

**William Demant Holding A/S**

**Handelsbanken Tech Lunch**

**20 April 2004**

# Today's theme

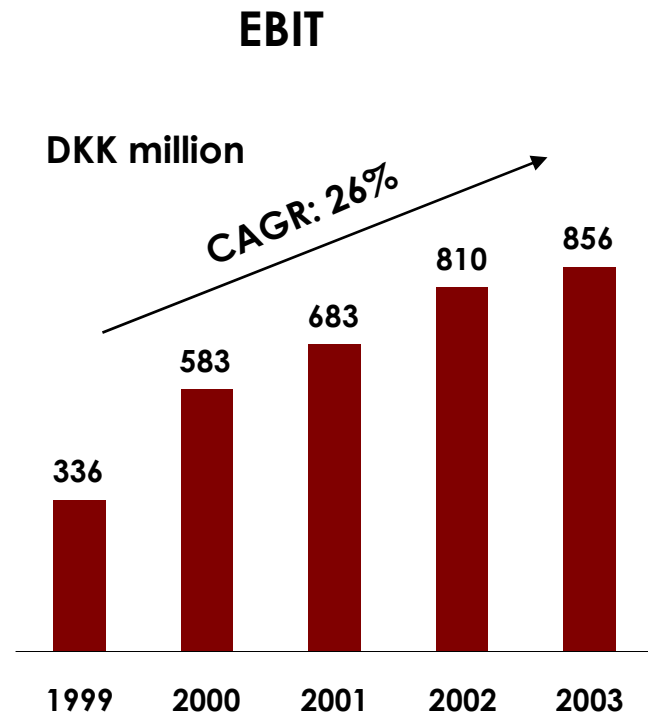
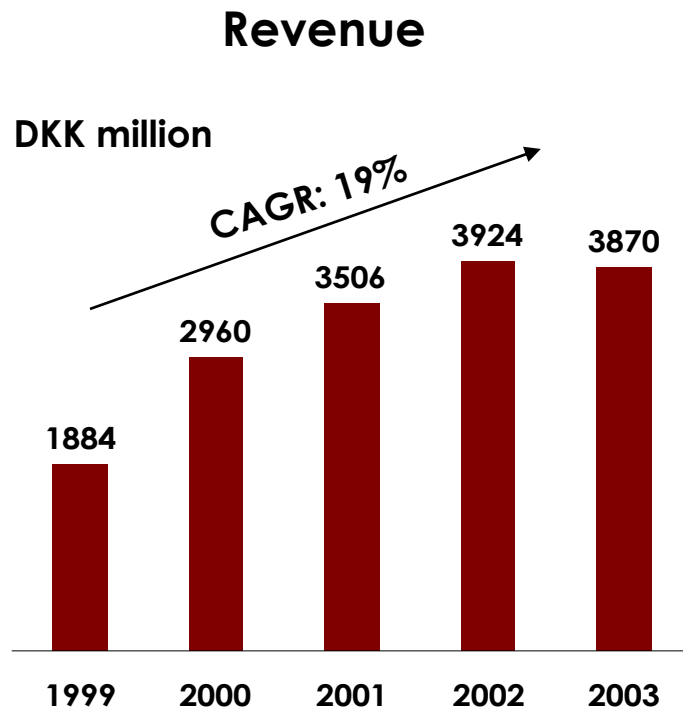
**Growth drivers  
for the hearing aid industry**

