

William Demant



# William Demant Holding Annual Report 2017

22 February 2018



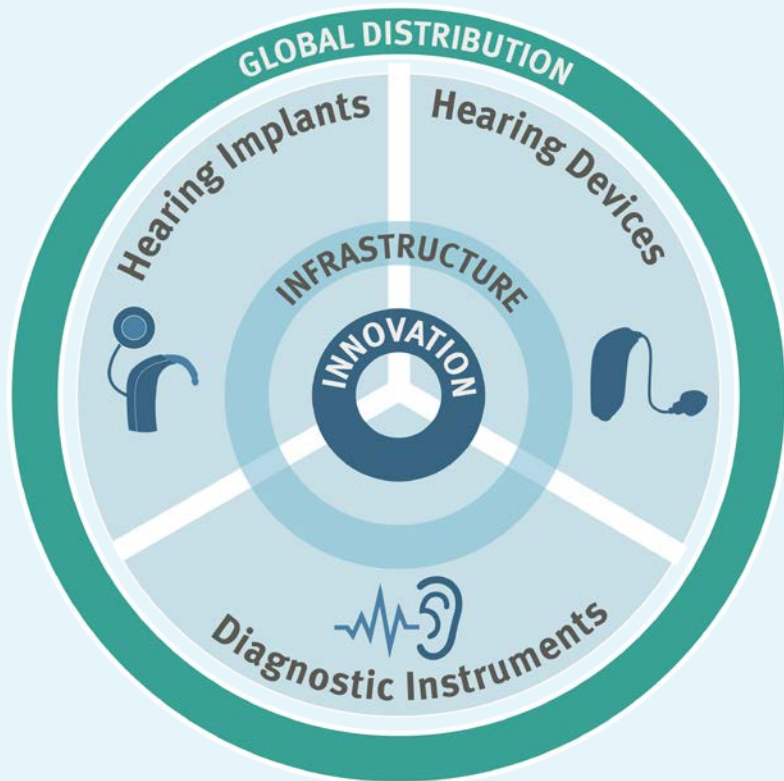
# Agenda

- Highlights 2017
- Hearing Devices
- Hearing Implants
- Diagnostic Instruments
- Personal Communication
- Strategic initiatives
- Financials
- Outlook 2018
- Q&A





Broad hearing healthcare strategy and dedication to innovation drive 9% organic growth and 25% underlying EBIT growth



Our vision is to make a life-changing difference to people living with hearing loss

