

Announcement Össur hf. No. 13/2013
Reykjavik, 24 April 2013

First Quarter Report 2013

Highlights

- Sales amounted to USD 97 million compared to USD 100 million in Q1'12.
- Sales declined by 3% measured in local currency.
- Bracing and supports sales declined by 2% while prosthetics sales declined by 3%, both measured in local currency.
- Q1'13 was affected by fewer sales days compared to same quarter last year due to the Easter holidays. Adjusted for this effect, sales declined by 1%. Sales of bracing and supports were flat and prosthetics sales declined by 1%.
- The US prosthetics market continues to be impacted by turbulence in the reimbursement environment.
- Performance in EMEA varies between countries, with strong growth in Eastern Europe and continued strong growth in bionics.
- Gross profit amounted to USD 60 million or 62%, the same ratio as in Q1'12. Efforts in Mexico and lean initiatives contribute to a stable margin.
- EBITDA amounted to USD 14 million corresponding to a margin of 14% compared to 18% in Q1'12.
- Net profit amounted to USD 5.8 million or 6% of sales compared to USD 9.8 million and 10% of sales in Q1'12.
- Cash generated by operations was 9% of sales, the same as in Q1'12. Cash generated by operations is traditionally low in the first quarter.
- Reimbursement scrutiny in the US continues with Medicare reducing reimbursement for O&P products by 2%, effective as of 1 April 2013.
- As a reaction to changed reimbursement environment in the US Össur is working on various initiatives. One is a broader product offering, which focuses especially on solutions for low active users, reacting to a market trade down to low active products. Management has also initiated a cost reduction program that will reduce costs by USD 5 million for the remainder of the year.

Financial Guidance for 2013

- Management reiterates its previous guidance for 2013; LCY organic sales are expected to be in the range of 2-4% with an EBITDA margin of 18-19%.
- Due to changed reimbursement environment in the US, management expects the results of 2013 to be in the lower end of the guided range, both in terms of sales and EBITDA.

Jón Sigurðsson, President & CEO, comments:

"The first quarter has been challenging. Effects from the turbulent US reimbursement environment have had a more profound impact than we anticipated and will continue throughout this year. We have taken measures to react, however it will take some time to adjust to these changes in the market and get back on track. Performance in EMEA varies between countries, however, prosthetics sales continue to steadily increase with great performance in bionics. Sales in new markets within EMEA are promising and growth in Asia was yet again excellent".

Conference Call

Össur will host a conference call on Thursday 25 April 2013 at 12:00 CET/ 10:00 GMT/ 6:00 EST. To participate in the call, call Europe: +44 (0)203 043 24 36 or +46 (0)8 505 598 53, The United States: + 1 866 458 40 87, Iceland: 800 8660

Key Financial Figures (USD millions)

		Q1 2013	Q1 2012	Change	2012	2011
Income statements						
Net sales		97	100	-3%	399	398
Gross profit		60	62	-3%	248	246
Operating expenses (excl. other income)		50	47	6 %	191	189
Profit from operations		10	15	-31%	57	59
Net profit		6	10	-41%	38	35
EBITDA		14	18	-24%	70	73
Balance sheets						
Total assets		590	598	-1%	591	580
Equity		401	379	6%	408	365
Net interest-bearing debt (NIBD)		82	118	-31%	82	111
Cash flow						
Cash generated by operations		9	9	-8%	71	68
Cash provided by operating activities		4	7	-41%	58	48
Cash flows from investing activities		(4)	(13)	-70%	(27)	(19)
Cash flows from financing activities		(1)	3	-148%	(29)	(65)
Free cash flow		0	4	-90%	43	32
Sales growth						
Sales growth USD	%	(3)	4		0	11
Organic growth in LCY	%	(3)	5		3	5
Currency effect	%	0	(2)		(3)	3
Acquired/divested business	%	0	0		1	4
Key figures						
Operating margin	%	10	15		14	15
EBITDA margin	%	14	18		18	18
Equity ratio	%	68	63		69	63
Ratio of net debt to EBITDA ¹		1.2	1.6		1.2	1.5
Ratio of debt to EBITDA ¹		1.6	1.9		1.5	1.8
Current ratio		1.7	1.8		1.9	1.7
Return on equity ¹	%	9	10		10	10
Market						
Market value of equity		646	688		606	676
Number of shares (millions)		454	454		454	454
Price/earnings ratio, (P/E) ¹		18.6	18.4		15.8	20.0
Diluted EPS ¹	US Cent	7.5	8.0		8.4	7.7
Diluted Cash EPS ¹	US Cent	10.5	11.0		11.3	10.6

¹ Financial ratio for Q1 2013 and Q1 2012 are based on operations for the preceding 12 months.