**..... and William Demant Holding**

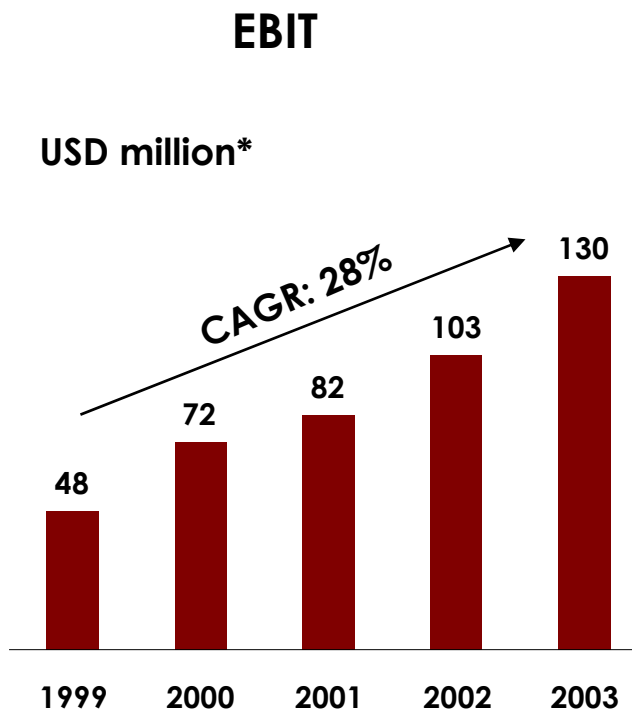
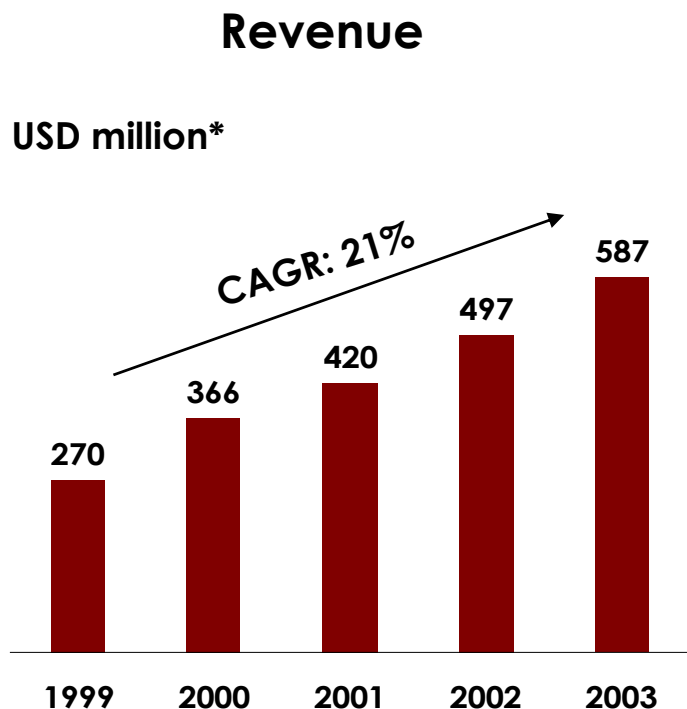
## **Extract from Mission Statement**

