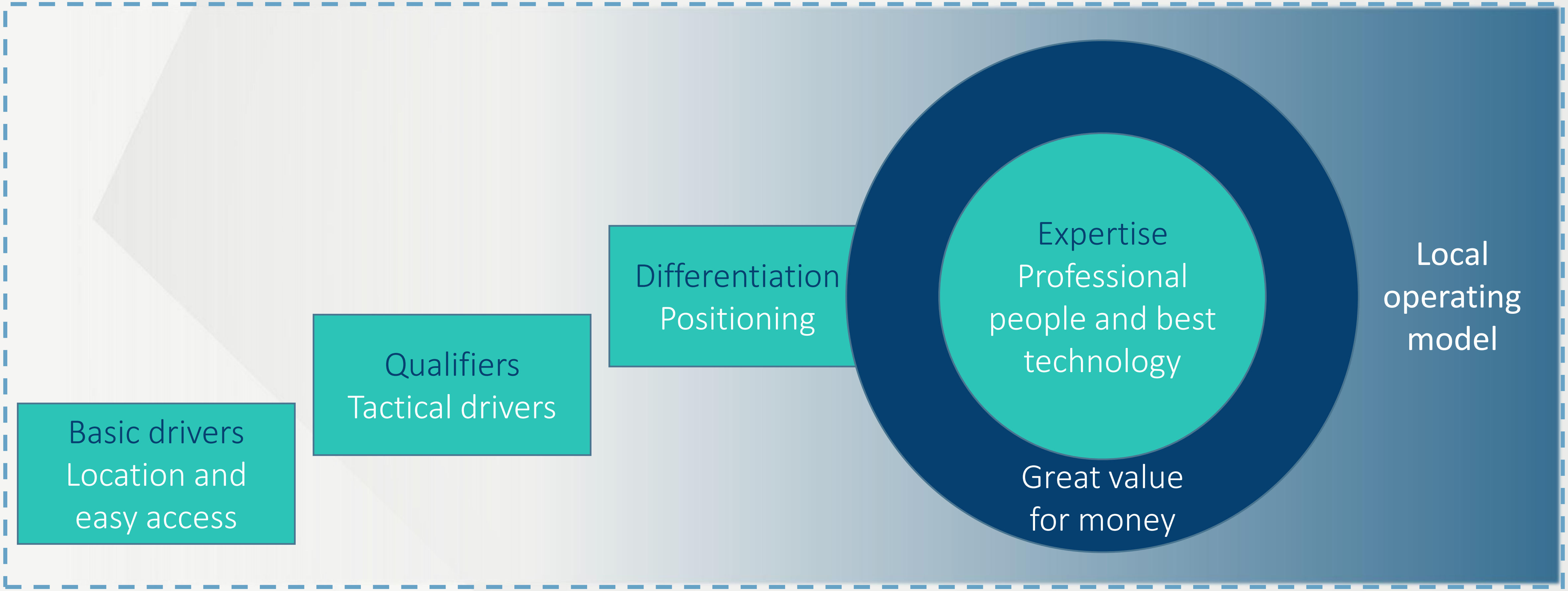
Shared vision and positioning, but local execution



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Sales excellence

Recruit, retain and develop our people

Focus on creating opportunities

Living our brand position – operating model

Sales excellence

Optimising the sales funnel

Schedule management – retail is detail

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Marketing excellence

Marketing is local

Data mining, profiling and segmentation

Marketing best practice

Marketing excellence

Telemarketing

Multiple sources of leads

Mix of mature and new retail markets

New development (Italy)

- Regional
- Several brands
- Several models
- Decentralised leadership
- Acquired growth
- Several systems and back-office functions

Mature (France)

- National
- One brand
- One model
- Central leadership
- Organic growth
- One system and back-office function