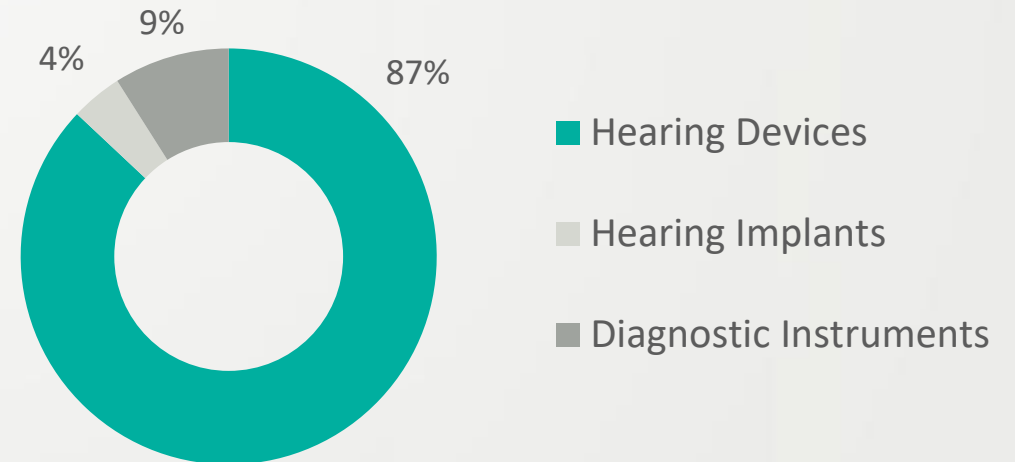
# Highlights 2017

- 9%** Organic growth of 9% in Group revenue exceeding the market growth rate
-  Oticon Opn continues to drive significant market share gains and led to very strong 11% organic growth in wholesale of hearing aids
-  Hearing Implants recorded strong organic growth of 28%
-  Organic growth of 11% in Diagnostic Instruments with widespread market share gains
-  Execution on strategic initiatives slightly ahead of plans with savings around DKK 100 million in 2017
- 25%** Adjusted EBIT increased by 18% to DKK 2,504 million with underlying growth in EBIT of 25% and growth in EPS of 24%

# Revenue by business activity

DKK million	FY 2017	FY 2016	Change in DKK	Change in local currencies	Organic growth
Hearing Devices	11,495	10,515	9%	10%	8%
Hearing Implants	500	398	26%	28%	28%
Diagnostic Instruments	1,194	1,089	10%	12%	11%
<b>Total</b>	<b>13,189</b>	<b>12,002</b>	<b>10%</b>	<b>11%</b>	<b>9%</b>

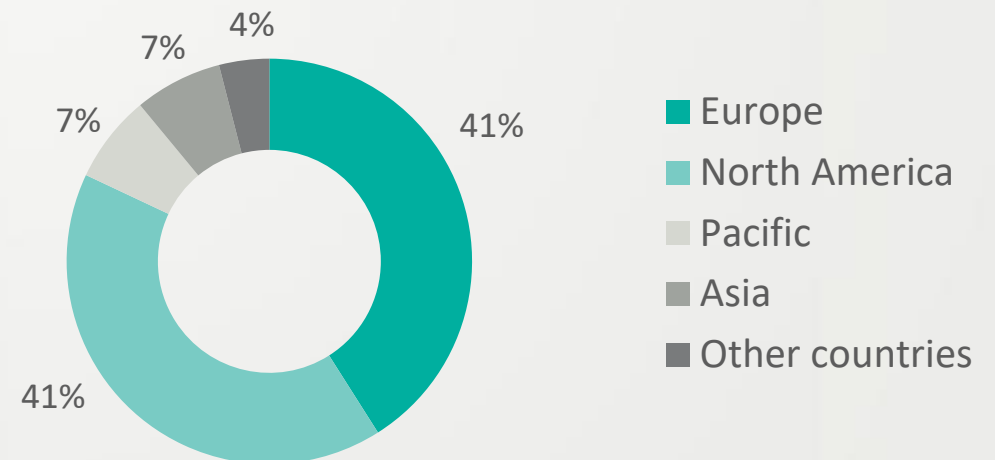
- In 2017, growth in local currencies amounted to 11%:
  - 9% organic growth
  - 2% growth from acquisitions
- Negative net exchange rate effect of 1%



# Revenue by geography

DKK million	FY 2017	FY 2016	Change in DKK	Change in local currencies	Organic growth
Europe	5,437	5,123	6%	8%	7%
North America	5,358	4,719	14%	14%	10%
Pacific	946	911	4%	3%	1%
Asia	960	861	11%	15%	15%
Other countries	488	388	26%	22%	22%
<b>Total</b>	<b>13,189</b>	<b>12,002</b>	<b>10%</b>	<b>11%</b>	<b>9%</b>

- Growth in Europe driven by retail and wholesale of hearing aids despite the loss of a large account
- Significant growth in North America of 14% based on strong performance by all business activities
- Modest overall growth in Pacific despite adverse market conditions in Australia
- Double-digit growth in Asia driven by China, Japan and Korea





# Hearing Devices



# The global hearing aid market in 2017

We estimate a global market growth rate in value at the upper end of the medium- to long-term growth rate of 2-4%