**The Group will ... endeavour to increase its value through continued growth in revenues and results.**

# William Demant Holding - a history of growth



# William Demant Holding - a history of growth

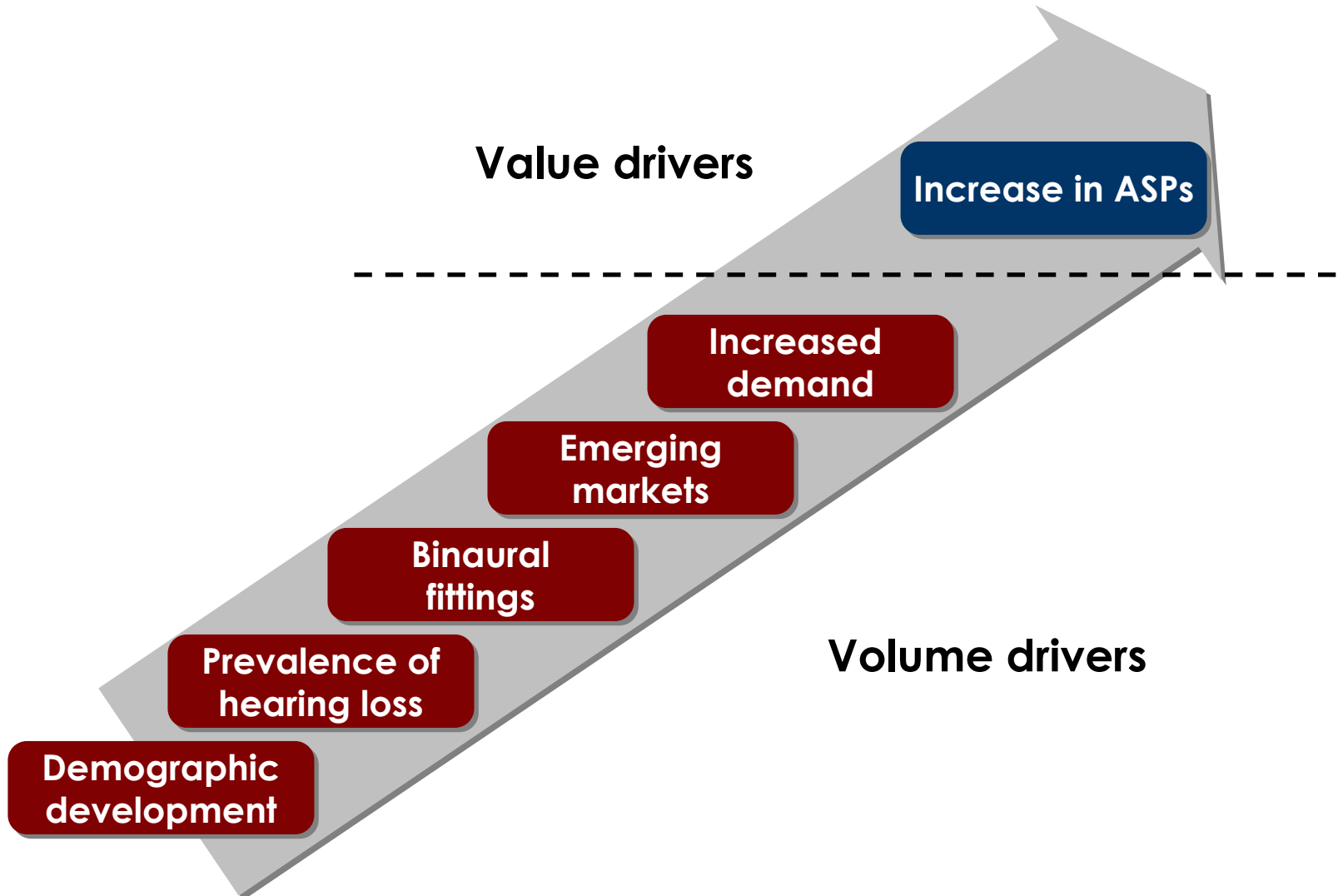


\*Revenues in DKK translated at average USD/DKK rates for given year

# Starting points for discussion

- **The market:**
  - Unreliable statistics make it difficult to verify trends and identify impact of various growth factors
  - Hearing aid market is measured in units - not value
  - Approximately 6.5 million units per year - wholesale value of USD 1.8 - 2.1 billion
  - 6 largest manufacturers hold approx. 85-90% of the market
  - 20,000 sales points worldwide - highly fragmented retail distribution
- **The customers:**
  - 10% of population in OECD countries suffer from hearing loss
  - 35-40% of population above 65 are hearing impaired
  - Average age of first time user is 69 (in the US)
  - Average age of user is 72 (in the US)

# Growth factors for the hearing aid industry



# Growth factors for the hearing aid industry

## Demographic development

- Core customer group (>65 years) to increase by 2% p.a. until 2025

## Prevalence of hearing loss

- Aging is most important cause of hearing impairment - more than 85% of cases
- Increased number of situations with high sound pressure levels - concerts, music at the ear etc.
- Improved working environment - fewer work-related hearing losses
- Other influencing factors - diabetes, smoking, medicine etc.