HIGHLIGHTS

Sales Performance

Sales amounted to USD 97 million compared to USD 100 million in the first quarter of 2012. Total sales declined by 3%, both organic and measured in local currency. Bracing and supports declined by 2% and prosthetics declined by 3%, both organic and measured in local currency. Affecting comparison between years are fewer sales days compared to the same quarter in 2012 due to Easter. Adjusted for this, sales declined by 1%, sales of bracing and supports were flat and sales of prosthetics declined by 1%.

Sales by Segments and Region

USD '000	Q1 2013	% of sales	Growth USD	Organic growth LCY	Growth ASPD*
Bracing & supports	51,227	53%	-2%	-2%	0%
Prosthetics	40,890	42%	-3%	-3%	-1%
Compression therapy	4,742	5%	-6%	-7%	-4%
Other	242	0%			
Total	97,101	100%	-3%	-3%	-1%

*ASPD: Average sales per day

USD '000	Q1 2013	% of sales	Growth USD	Organic growth LCY	Growth ASPD*
Americas	47,417	49%	-7%	-7%	-6%
EMEA	43,953	45%	0%	0%	3%
Asia	5,731	6%	32%	33%	35%
Total	97,101	100%	-3%	-3%	-1%

*ASPD: Average sales per day

Sales in Americas declined by 7%, both organic and measured in local currency. Direct bracing and supports sales in Americas were good while contribution from own distribution companies was negative. Reimbursement audits and related changes in the processing of reimbursement claims by O&P customers had a material effect on prosthetics sales in the quarter and are expected to continue to affect the prosthetic segment in 2013. In addition sales to one of Össur's largest customer have been declining. In the second half of 2012 Össur signed agreements with new distributors in the prosthetics segment which are progressing positively.

Due to changed reimbursement environment in the US Össur is working on various initiatives for O&P customers. One is a broader product offering, which focuses especially on solutions for low active users, as the market has been trading down to more low active products. In the past 12 months Össur has launched three new products into the lower active segment. In addition, Össur has increased its efforts to support the O&P clinics, emphasizing clinical education and partnership with customers.

Overall the market was slow in Q1 in Europe. Sales in EMEA were flat, both organic and measured in local currency. Adjusted for fewer sales days due to Easter sales growth in EMEA was 3%. Sales of bracing and supports are driven by a good mix between new and established markets. Prosthetics sales in EMEA are steady with important contributions from bionics and new markets.

Sales of compression therapy products declined by 7% in the quarter.

Sales growth in Asia continues to be excellent with 33% organic growth, measured in local currency. Both prosthetics and bracing and supports delivered double digit growth. Strong sales in Japan and South Korea continue with Japan being the single largest market within Össur Asia.

Gross Profit

Gross profit amounted to USD 60 million or 62% of sales in the first quarter, which is on par with Q1'12. Slow prosthetics sales in Americas had negative effects on the gross profit margin. However, a stable gross profit margin can be attributed to the successful relocation of manufacturing facilities to Mexico in addition to other lean initiatives within manufacturing and operations.

The previously communicated savings from Mexico and the ongoing global process development project are expected to amount to USD 1 million and USD 1.5 million respectively for 2013.

Operating Expenses

Operating expenses as a ratio to sales were 52% compared to 47% in Q1'12. The majority of the increase is higher costs in Sales & Marketing and R&D.

Management has in April executed initiatives that will reduce cost by USD 5 million in 2013. Operations have been streamlined and headcount has been reduced, G&A operations have been simplified as well as selected cost reduction initiatives in S&M and R&D have been executed. One time expenses and restructuring costs will amount to approximately USD 3.5 million in Q2'13.

EBITDA

EBITDA amounted to USD 13.5 million and 14% of sales compared to USD 9.8 million and 18% of sales in Q1'12. Affecting the EBITDA are slow prosthetics sales, higher OPEX as well as negative contribution from own distribution companies in the US.

Financial Items, Tax and Net Profit

Net financial expenses amounted to USD 2.2 million compared to USD 1.4 million in Q1'12. Net exchange rate difference was negative by USD 1.1 million having been positive by USD 0.6 million in Q1'12. Interest expenses have decreased as a result of lower debt and a reduction in interest rates.

Income tax amounted to USD 2.1 million, corresponding to a 27% effective tax rate, compared to USD 3.6 million and 27% effective tax rate in Q1'12.

Net profit amounted to USD 5.8 million or 6% of sales compared to USD 9.8 million and 10% of sales in Q1'12.