- Global volume growth rate in the hearing aid market of approx. 4% with a relatively flat ASP development
- The US market growth rate was around 4% in the private market, while growth in Veterans Affairs (VA) was more modest at around 1%
- Growth in Europe was around 4% with strong growth rates in France and Italy, but only modest growth in Germany

**Global market volume  
growth of approx. 4%**





# Hearing Devices: Wholesale highlights

Organic growth at 11% in the wholesale of hearing aids, driven by the continuous success of Oticon Opn

- Strong organic growth of 11% in H1 and 12% in H2 driven by Oticon Opn
  - Unit growth of 6% (8% in H1 and 5% in H2)
  - ASP increase of 5% (3% in H1 and 7% in H2)
- Bernafon and Sonic saw satisfactory growth rates with uplifts in H2 driven by the launch of new product families
- We increased our global market share



# Hearing Devices: Wholesale in Europe

- Our business grew at a solid rate despite the loss of sales to a large account acquired by a competitor in 2016
- We increased our sales to independent customers as well as through our own retail network
- Our improved product mix drove an increased ASP
- Strong performance in several key markets, including Germany, France, Denmark and the UK
- We have increased our market share with the NHS in the UK where we remain the largest supplier



# Hearing Devices: Wholesale in North America

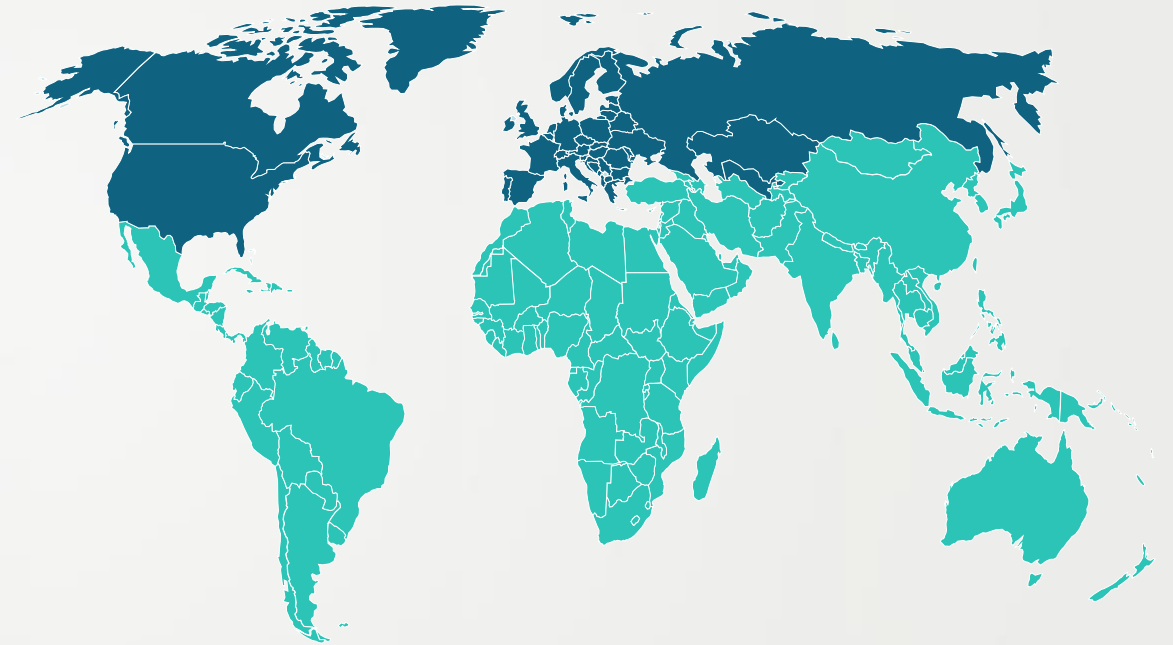
- Strong performance in North America
  - Improved product mix drove an increased ASP
  - Strong sales to the independent segment as well as through our own retail network
  - Material market share increase in units in VA (US) to 15% at year-end
    - Market share has doubled since the introduction of Oticon Opn
- New products from Bernafon and Sonic lifted sales in the second half-year