# Growth factors for the hearing aid industry

## Binaural fittings

- Important contribution to growth on US market last 20 years - binaural fitting rate increased from 23% in 1983 to 71% in 2001
- The binaural fitting rate is significantly lower in Europe than US, probably below 50%

## Emerging markets

- 80-85% of world market (in units) is in the developed countries
- Increased demand from emerging markets as GDP/capita and life expectancy increase
- Limiting factor is lack of infrastructure to support the fitting of hearing aids

# Growth factors for the hearing aid industry

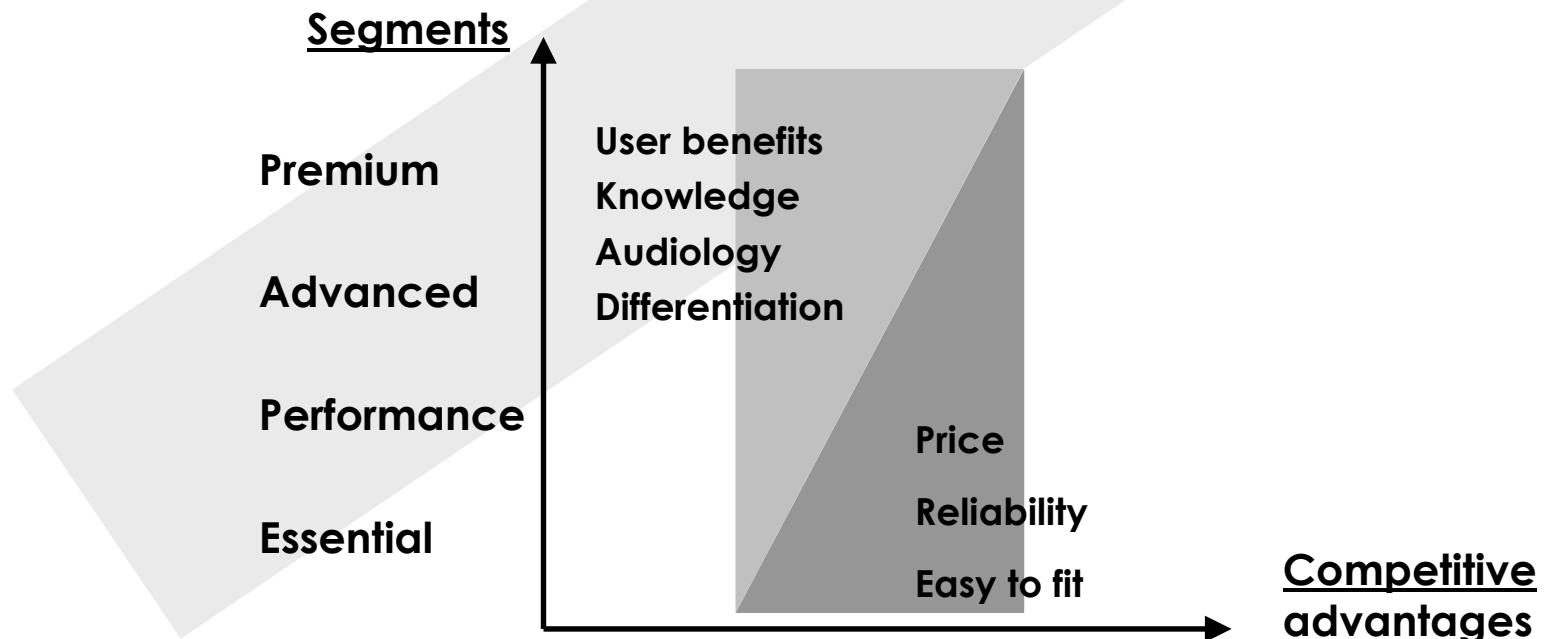
## Increased demand

- Development of better products - better at meeting the demands of the hearing impaired. Examples:
  - only 30% are satisfied with use of hearing aids in noisy situations and 95% of users looks for an improvement when listening to speech in noise
  - only 40% are satisfied with how the hearing aids handle whistling/feed back
- Baby boomers ??
- Better at marketing/communication
- Removing obstacles to increased demand, i.e. better relationships with ENT doctors. Examples: Germany and Italy
- Possible longer life time of products

