Dynamics of the hearing aid market

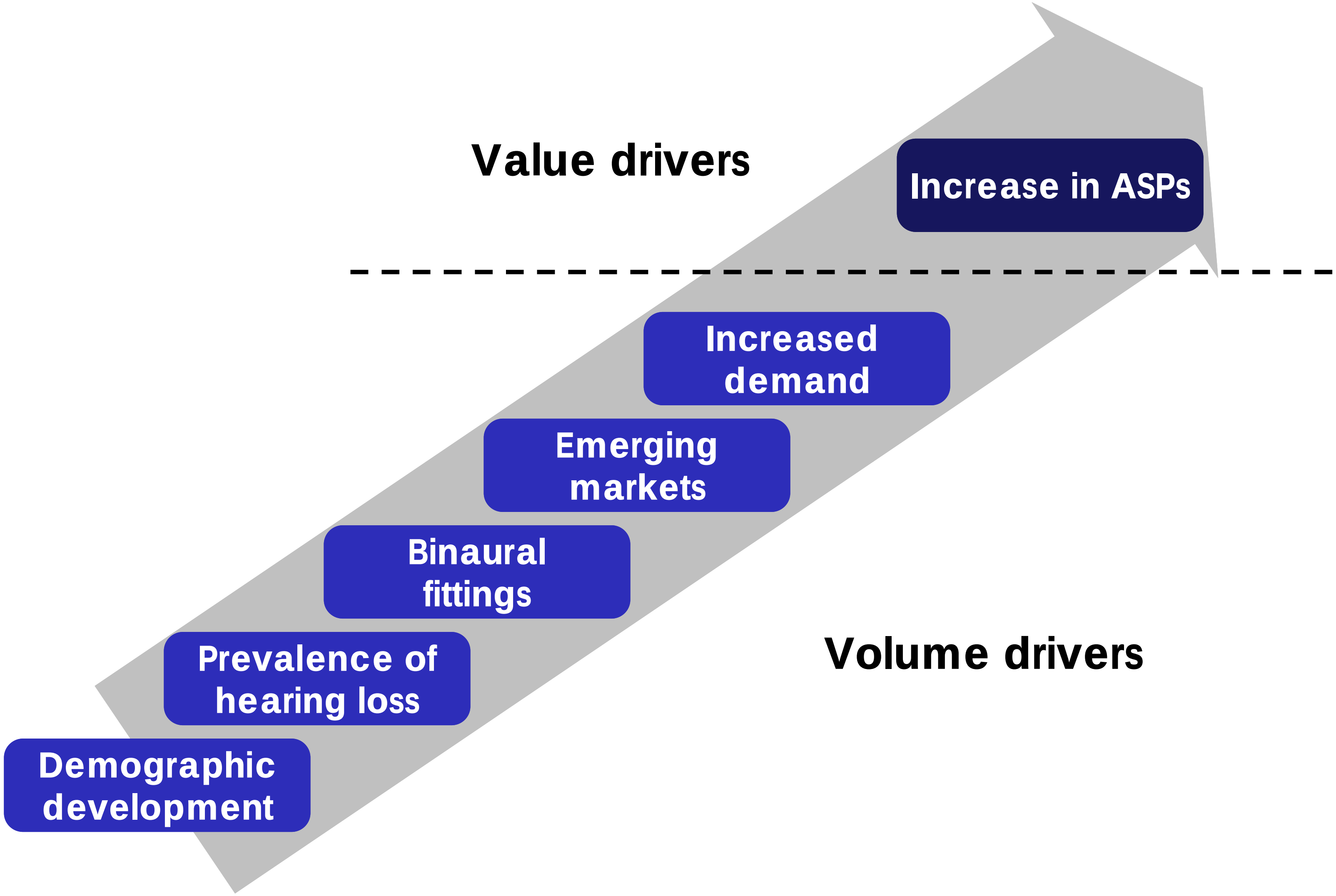
Søren Nielsen
President, Oticon

MARKET GROWTH DRIVERS

Gaining market share is king

- Taking market share year after year is king
- Market growth cannot cover growing cost base
- Estimating the market size is the starting point for evaluating market shares
- Market modelling is the key decision tool on future growth planning