# Hearing Devices: Wholesale in other regions

- Solid growth in our wholesale business in **Pacific**
  - Strong organic growth despite demanding market conditions
- Strong organic growth in **Asia**
  - Organic growth above 20% in China
  - Significant market share gains in Japan and Korea
- Very strong growth in **Other countries** mainly driven by Argentina and Brazil



# Hearing Devices: Retail highlights

Revenue growth of 10% in local currencies split by organic growth of 4 pp and acquisitive growth of 6 pp

- The UK, Poland and France were the main growth drivers in **Europe**
  - We continue to see strong performance by the Audika business in France, and we are gradually ramping up the share of our own products sold through Audika shops
- Generally positive development in **North America**
  - While acquisitions were the main growth driver in our US retail business, organic growth was slightly below the market growth rate, but did improve in the second half-year
  - Strong performance in Canada based on high organic growth and bolt-on acquisitions
- In **Pacific**, our sizeable business in Australia was impacted by adverse conditions in the market, however we expect the market to return to “normal” growth rates in 2018

# The open sound paradigm remains unique

Broadening the reach of the Oticon Opn family and its benefits drives growth

- **Oticon ConnectClip**
  - 2.4 GHz BLE stereo streaming from any modern smartphone
  - Multi-function in one device
  - Velox platform and OpenSound Navigator™
  - Elegant and discreet design
- **Recent releases complement the Oticon Opn line-up**
  - Rechargeability
  - Styles: BTE13 PP and miniRITE-T
  - Features: Tinnitus and Speech Rescue



*Highly flexible  
rechargeable solution*





# Successful launch of Bernafon and Sonic products

## Zerena 9|7|5

- Seamless and boundless hearing – anytime, anywhere
- Made for iPhone® and 2.4 GHz streaming to all phones with SoundClip-A without compromises
- ChannelFree™ amplification 20,000 times a second

***bernafon***   
*Your hearing • Our passion*

## Sonic Enchant 100|80|60

- SoundDNA technology well received
- Wireless connectivity solution for all phones with SoundClip-A
- miniRITE rechargeable with Z-Power solution

 **SONIC**

A young woman with long, wavy brown hair is walking through a European city street. She is smiling and looking down. She wears a yellow t-shirt under a green military-style jacket and a long necklace with dark beads. A semi-transparent dark band across the middle of the image contains the text "Hearing Implants" in white. The background is a blurred street scene with historic buildings and a statue.

