Company announcement no 2009-10

16 November 2009

Interim information, third quarter 2009

Strengthened momentum in all Group activity areas

- In the third quarter of 2009, the Group's hearing aid business has developed satisfactorily with realised revenue growth significantly exceeding trends in the first half-year.
- Compared with the same period last year, growth in the hearing aid business in the third quarter was driven by increased volume sales as well as a rise in average selling prices in our wholesale activities. This is, among other factors, due to a solid rise in sales to the independent retailers.
- In the third quarter, all the Group's other activities, i.e. retail, Diagnostic Instruments and Personal Communication, also showed improved growth rates compared with the first half-year. Thus, all Group activities have continued to gain momentum in the third quarter.
- On 1 October 2009, the Group acquired the Grason-Stadler brand, including the company's operating assets. Grason-Stadler is a high-end product line within diagnostic instruments, and with this acquisition, the Group has further cemented its position as the world's largest supplier of diagnostic instruments. Grason-Stadler generates annual revenues of USD 16-18 million.
- The Group maintains its expectation of increased revenues from its wholesale activities, which exceed market growth by 2-4%; one of the factors supporting this expectation being that the average wholesale price in the Group's hearing aid business is currently developing more favourably than prices in the underlying market.
- As a consequence of trends in the third quarter, the Group now expects revenues and operating profits (EBIT) in the second half-year of 2009 to exceed the levels realised in the first half-year. Thus, we expect to see significant growth rates in revenues and operating profits compared with the second half of 2008. Previously, we expected revenues and operating profits in the second half-year to match those realised in the first half-year.

Market trends

In the hearing aid market, trends prevailing in the first half-year have continued into the third quarter. The impression of more stable market conditions has thus been confirmed. At the same time, there are some indications that market conditions have gradually improved, even if in the third quarter, the market was – in terms of growth – driven by considerable growth in the demand by Veterans Affairs (VA) in the USA. Furthermore, market growth rates are positively impacted by weak comparative figures – a trend caused by the difficult situation on the global hearing aid market prevailing in the second half of 2008.

Accounting for just under 20% of the US market, VA increased its purchases by more than 30% in the third quarter and thus continues its development from the first half-year. The fact that VA has in this way been a major driver in an otherwise soft global hearing aid market has not had a beneficial impact on the Group's hearing aid businesses, since neither Oticon nor Bernafon have been among VA's regular suppliers during this period. However, starting on 1 November 2009, both Group hearing aid businesses will be regular suppliers to VA, and this is expected to contribute positively to the Group's growth in 2010 and 2011, in particular.

William Demant Holding A/S
Kongebakken 9
DK-2765 Smørum
Denmark
Phone +45 3917 7100
Fax +45 3927 8900
william@demant.dk
www.demant.com
CVR 71186911

Demand by the National Health Service (NHS) in the UK, which is – in terms of volume – the world's largest single buyer of hearing aids, is now stabilising. Since mid-2008, when NHS waiting lists reached the desired level, NHS has contributed negatively to market growth, but now everything points towards a normalisation of growth in the overall demand by the NHS. For the entire period, NHS has been – and still is – an important customer to William Demant Holding, but since a growing number of hospitals in the UK have purchased hearing aids outside the NHS contract, the Group's market share with the NHS has decreased during the second and third quarters of 2009, in particular.

In the commercial part of the market, growth rates have increased throughout 2009, which was also the case in the third quarter. In the private sector of the US market, unit growth in the third quarter exceeded 4% on the same period last year. However, this corresponds to the absolute level of the second quarter 2009. Similar trends may be observed in several European markets. With weak negative market growth in Japan in the third quarter, nothing points towards an improvement here.

The total number of instruments sold on the global hearing aid market in the past quarter is estimated to be at the same level as in the second quarter, but it is still too soon to draw the conclusion that we are seeing significantly improved demand on the global hearing aid market.

Hearing Aids

Driven by volume, mix and prices, the Group's hearing aid business gained market share in the commercial part of the market in the third quarter. Growing sales in the commercial part of the market, including sales to the independent retailers, have thus more than compensated for the Group's declining sales to the NHS. This development should, among other factors, be viewed in light of Oticon's strong product portfolio and Oticon's Modern Hearing Care campaign (www.modernhearingcare.com), which is probably the biggest training and promotional effort ever levelled at the dispensers. The Modern Hearing Care campaign takes a more holistic view on hearing aid fitting as its starting point, and in addition to focusing on the hearing aid proper, the campaign focuses on improving the possibilities of the hearing impaired in difficult listening environments, including especially telephone and TV scenarios. Launched in summer, the campaign was one of Oticon's main themes at the German hearing aid congress, EUHA, that took place in October.

The fact that Group sales to the NHS have been replaced by sales to the independent retailers has also contributed to the average selling price in the Group's hearing aid business having gone up compared with the same period last year. This development is in contrast to the general development in the hearing aid market, where wholesale prices and product mix are estimated to have been under pressure, since the financial crisis and the general recession set in in the first half of 2008. In the German market, which has for some time now been characterised by fierce competition, prices seem to be under particular pressure.

In terms of products, the third quarter was to a great extent a continuation of the first half-year with focus on products based on the RISE platform. In Oticon, Hit, Dual, Epoq and Vigo, in particular, contributed to the Group's unit growth, whereas Tego, Delta and a number of older products, which are no longer marketed actively, are pulling in the opposite direction. The launch of Hit is progressing extremely satisfactorily, and the development in Dual and Epoq sales is similar to that of the first half-year.