Growth factors for the hearing aid industry



Growth factors for the hearing aid industry

Demographic development

- World-wide population of core user group (+65 years) will double in 25 years, from 530 million in 2010 to 1,140 million in 2035 (3.1% growth annually)
- North America will follow this trend and grow from 45 million to 88 million (2.7% growth annually)
- However, only with 1.6% annual growth in Western Europe over the same period
- Development mainly due to large postwar generation in US, and Asia

Source: U.S. Census Bureau, Population Division, June 2010

Growth factors for the hearing aid industry

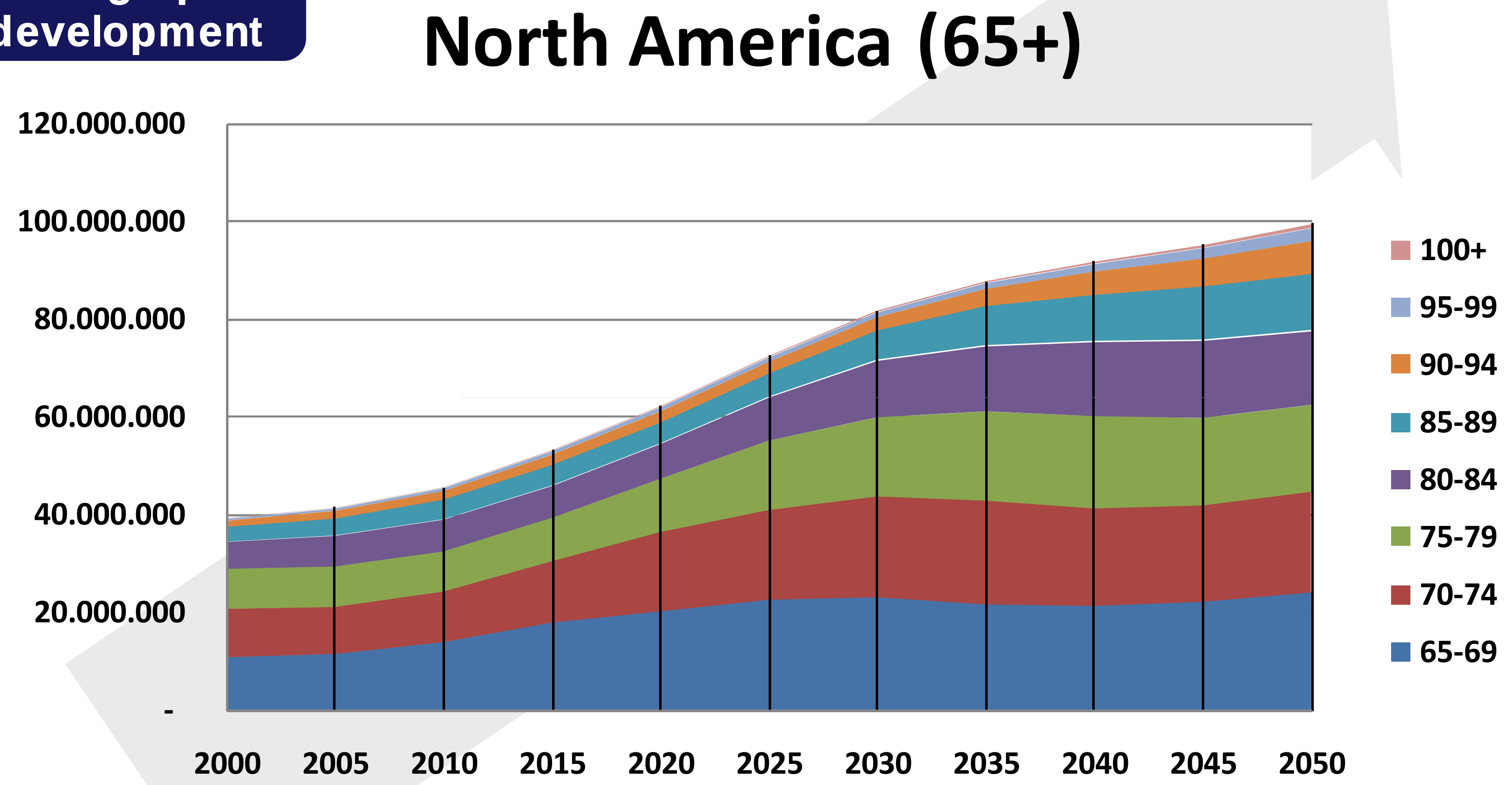
Demographic development

		Growth in 65+ population	
	Share of global market 2010 (value)	2005-2010	2010-2015
Western Europe	36%	1.2%	1.7%
Eastern Europe	4%	0,6%	1.9%
North America	40%	1.9%	3.1%
Asia (ex Near East)	11%	3.0%	3.3%
Latin America	4%	3.3%	3.6%
Oceania	4%	2.8%	3.6%
Rest of the world	1%	-	-
World	100%	2,3%	2.9%