# Hearing Implants



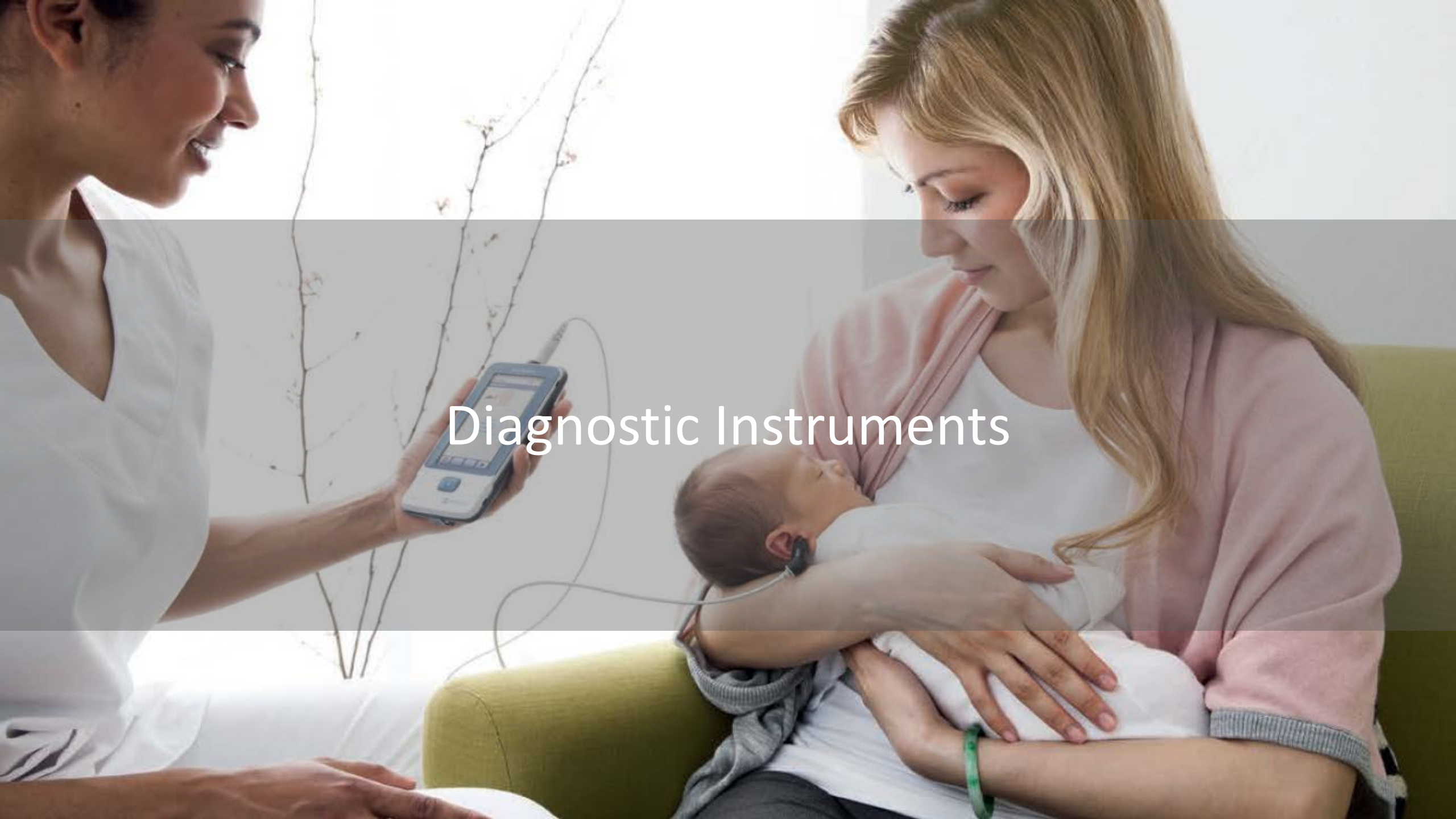
# Hearing Implants highlights

## Strong organic growth of 28% in Hearing Implants

- Our CI sales growth rate was considerably above the estimated market growth rate of 10-12% in 2017
  - Strong performance in tender-based markets, but at low ASPs
  - 100+ clinics now performing Neuro implantations (35 clinics in 2016)
- Neuro 2, the world's smallest sound processor, to be launched in early 2018
  - CE marking in place and very positive pre-launch market reactions
  - Preparation for FDA approval continues according to plan
- Ponto 3, particularly the SuperPower version, continues to deliver solid growth in in bone anchored hearing systems (BAHS)
- Hearing Implants had a negative impact on Group EBIT of around 1 pp







# Diagnostic Instruments



# Diagnostic Instruments highlights

Diagnostic Instruments grew by 12% in local currencies and outpaced the market growth rate of around 7%

- Growth in oil-dependent markets returned in 2017 after a period with negative growth in 2016
- Asian markets are delivering relatively high growth rates, which we exploit through our strong distribution set-up in the region
- Introduction of screening products running on tablets (Amtas) and increased focus on telehealth solutions
- Market share gains across the global market for diagnostic equipment



A man with dark hair and a beard is shown in profile, facing right. He is wearing a black gaming headset with red accents and a flexible boom microphone. The background is a dark, solid color. A semi-transparent dark grey horizontal band is overlaid across the middle of the image, containing the text "Personal Communication" in white.