In the Bernafon business, Verité and Avanti generated significant growth in the third quarter. The introduction of Verité, which was launched as Bernafon's new wireless RITE hearing aid in spring, is progressing very satisfactorily. Launched in autumn 2008 in the low end of the mid-priced segment, Avanti is living up to the plans made.

At EUHA, the German hearing aid congress held at the end of October, the Group presented a number of new products, including Oticon Vigo Connect positioned in the upper part of the mid-priced segment. With Vigo Connect, more price-conscious end-users are now offered the market's most attractive solution with wireless connection to for instance TV and telephone. At the same time, hearing aid fitters have got an instrument that gives those more price-conscious end-users an obvious incentive to choose a higher-priced instrument.

Also at EUHA, Oticon presented Safari, which is Oticon's first hearing aid family specifically developed and designed for children. Oticon Safari offers functionalities never before seen in the paediatric area, including binaural signal processing (spatial sound), 10 kHz bandwidth, wireless connection to for instance mobile phone and TV as well as wireless programming. Expected to be released for sale in December 2009, Oticon Safari is fully compatible with Oticon's FM system Amigo, which was specifically developed for use in learning environments, e.g. class teaching in schools.

Bernafon used EUHA to present Veras, a brand-new, complete product family that will be available in six different styles, including a so-called Nano BTE version, which is the world's smallest wireless thin-tube product. Veras will among other functionalities offer 8-10 kHz bandwidth, binaural communication, wireless connectivity via SoundGate as well as remote control, if desired, will be launched in three different price variants and will thus cover a very broad section of the market. Veras is expected to be released for sale in December 2009.

In the third quarter, the Group's retail activities continued the first half-year's handsome development with growth rates considerably above market growth rates in those countries, where the Group is active within retail.

Diagnostic Instruments has in the third quarter generated satisfactory growth rates exceeding growth rates in the first half-year.

Other business activities

On 1 October 2009, William Demant Holding acquired production, product and name rights to the Grason-Stadler brand, which is a high-end product line within diagnostic instruments. The products will form part of the Group's portfolio of audiometers and diagnostic instruments. The acquisition is expected to significantly strengthen William Demant Holding's Diagnostic Instruments division, not only through the extension of the existing product range, but also through the addition of a new high-end brand. With the acquisition of Grason-Stadler, the Group has further cemented its position as the world's largest supplier of diagnostic instruments. As a result of the transaction, the previous owner, CareFusion, will withdraw completely from the audiometer market. In connection with the acquisition of Grason-Stadler, the Group has taken over neither buildings nor leases, but some 20 employees from Grason-Stadler's sales organisation have been offered jobs in the new organisation. Grason-Stadler generates annual revenues of USD 16-18 million.

Personal Communication is to a greater extent than the Group's other business areas affected by the financial crisis and general recession. The effect of the crisis is most obvious in Sennheiser Communications, which has also in the third quarter generated lower sales than in the same period last year. By virtue of cost adjustments, Sennheiser Communications has, however, been able to maintain its profitability. In the third quarter, the other activities in Personal Communication, i.e. FrontRow and Phonic Ear, realised minor revenue growth.

Expectations

The Group expects volume growth in the global hearing aid market to be 2-4% in 2009, whereas we expect average selling prices to contribute slightly negatively to market growth. In overall terms, we expect to see positive, but modest, market growth in terms of value in 2009.

As a result of the Group's development in the third quarter, we now expect revenues and operating profits (EBIT) in the second half-year to exceed the levels realised in the first half-year. Revenues and operating profits will thus show significant growth compared with the second half of 2008. Most recently, the Group announced in its Interim Report 2009 that it expected to generate revenues and operating profits of the same magnitude as in the first half-year.

The positive development is mainly driven by the Group's hearing aid business, which is favoured by solid growth in sales to the independent retailers. This development is underpinned by Oticon's successful Modern Hearing Care campaign and by a strong product range, including the successful launches of Oticon Hit and Oticon Vigo Connect. For 2009, the Group maintains its expectations of revenue growth in the wholesale activities of the hearing aid business that will exceed market growth by 2-4%. This assumption is, among other factors, supported by the fact that the average wholesale price in our hearing aid business is currently developing more favourably than prices in the underlying market.

In our updated expectations of 2009, we have incorporated a minor weakening of the Group's trading currencies, mainly the US dollar. The strengthening of other currencies will, however, partly compensate for the weakening of the US dollar. Based on average exchange rates in October, we expect a negative exchange effect of up to 1% on both revenues and operating profits (EBIT) in 2009. We previously announced that we expected a neutral exchange effect for 2009. On this basis, we expect a negative exchange effect on revenues of 1-2% in 2010.

The effect of our acquisition of Grason-Stadler on 1 October 2009 has also been incorporated into the Group's expectations of 2009, and this is expected to impact Group revenues positively by DKK 15-20 million in 2009. However, as a consequence of the additional cost incurred by the integration of Grason-Stadler into the other activities in Diagnostic Instruments, we expect the earnings impact to be neutral in 2009.

♦ ♦ ♦ ♦ ♦ ♦ ♦

Further information:

Phone +45 3917 7100

www.demant.com

Contact:
Niels Jacobsen, President & CEO
Other contacts:
Stefan Ingildsen, VP Finance and IR
Søren B. Andersson, IR Manager