Source: U.S. Census Bureau, Population Division, June 2010 and WDH estimates

Growth factors for the hearing aid industry

Demographic development



Source: U.S. Census Bureau, Population Division, June 2010

Growth factors for the hearing aid industry

Prevalence of hearing loss

- Aging is the most important cause of hearing impairment - more than 85% of cases
- Improved working environment - fewer work-related hearing losses
- Music?
- Other influencing factors - diabetes, smoking, medicine etc.
- War

Growth factors for the hearing aid industry

Binaural fittings

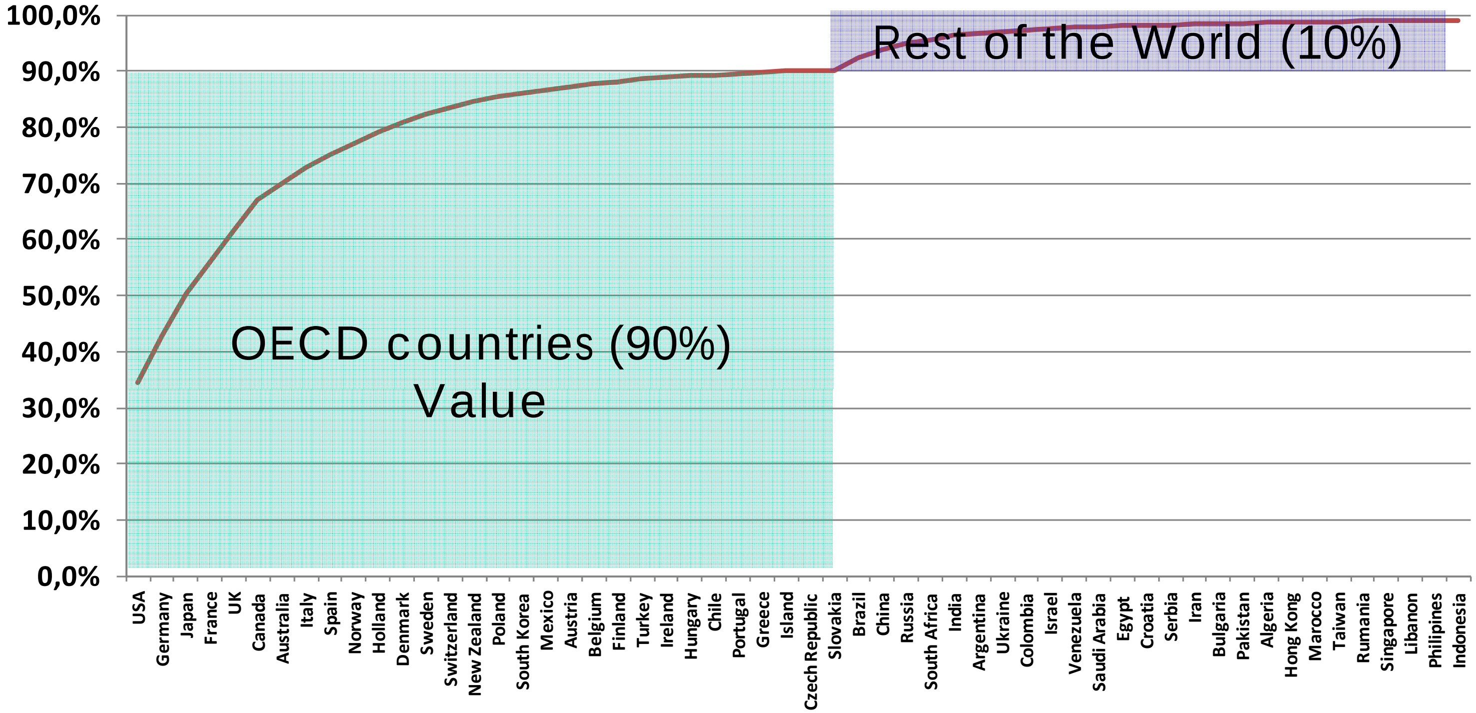
- Important contribution to growth on US market for the last 30 years - binaural fitting rate increased from 23% in 1983 to around 75% in 2010
- The binaural fitting rate is significantly lower in Europe than US, probably around 50%
- In general low in UK and Spain and exceptionally low in Japan (15-20%)