# Growth factors for the hearing aid industry

## Increase in ASPs

- Increased wealth among core customer group
- Up grade of cheapest products from analogue to digital still ongoing
- Lack of sensitivity to price pressure:



# Growth factors for the hearing aid industry

Increase in ASPs

- New features/technology platforms allow for higher prices:

Artificial Intelligence

Open fittings

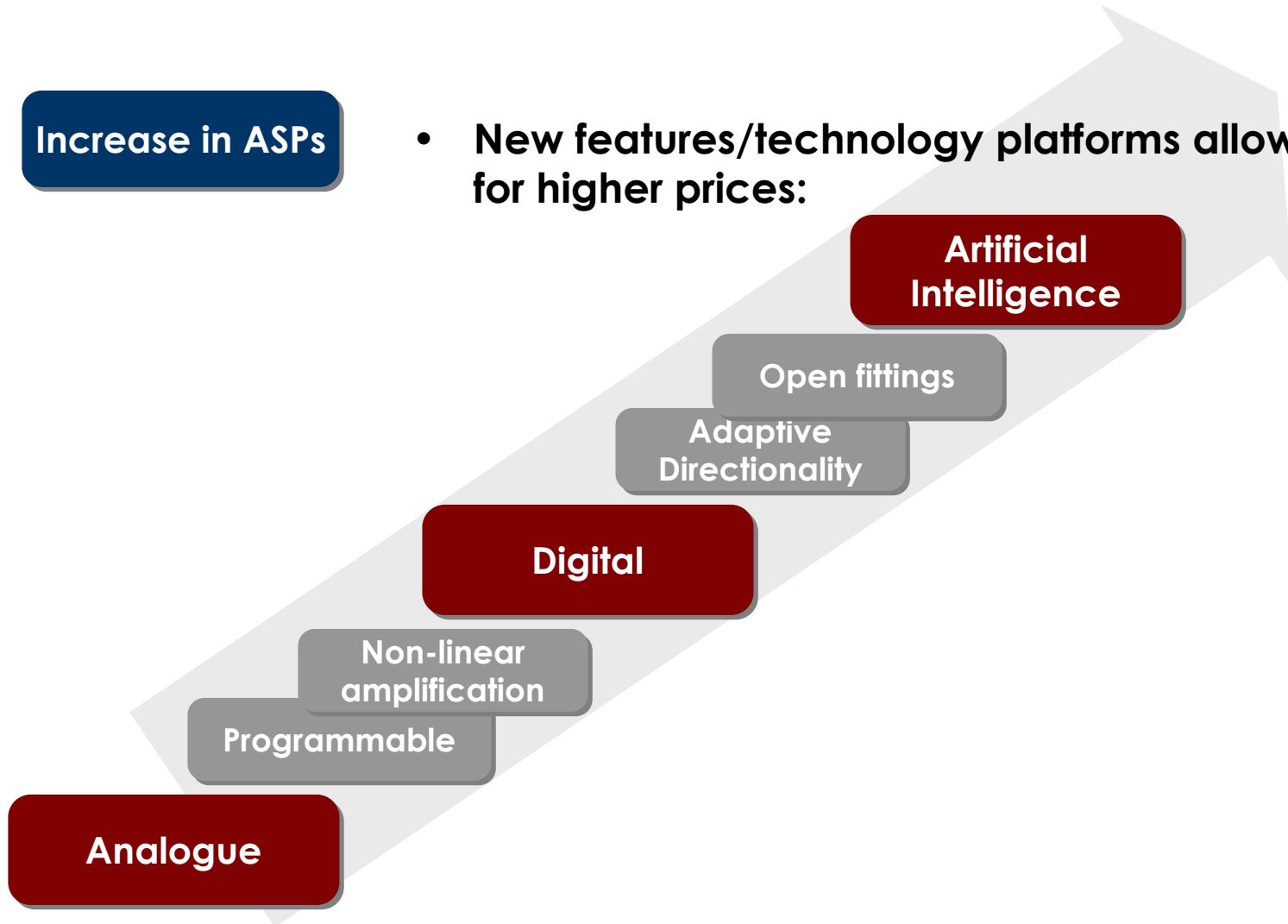
Adaptive Directionality

Digital

Non-linear amplification

Programmable

Analogue



# Growth factors for the hearing aid industry

## Increase in ASPs

### • Value chain considerations:

#### Production & wholesale

- 6 large manufacturers
- Further consolidation makes sense