Personal Communication



# Personal Communication highlights

- Revenue in Sennheiser Communications declined by 1% to DKK 743 million due to a decrease in the general stock level at Sennheiser KG
  - Solid underlying growth of 14%
- The gross profit margin was adversely affected by price competition in the CC&O segment and changes to the product mix
- Continuous investments to benefit from the positive UC trend

(DKK million)	FY 2017	FY 2016
Revenue	743	749
Gross profit	311	320
<i>Gross profit margin</i>	41.9%	42.7%
Capacity costs	-199	-188
Operating profit (EBIT)	112	132
<i>EBIT margin</i>	15.1%	17.6%
Tax on profit for the year	-25	-29
Profit for the year	87	103
William Demant Holding share of profit, 50%	43	51





# Strategic initiatives



# Update on strategic initiatives

Execution of the Group's strategic initiatives is progressing well and is slightly ahead of plans

## Initiatives with the largest impact

- Consolidating production at fewer locations is progressing according to plan
- Relocating R&D from Switzerland to Poland and Denmark was completed in 2017



## Financial impact

- Restructuring costs in 2017 of DKK 166 million with cost savings of around DKK 100 million in 2017
- Expected total costs of around DKK 500 million of which around DKK 150 million relates to 2018
- Expectations of annual savings of around DKK 200 million in addition to future economies of scale remain unchanged, when initiatives are fully implemented



William Demant



# Financials



# Adjusted income statement

(DKK million)	Reported 2017	Restructuring costs	Adjusted 2017	Adjusted 2016	Growth
Revenue	13,189	0	13,189	12,002	10%
Production costs	-3,163	-38	-3,125	-2,900	8%
<b>Gross profit</b>	<b>10,026</b>	<b>-38</b>	<b>10,064</b>	<b>9,102</b>	<b>11%</b>
<i>Gross profit margin</i>	<i>76,0%</i>		<i>76.3%</i>	<i>75.8%</i>	
R&D costs	-919	-63	-856	-784	9%
Distribution costs	-6,095	-38	-6,057	-5,618	8%
Administrative expenses	-727	-27	-700	-651	8%
Share of profit after tax, associates and JVs	53	0	53	81	-35%
<b>Operating profit (EBIT)</b>	<b>2,338</b>	<b>-166</b>	<b>2,504</b>	<b>2,130</b>	<b>18%</b>
<i>Profit margin (EBIT margin)</i>	<i>17.7%</i>		<i>19.0%</i>	<i>17.7%</i>	



# Group underlying development

DKK million	Reported			Restructuring		Adjusted			Transaction		Translation		One-offs		Underlying		
	2016	2017	△	2016	2017	2016	2017	△	2016	2017	2016	2017	2016	2017	2016	2017	△
Revenue	12,002	13,189	10%			12,002	13,189	10%	-46	49	173	0	0	0	11,875	13,140	11%
EBIT	1,942	2,338	20%	-188	-166	2,130	2,504	18%	-14	-43	74	0	35	0	2,035	2,547	25%
EBIT margin	16.2%	17.7%				17.7%	19.0%								17.1%	19.4%	

- Revenue and EBIT figures are adjusted for exchange rate effects
- A negative exchange rate effect on EBIT of DKK 103 million compared to 2016
- EBIT is adjusted for effects from one-offs
  - 2016: DKK 35 million related to fair value and earn-out adjustments
  - Second half-year adjusted EBIT margin was 20.4%

# Cash flow statement

(DKK million)	2017	2016	Growth
Operating profit (EBIT)	2,338	1,942	20%
Cash flow from operating activities	1,872	1,679	11%
Adjusted cash flow from operating activities	2,023	1,756	15%
Cash flow from investing activities before acquisitions	-485	-456	6%
Free cash flow before acquisitions	1,387	1,223	13%
Acquisition and divestment of enterprises, participating interests and activities	-656	-336	95%
Buy-back of shares	-1,031	-1,050	-2%
Other financing activities	265	307	-14%
Net cash flow for the period	-35	144	

