

Company announcement^{no 2016-13}

Interim Management Statement

10 November 2016

Satisfactory growth driven by the successful Oticon Opn™ and retail activities

Hearing Implants growth impacted by slower-than-expected uptake of Neuro CI

Full-year outlook maintained – lower half of EBIT range most likely

- The Group has seen continued, satisfactory organic and acquisitive growth. This trend is in particular driven by our Hearing Devices business activity, including both wholesale and retail of hearing aids.
- The Group's wholesale of hearing aids has seen continued organic growth due to a significant improvement in the average selling price (ASP) driven by the successful Oticon Opn hearing aid. The coming addition of two new members to the Opn product family, Opn 2 and Opn 3, will support continued momentum for the remaining part of 2016 and going into 2017.
- Our retail activities continue to deliver strong growth across most major regions, however with our US business performing below expectations due to the ongoing consolidation of the highly fragmented retail businesses. As seen in the first half-year of 2016, the higher share of retail has changed the Group's cost structure and thereby impacted margins.
- Sales in our Hearing Implants business activity continue to be soft, challenged by adverse market conditions in several oil-dependent markets, a slower-than-expected uptake of the Neuro cochlear implant (CI) and intensified competition in bone-anchored hearing systems (BAHS). A strong product roadmap and the Neuro CI are expected to gradually improve momentum. Our Diagnostic Instruments business activity is still challenged in a number of the same oil-dependent markets, but our performance has improved compared to the first half of the year.
- The previously announced strategic initiatives to be implemented in 2016 to 2018 are all on track to ensure continuous cost efficiency gains and support our future scalability at a lower cost. In 2016, we expect to recognise total restructuring costs of around DKK 200 million of which DKK 52 million was recognised in the first half-year.
- In 2016, we maintain our expectations to generate growth in all our business activities and realise an operating profit (EBIT) of DKK 2.0-2.3 billion before restructuring costs. The lower half of the EBIT range is regarded as the most likely, reflecting the development in our US retail activities and in our Hearing Implants business activity.

Market trends

Year-to-date, unit growth on the global market for hearing aids is estimated to have slightly exceeded the Group's general assumption of 4-5% unit growth in the market.

Well into the second half-year, we are seeing continued, solid unit growth in the US market (adjusted for new reporting entities in the HIA statistics), driven solely by sales in the commercial part of the market, whereas growth in sales to Veterans Affairs (VA) has been almost flat.

Several key hearing aid markets are characterised by fierce competition and channel mix effects, which continue to put some pressure on average selling prices (ASP). All in all, we estimate that in terms of value, the global market for hearing aids has seen modest growth year-to-date.

Hearing Devices

The Group's core business – the wholesale of hearing aids – has continued its satisfactory organic growth path due to a significant improvement in the ASP in the second half-year driven by the successful Oticon Opn. After summer, Oticon Opn sales have picked up, and the product continues to receive exceptionally positive feedback from end-users and hearing care professionals, so we remain confident about the new paradigm created by Oticon with the introduction of Opn and the Velox platform.

At the recently held EUHA congress in Hannover, Germany, Oticon showcased two new members to the Opn product family, Opn 2 and Opn 3. The two new Opn versions will be launched stepwise in key markets and will be positioned as upper mid-priced and mid-priced hearing aids. Furthermore, power receivers with fitting levels of 100 dB and 105 dB have been added to the Opn product range at all three price points, which will further broaden the Opn product portfolio. Also at EUHA, Oticon introduced new, improved solutions in an extensive portfolio of custom-made hearing aids, which will more than double the fitting rate of Invisible In the Canal (IIC) instruments. These product introductions are expected to support continued momentum for the remaining part of 2016 and into 2017.

Our market share with VA in the US has remained fairly stable, which is not satisfactory. The introduction of Oticon Opn to the VA channel in early November 2016 has strengthened our product offering towards this channel.

Our retail activities continue to deliver strong growth, first and foremost driven by acquisitions, but also as solid organic growth. Growth has been generated across most major regions, however with our US business performing below expectations due to the ongoing consolidation of the highly fragmented retail businesses and also to the weak response to marketing activities lately. As was the case in the first half-year of 2016, the higher share of retail has changed the Group's cost structure and thereby impacted margins.

Hearing Implants

Total growth in Hearing Implants continues to be soft and below expectations. Hearing Implants has been challenged by adverse market conditions in several oil-dependent markets, a soft uptake of the Neuro cochlear implant (CI) and intensified competition in bone-anchored hearing systems (BAHS).

Around 300 patients world-wide have been fitted with a Neuro CI, and more than 70 clinics have started fitting patients with Neuro, including more than 25 new clinics since the first Neuro implantation. Despite this progress, the uptake of Neuro has proven more time-consuming than initially expected, which can partly be explained by delayed product approvals in some markets and the fact that new CIs are generally speaking slow to penetrate the market.

In October, we began the launch of the Ponto 3 family, which will include the world's first Super Power BAHS. This Super Power BAHS is built on the Inium Sense platform and offer the highest output ever from an abutment-level sound processor. Ponto 3 significantly improves the listening experience on a number of key parameters compared to other percutaneous solutions, and the first countries to introduce Ponto 3 will be the US, the UK, Australia and New Zealand.

Strong product portfolios and roadmaps for both CI and BAHS products are expected to gradually improve sales momentum.

Diagnostic Instruments

Diagnostic Instruments has improved its performance compared to the first half-year of 2016, with strong growth particularly in Europe and Oceania. This business activity is still negatively impacted by unfavourable conditions in a number of oil-dependent markets in the Middle East, Africa, South America and Central America, where we are currently not seeing any material improvements.

Other business units

Sennheiser Communications, our joint venture with Sennheiser KG, has delivered satisfactory growth, driven by the CC&O and Mobile headset segments.

Other matters

The previously announced strategic initiatives are all on track. All activities in Eagan (USA) have been transferred to other sites, and the production site has been closed down. The migration of activities from our production site in Thisted (Denmark) have been initiated. The gradual transfer of R&D from Bern (Switzerland) to Denmark and Poland has been decided and initiated. The successful ramp-up in production in Mexico continues. Also, we have officially opened our new offices in Warsaw that will be the headquarters of our Polish sales organisation and our new R&D activities in Poland.

In 2016, we expect to recognise total restructuring costs of around DKK 200 million of which DKK 52 million was recognised in the first half-year. The negative impact on the cash flow from operating activities (CFFO) for 2016 will be around DKK 90 million, with the first half-year accounting for DKK 27 million.

Year-to-date, the Company has bought back a total of 6,480,974 shares at a price of DKK 856,763,386. The total number of treasury shares is 5,238,399, corresponding to 1.97% of the share capital. The share buy-back is part of our previously announced plans to buy back shares worth DKK 2.5-3.0 billion in the period from 2014 to 2016.

Outlook for the 2016 financial year

We maintain our 2016 outlook to generate growth in sales in all the Group's three business activities and realise an operating profit (EBIT) of DKK 2.0-2.3 billion before restructuring costs of around DKK 200 million related to the defined strategic initiatives. The lower half of the EBIT range is regarded as the most likely, reflecting the development in our US retail activities and in our Hearing Implants business activity.



Further information:

Niels Jacobsen, President & CEO
Phone +45 3917 7300
www.demant.com

Other contacts:

René Schneider, CFO
Søren B. Andersson, VP IR
Trine Kromann-Mikkelsen, PR