- Almost infinite room for future innovation and value creation
- High barriers to entry

#### Retail

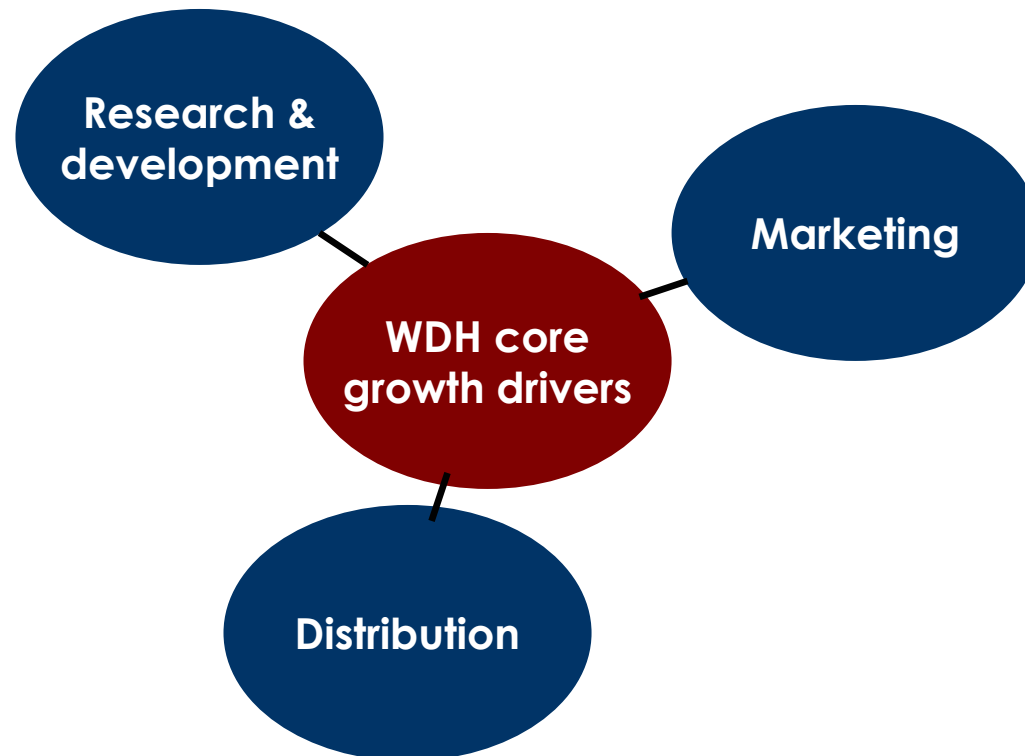
- More than 20,000 customers - highly fragmented
- Local chains (>25 shops) account for 20-25% of market
- No clear economics of scale - low entry barriers
- Lack of possibilities in developing value of services

#### End-users

- Clear demand for better performance in hearing aids
- No brand-recognition
- A population of more than 50,000 to one shop

# William Demant Holding on growth

- We expect the market to grow 3-5% medium to long term
- We expect to outgrow the market over the next five years and thus increase market share