Growth factors for the hearing aid industry

Emerging markets

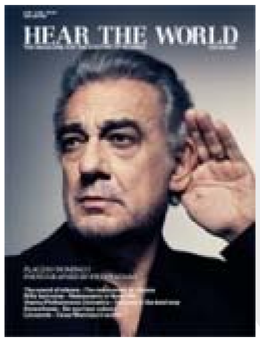
- Today 80-85% of world market (in units) is in the OECD countries
- Increased demand from emerging markets as GDP/capita and life expectancy increase
- Limiting factor is lack of infrastructure to support the fitting of hearing aids
- Large potential for unit growth in Asia, but very low prices, and lack of infrastructure
- More likely to see improvements in Eastern Europe as countries become part of EU

World market for hearing aids (value)



Growth factors for the hearing aid industry

Increased demand



- **Lowering the average age of the first-time user will have a significant impact**
  - **34% of the 65+ aged people are 65-70**
- **Future demand from "new users" can increase if solution is improved, if not it might decrease**
- **Will more active seniors change the picture?**
- **Will "PR" change the picture?**
  - **Hear-it.org, Phonak Hear the world etc.**
- **Word of mouth still seems to be the main communication wheel to change perception**
- **Solutions must improve life quality more than today. Too many users are not satisfied**
- **ENT and GP's still a major obstacle to increased demand**

Growth factors for the hearing aid industry

Increase in ASPs

- **New technology and innovation remain to be key drivers in growing ASP**
- **Higher willingness to spend money on healthcare among postwar generation**
- **Improved reliability (ITE -> BTE) might extend product life time**

Limiting factors….

- Stigma
- General increase in welfare cost, might reduce HA budgets
- Lack of fitters => long waiting lists in some markets, or bad coverage
- Lack of infrastructure in emerging markets where potential for growth is large
- Number of fitters in US might not be sufficient to “handle” number of seniors
- Distribution diversity

TRENDS IN DISTRIBUTION

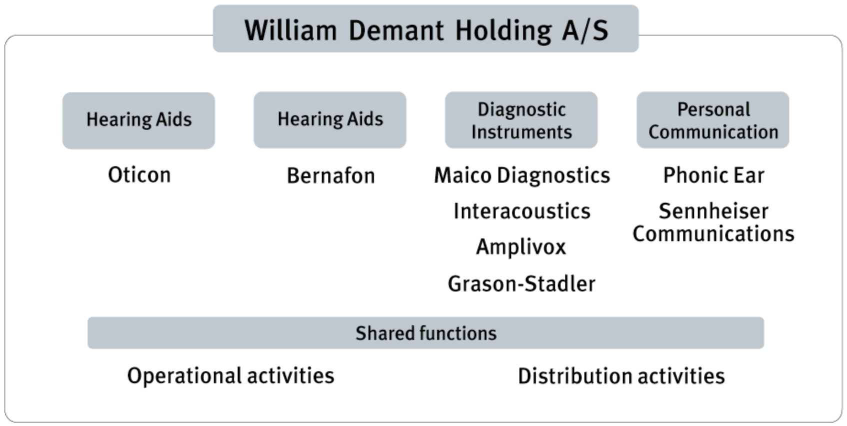
Distribution structure

- Distribution remains fragmented
- Increased professionalism
  - i.e. CEN 380 in EU
- Large retailers globalize
- Manufacturers defend position in key markets by entering into retail
- Value-adding networks gain momentum
- New models constantly being tested

"ONE STOP SHOPPING"

"One stop shopping"

- **Synergies by entering into other hearing-related areas**
  - **R&D/technology**
  - **Distribution**
  - **Infrastructure**
  - **Customers**
- **Examples**
  - **Bone-anchored hearing systems**
  - **Implants**
  - **Diagnostic**



Q&A