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With 9% unit growth in the first half-year, the Group continues to win significant market shares
Strong cash flow from operating activities of DKK 790 million

William Demant Holding A/S today published its Interim Report 2012 for the first half-year. Selected interim highlights are summarised below:

- In the first half-year, the Group realised revenue of DKK 4,258 million, or a 9% rise compared to the same period last year. The Group's core business, wholesale of hearing aids, realised unit growth of 9% in the period under review and thus captured significant market shares in a global hearing aid market that is estimated to have grown by 3-4% in units sold.
- As expected, the Group's volume growth was especially driven by sales in the mid-priced and low-end segments, and both the country mix and the channel mix developed less favourably compared with the same period last year. The average selling price in the core business thus decreased by 6% on the first half-year of 2011. However, the major part of this reduction actually took place in the last half of 2011.
- Despite a declining average selling price, the Group succeeded in increasing its gross profit margin by 0.2 percentage point to 71.7%. This positive development can, among other factors, be attributed to ongoing operational improvements and the realisation of economies of scale in production.
- Our operating profit (EBIT) amounted to DKK 864 million in the first half-year, corresponding to 7% growth compared with the same period last year. The reported profit ratio for the period was 20.3%, or a fall of 0.4 percentage point.
- Corporate cash flow from operating activities (CFFO) rose by as much as 14% to DKK 790 million in the first half-year, whereas free cash flows rose by no less than 20% to DKK 586 million. The strong cash flow also made it possible to buy back shares worth DKK 400 million in the past half-year.
- The Group's expectations of 2012 remain unchanged. It is however now estimated that the global hearing aid market will show zero growth in terms of value in 2012 against a previous expectation of low single-digit market growth. On the other hand, due to the strengthening of the Group's trading currencies, we now expect a more positive exchange rate effect on revenue than previously thought.
- We thus still forecast consolidated revenue for 2012 to grow by 5-9%, of which acquisitions are estimated to account for 1-3 percentage points, and we expect operating profits (EBIT) to increase compared to the level realised in 2011.

"The fact that consolidated cash flows in the first half-year reached a record level, I consider to be very satisfactory. I am also very satisfied that in the past half-year, we have succeeded in keeping our profitability at a high level in a situation where our average selling price has in fact fallen 6% compared to the first half of 2011," says Niels Jacobsen, President & CEO of William Demant Holding. *"Like most of our competitors' technology platforms, our platform too is approaching the end of its current lifecycle, which has temporarily aggravated the product mix and increased price competition in the marketplace. On that backdrop, I look forward to the market once again focusing on functionalities and user benefits, as we and probably some of our competitors will launch new products,"* adds Niels Jacobsen.

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Principal key figures and financial ratios

	1st half 2012	1st half 2011	Change
Key figures, DKK million			
Revenue	4,258	3,900	9%
Gross profit	3,055	2,787	10%
Operating profit (EBIT)	864	806	7%
Net financials	-55	-38	45%
Profit before tax	809	768	5%
Profit for the period	603	576	5%
Assets	8,111	7,097	14%
Equity	3,559	3,001	19%
Cash flow from operating activities (CFFO)	790	693	14%
Financial ratios			
Earnings per share (EPS), DKK	10.5	9.9	6%
Gross profit ratio	71.7%	71.5%	
Profit margin (EBIT margin)	20.3%	20.7%	
Return on equity	39.8%	42.3%	

Market conditions and business trends

In the first six months of 2012, unit growth in the global hearing aid market developed favourably and is estimated to be at the upper end of our long-term forecasts of 2-4% unit growth. In the USA, market unit growth in the first half-year was 4%, which is in line with historical growth rates. The growth rate of 4% in the private sector of the US market exceeded the growth rate in Veterans Affairs (VA), which was 3% in the first half-year

Major hearing aid markets such as Germany, Scandinavia, the UK and France saw fair unit growth in the first half of the year, whereas the development in unit sales in Holland and Italy were flat to slightly negative. As expected, the Swiss market is witnessing a sizeable fall in units compared with the same period last year. Discussions on the revision of reimbursement systems in some European countries have also led to short-term changes in the patterns of demand. In the first half of 2012, the Japanese hearing aid market saw a fair growth rate, outmatching the underlying market growth rate.

The average selling price in the hearing aid market has in our opinion been under pressure in the first half-year, resulting in a fall of 3-4%. The main reason for this is still thought to be overall negative product and channel mix trends, which can among other factors be attributed to some of the major manufacturers' technology platforms approaching the end of their lifecycle. The absence of actual product novelties combined with individual manufacturers' growth ambitions, which tend to exceed market growth, has also led to increased price competition in the period leading up to the expected high-end introductions at the end of 2012 and in early 2013. We thus estimate the global hearing aid market to have developed flatly in terms of value in the period under review.

In the first half of 2012, the Group's core business, which includes the development, manufacture and wholesale of hearing aids, realised a fair growth rate of 9% in unit sales of Group-manufactured hearing aids, which is more than twice the volume growth rate in the market. Organic growth in core business revenue was 4%, which means that our Group once again captured market share.

In the period under review, our overall Hearing Devices business activity, which also includes our retail activities, also generated 4% organic growth. In addition to a fair improvement on most of the established markets, we also saw a generous revenue increase on some markets in Asia and South America.