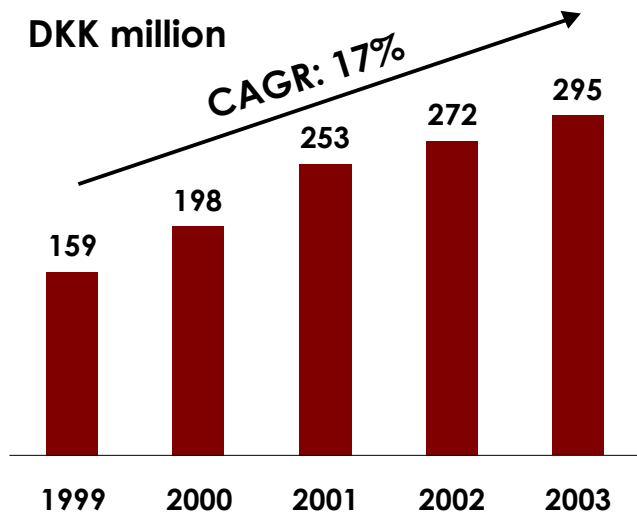
# William Demant Holding on growth

Research & development

- We will invest more than DKK 300 million on research & development in 2004
- High efficiency in R&D organization
- Eriksholm - the only manufacturer owned research center in industry
- Constant focus on addressing the needs of the hearing impaired:
  - Occlusion
  - Feed back
  - Noise reduction
  - Speech enhancement
  - Adaptive directionality