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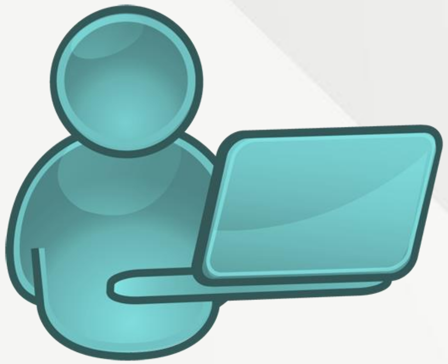
Digital marketing strategy

Develop innovative and effective models for lead generation

End-user



Lead generation

Creating awareness
e.g. tripadvisor.com

Objective reseller
e.g. hotels.com

Brand website
e.g. “Hotel name”.com

Call centre

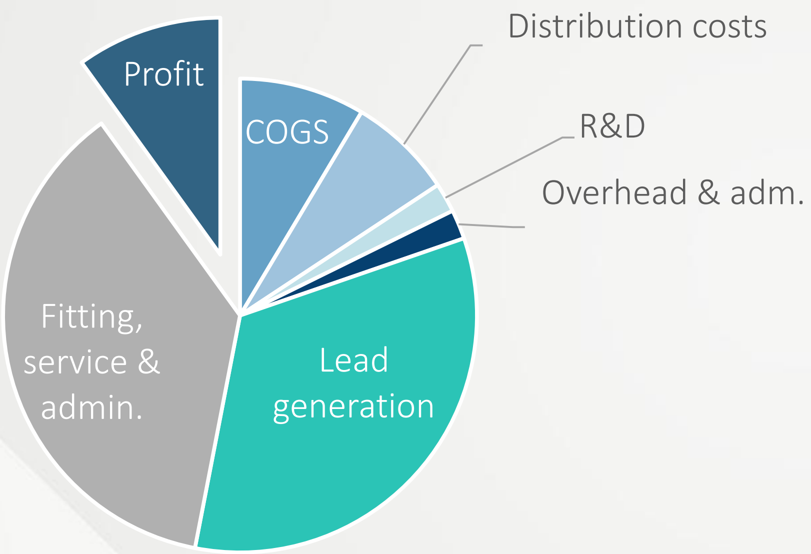
National coverage

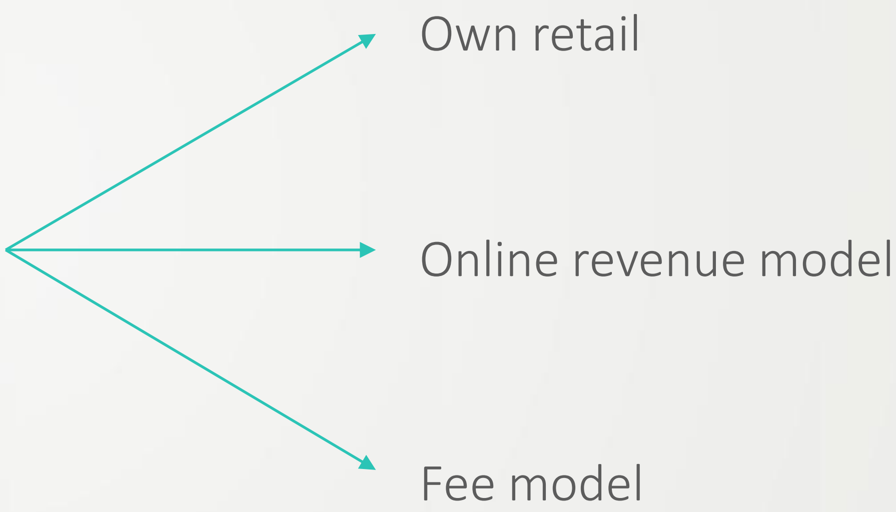
Wholesale customers

Network members

Own retail

Lead generation requires integration with retailers





William Demant

Multi-line retailers vs. specialty retailers

Overall aim for hearing retailer:

Advance consumer from denial to decision

Many different models, but two models are currently getting a lot of attention

Multi-line retailers

Specialty retailers

- Service and support business can be challenging
- Lead generation model or location leverage


William Demant
Thank you