- Adjusted cash flow from operating activities (CFFO) increased 15%
- The cash flow effect of restructuring costs was DKK -151 million
- Cash flow to acquisitions increased compared to last year

# Balance sheet

Assets (DKK million)	2017	2016
Intangible assets	6,892	6,768
Property, plant and equipment	1,718	1,742
Other non-current assets	2,272	1,909
<b>Non-current assets</b>	<b>10,882</b>	<b>10,419</b>
Inventories	1,351	1,300
Receivables etc.	3,292	3,119
Cash	697	710
<b>Current assets</b>	<b>5,340</b>	<b>5,129</b>
<b>Total assets</b>	<b>16,222</b>	<b>15,548</b>

Equity and liabilities (DKK million)	2017	2016
Equity	7,433	6,966
Non-current liabilities	3,086	2,748
Current liabilities	5,703	5,834
<b>Total equity and liabilities</b>	<b>16,222</b>	<b>15,548</b>
Net interest-bearing debt	4,030	4,036

- The increase in the Group's assets can mainly be attributed to acquisitions and an increase in receivables
- Net interest-bearing debt of DKK 4,030 million resulted in a gearing multiple (NIBD/EBITDA) of 1.5

William Demant



# Outlook 2018



# The hearing healthcare market

The total hearing healthcare market is estimated to see a value growth rate of 5% in 2018

- We estimate that the hearing aid wholesale market will grow by 2-4% in terms of value
  - The unit growth rate is expected to be 4-6%
  - The ASP is expected to decline by a low, single-digit percentage
- The hearing implant market is estimated to see a value growth rate of 10-15%.
- The diagnostic equipment market is estimated to see a value growth rate of 3-5%.





# Outlook 2018

---

Based on exchange rates as of 21 February 2018 and including the impact of exchange rate hedging, we expect a negative exchange rate effect on revenue of around 4% in 2018

---

We aim at a gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA, and we expect to buy back shares worth DKK 1.5-2.0 billion

---

**Operating profit (EBIT) of DKK 2.550-2.850 billion before the announced restructuring costs of around DKK 150 million**

William Demant

# Q&A



## MEET US

23 February	<b>Copenhagen</b> (SEB)
26 February	<b>London</b> (Danske Bank)
27 February	<b>London</b> (Morgan Stanley conference)   <b>Paris</b> (Nordea)
28 February	<b>Frankfurt</b> (Commerzbank)   <b>Edinburgh</b> (Handelsbanken)
1 March	<b>Zurich</b> (Crédit Suisse)   <b>Dublin</b> (DnB)
2 March	<b>Geneva</b> (Bank of America Merrill Lynch)
6 March	<b>Brussels</b> (Danske Bank)
6-7 March	<b>New York</b> (Carnegie)
7 March	<b>The Netherlands</b> (Danske Bank)
8 March	<b>Boston</b> (Deutsche Bank)   <b>Oslo</b> (Nordea)
15 March	<b>Lugano</b> (Kepler Cheuvreux)   <b>Stockholm</b> (Carnegie seminar)
16 March	<b>Milan</b> (Kepler Cheuvreux)
16-17 April	<b>New York</b> (UBS)
17-18 April	<b>Montreal &amp; Toronto</b> (Mirabaud)
18 April	<b>Chicago</b> (Exane BNP Paribas)

## FINANCIAL CALENDAR 2018

22 March	Annual general meeting
8 May	Interim Management Statement
15 August	Interim Report 2018
6 November	Interim Management Statement



# IR contacts



**Søren B. Andersson**

Vice President, Investor Relations

Tel: +45 3913 8967

Mob: +45 5117 6657



**Søren Holm Printz**

Investor Relations

Tel: +45 3913 8708

Mob: +45 5117 6863