DKK million

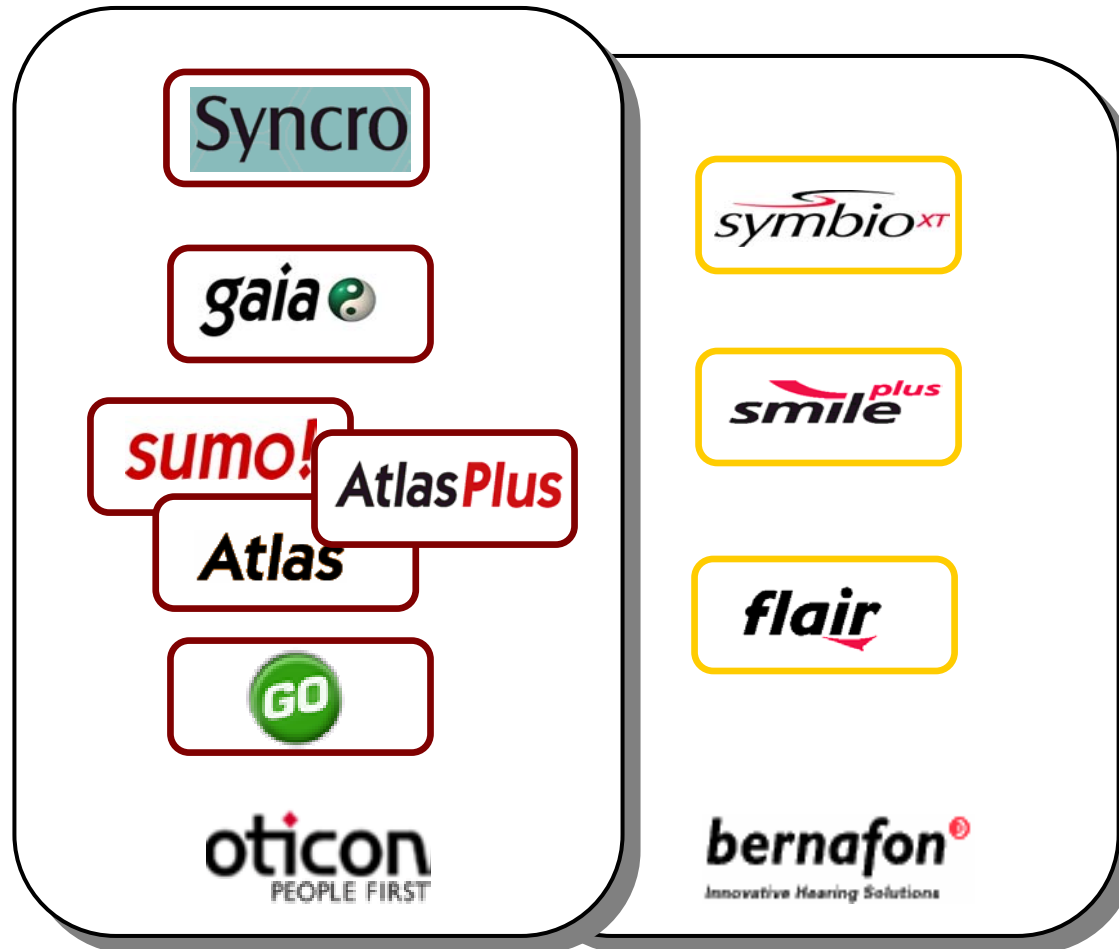
CAGR: 17%



OpenEar  
Acoustics

Voice Priority  
Processing

# New products since 2002



# William Demant Holding on growth

## Marketing

- Development of marketing concepts closely integrated with product development
- Specific tools developed to support sale of products by dispensers
  - CAPS - Client Assisted Product Selection
- Customer relationships are considered partnerships - we supply much more than just hardware
- Local marketing activities directed towards independent dispensers
- End-user marketing only through retailers

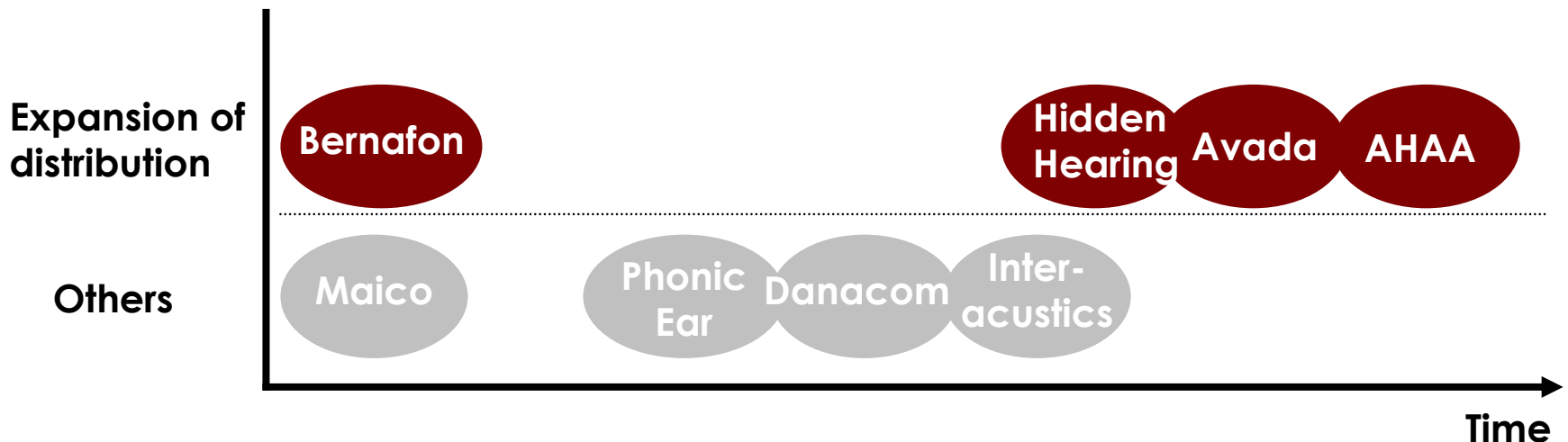


# William Demant Holding on growth



- Strong focus on developing distribution power through organic growth and through strategic acquisitions
- Own distribution in all major markets
- Long term presence in emerging markets such as Poland, Russia and South America

Most important acquisitions:



# Guidance - 2004

- Organic growth of 7-10%
- Revenues of DKK 4.0 billion (at January currency rates - negative impact of 4% compared to realised rates 2003)
- Core business to grow faster than other activities
- Growth in EBIT despite centenary celebration costs of DKK 30 million and significant negative impact from development in currency exchange rates
- EBIT expected at a level of DKK 875 million - higher in the second half than in the first due to introduction of new products
- Buy-back of own shares to be continued
- Earnings per share to grow by approximately 10%



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