Because Oticon's platform and the platforms of several of our primary competitors are approaching the end of their current lifecycle, we have experienced a considerable pressure on prices in many markets including the USA. This and a continued negative trend in the product and channel mix have, in the period under review, contributed to the Group's average wholesale price for hearing aids having gone down by 6% compared to the same period last year. The actual decline in the average selling price took place in the second half of 2011 though.

Oticon Medical, which develops and sells bone-anchored hearing solutions, continues to capture market shares in its existing markets, and the formation of sales companies in several new markets also contributes to strong and solid growth. As expected, the launch of a new implant system in May this year helped fortify Oticon Medical's business even further.

In the first half-year, Diagnostic Instruments generated revenue of DKK 408 million, matching a highly satisfactory increase in revenue by as much as 36%. Organic growth reached 8%, which, in the light of market growth of 2-4%, mirrors a healthy trend in the underlying business. Acquired growth relates to the purchase of distribution activities and to the acquisition of the manufacturers Micromedical, MedRx and Sensory Devices. The integration of these activities is progressing as planned and in overall terms, the development in all brands and business units in Diagnostic Instruments is satisfactory.

In the period under review, Personal Communication generated revenue of DKK 139 million, matching a reported rate of growth of -3% and development in local currency of -5%. Sennheiser Communications and Phonic Ear both saw a decline in revenue, the former, however, having very strong comparative figures from the first half of 2011. The negative development in Sennheiser Communications can be attributed to the mobile segment, but generally speaking, the company is very well equipped for continuous growth based on its complete product range and exciting potential in Unified Communication, which, however, only accounts for a modest slice of the company's revenue. Phonic Ear and FrontRow are still experiencing difficult market conditions, but the adjustment of this part of our business has, however, helped us ensure that costs will reflect the actual level of activity.

Results for the first half of 2012

In the first half of 2012, the Group achieved revenue of DKK 4,258 million, or a 9% increase. This increase in revenue in local currency was realised at 6%, organic growth accounting for 3 percentage points. Exchange rate movements in the period under review had a positive impact on revenue of 3%. In this period, the Group realised gross profits of DKK 3,055 million, or a 10% rise. The gross profit ratio was 71.7%, which is an improvement of 0.2 percentage point compared with the same period last year. Based on the fall in the average wholesale price of Group-manufactured hearing aids, the development in the gross profit ratio is quite satisfactory and very much mirrors the economies of scale in production that are prompted by rising unit sales.

Operating profits (EBIT) amounted to DKK 864 million, representing a 7% rise on the same period last year. The reported profit margin for the first half of 2012 was 20.3%, or a fall of 0.4 percentage point compared with the same period last year. This development is the result of capacity costs for the period having risen a bit more than revenue and relates to acquisitions made.

Also, the Group's forward exchange contracts for hedging purposes negatively affected our revenue and operating profit (EBIT) to the tune of DKK 44 million in the first half of 2012 against a gain last year of DKK 20 million.

In the period under review, consolidated cash flow from operating activities (CFFO) rose by as much as 14% to DKK 790 million, while free cash flows went up by nothing less than 20% to DKK 586 million. Among other things, the strong cash flow made it possible to buy back shares worth DKK 400 million in the past half-year, which means that we now hold 1,491,203 treasury shares, which have, since we resumed our share buyback programme in August 2011, been bought at an average price of DKK 470.

Outlook for 2012 the financial year

Our forecasts for 2012 remain unchanged. We have, however, adjusted our growth forecasts for the global hearing aid market downwards. On the other hand, due to the strengthening of the Group's trading currencies, we now expect a more positive exchange rate effect on revenue than previously thought. Our expectations may be summarised as follows:

Based on volume growth rates in the global hearing aid market of 2-4% in 2012 and negative development in the average selling price of the same magnitude, we now expect the global market for hearing aids to show zero growth in terms of value in 2012. Our previous expectation of market development was low single-digit growth in terms of value composed of 2-4% volume growth and flat to slightly negative development in the average selling price.

The negative development in the average selling price in the underlying market is mainly driven by mix shifts, since most hearing aid manufacturers' technology platforms will in 2012 be approaching the end of their current lifecycle. The absence of new high-end products on the market also seems to be the reason for keener price competition.

For 2012, we expect the Group to continue to improve its market share. Consolidated revenue for 2012 is thus forecast to grow by 5-9% of which acquisitions are estimated to account for 1-3 percentage points.

Based on average exchange rates year to date, we expect movements in exchange rates to have a positive impact on consolidated revenue in 2012. The full effect of such movements is, however, postponed due to the Group's foreign currency hedging.

Consolidated operating profits (EBIT) are thus expected to continue to grow in 2012 compared with the level realised in 2011.

The Group's effective tax rate is estimated at 25-26% in 2012.

In 2012, we expect to continue to generate substantial cash flow from operating activities in 2012, which will as usual first and foremost be used for investments and acquisitions. Through our share buyback programme, we will thus continue to channel any excess cash flows back to our shareholders, while maintaining the level of consolidated net interest-bearing debt of DKK 1.5-2.0 billion.

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The full Interim Report 2012 for William Demant Holding A/S totalling 15 pages will be published in continuation of this announcement.

Please be advised that we will host a teleconference for analysts and investors today at 1.00 p.m. CEST. The teleconference will be conducted in English and broadcast via our website, www.demant.com.