Dynamics of the hearing aid market

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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

Value drivers

- Increase in ASPs
- Increased demand
- Emerging markets
- Binaural fittings
- Prevalence of hearing loss

Volume drivers

Demographic development
Growth factors for the hearing aid industry

- 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

<table>
<thead>
<tr>
<th>Growth in 65+ population</th>
<th>Share of global market 2010 (value)</th>
<th>2005-2010</th>
<th>2010-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>36%</td>
<td>1.2%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>4%</td>
<td>0.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>North America</td>
<td>40%</td>
<td>1.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Asia (ex Near East)</td>
<td>11%</td>
<td>3.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>4%</td>
<td>3.3%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Oceania</td>
<td>4%</td>
<td>2.8%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>World</td>
<td>100%</td>
<td>2.3%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Population Division, June 2010 and WDH estimates
Growth factors for the hearing aid industry

<table>
<thead>
<tr>
<th>Year</th>
<th>65-69</th>
<th>70-74</th>
<th>75-79</th>
<th>80-84</th>
<th>85-89</th>
<th>90-94</th>
<th>95-99</th>
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<tr>
<td>2000</td>
<td>20,000,000</td>
<td>10,000,000</td>
<td>5,000,000</td>
<td>2,000,000</td>
<td>1,000,000</td>
<td>500,000</td>
<td>200,000</td>
<td>100,000</td>
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<tr>
<td>2005</td>
<td>22,000,000</td>
<td>12,000,000</td>
<td>6,000,000</td>
<td>2,500,000</td>
<td>1,250,000</td>
<td>625,000</td>
<td>312,500</td>
<td>156,250</td>
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<tr>
<td>2010</td>
<td>24,000,000</td>
<td>14,000,000</td>
<td>7,000,000</td>
<td>3,000,000</td>
<td>1,500,000</td>
<td>750,000</td>
<td>375,000</td>
<td>187,500</td>
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<td>2015</td>
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<td>16,000,000</td>
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<td>3,500,000</td>
<td>1,750,000</td>
<td>875,000</td>
<td>437,500</td>
<td>218,750</td>
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<td>2020</td>
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<td>18,000,000</td>
<td>9,000,000</td>
<td>4,000,000</td>
<td>2,000,000</td>
<td>1,000,000</td>
<td>500,000</td>
<td>250,000</td>
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<tr>
<td>2025</td>
<td>30,000,000</td>
<td>20,000,000</td>
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<td>4,500,000</td>
<td>2,250,000</td>
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<td>2035</td>
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<td>2,750,000</td>
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<td>2045</td>
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<td>14,000,000</td>
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<td>3,250,000</td>
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<td>812,500</td>
<td>406,250</td>
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<tr>
<td>2050</td>
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<td>30,000,000</td>
<td>15,000,000</td>
<td>7,000,000</td>
<td>3,500,000</td>
<td>1,750,000</td>
<td>875,000</td>
<td>437,500</td>
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Source: U.S. Census Bureau, Population Division, June 2010
Growth factors for the hearing aid industry

- 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

- 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

- 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

• 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

- 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 lifetime
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