Cash Flow and Investments

USD '000	Q1 2013	% of sales	Q1 2012	% of sales
Cash generated by operations	8,534	9%	9,309	9%
Net cash provided by operating activities	4,204	4%	7,132	7%

Cash generated by operations was USD 8.5 million or 9% of sales, the same as in Q1'12. Cash generated by operations is traditionally low in the first quarter.

Capital investments in the quarter amounted to USD 4 million or 4% of sales, compared to USD 3 million and 3% of sales in Q1'12. Capital investments in 2013 are expected to be towards the higher end of the guided range of 2.5-3.5%.

Product Highlights

In the first quarter six products and product upgrades were introduced. The product highlights were the Rebound Hip brace and the Vari-Flex XC Rotate ankle.



Vari-Flex XC Rotate is designed for active people. It combines energy return with smooth roll-over motion, shock absorption and rotational capabilities. It is based on design from two strong Össur products, the Vari-Flex XC and Re-Flex Rotate.

Rebound Hip The Rebound Hip is a brace designed for hip arthroscopy patients to provide gentle controlling motions to aid recovery.

Sales of bionic products for the quarter accounted for 13% of prosthetics sales, the same ratio as in Q1'12. Sales of bionic products were particularly good in Europe, while sales in Americas were affected by reimbursement changes. As already announced, POWER KNEE has been accepted into the US reimbursement system, effective as of 1 January 2013. The reimbursement price has not yet been determined.

General Update

Reimbursement in the US – Fee Schedule for O&P cut by 2%

The O&P industry in the US has experienced more disruption in the last 12 months than in past decades. Since mid-year 2011 reimbursement authorities (CMS) have been increasing their efforts in auditing claims and changing documentation requirements for O&P claims. This has disrupted the market and changed the behavior of customers and in many instances also created cash flow issues for O&P clinics.

Reimbursement scrutiny in the US continues with Medicare reducing reimbursement for O&P products by 2%, effective as of 1 April 2013.

Annual General Meeting 2013

Össur's Annual General Meeting was held at the Company's headquarters in Reykjavík, on 15 March 2013. The Board of Directors proposed a new dividend policy to shareholders which is to distribute a relatively stable dividend. For 2012 it was agreed that the Company would pay a dividend of DKK 0.10 per share for the year, corresponding to approximately 22% of the Company's net profits for 2012. Payment date was 5 April 2013.

Joint Capital Markets Day with William Demant in June

Össur and William Demant will host a joint Capital Markets Day in London in June. The event will take place at the Marriott Hotel at Grosvenor Square in London on 20 and 21 June. Further details on the event and agenda will be available shortly on www.ossur.com/investors.

Income Statements and Balance Sheets

Income Statements Q1 2013

USD '000	Q1 2013	% of sales	Q1 2012	% of sales	Change
Net sales	97,101	100.0%	99,817	100.0%	-2.7%
Cost of goods sold	(37,056)	-38.2%	(37,783)	-37.9%	-1.9%
Gross profit	60,045	61.8%	62,034	62.1%	-3.2%
Other income	185	0.0%	(109)	-0.1%	n/a%
Sales & marketing expenses	(31,810)	-32.8%	(30,131)	-30.2%	5.6%
Research & development expenses	(5,935)	-6.1%	(5,276)	-5.3%	12.5%
General & administrative expenses	(12,431)	-12.8%	(11,867)	-11.9%	4.8%
Profit from operations	10,054	10.4%	14,651	14.7%	-31.4%
Net financial income (expenses)	(2,227)	-2.3%	(1,367)	-1.4%	62.9%
Share in net profit of associates	72	0.1%	69	0.1%	4.3%
Profit before tax	7,899	8.1%	13,353	13.4%	-40.8%
Income tax	(2,121)	-2.2%	(3,551)	-3.6%	-40.3%
Net profit for the period	5,778	6.0%	9,802	9.8%	-41.1%
EBITDA	13,523	13.9%	17,837	17.9%	-24.2%

Balance sheets

USD '000	31 March 2013	31 Dec. 2012	Change
Non-current assets	443,363	450,949	-2%
Current assets	146,895	140,214	5%
Total assets	590,258	591,163	0%
Stockholders' equity	401,059	407,734	-2%
Non-current liabilities	104,239	108,418	-4%
Current liabilities	84,960	75,011	13%
Total equity and liabilities	590,258	591,163	0%
Current ratio	1.7	1.8	
Equity ratio	68%	63%	
Net interest bearing debt / EBITDA ¹	1.2	1.6	
Debt/EBITDA	1.6	1.9	

1) Financial ratio for Q1 2013 and Q1 2012 are based on operations for the preceding 12 months.

Further information:

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Financial Calendar 2013	Date
Q1 conference call	25 April 2013
Investor meetings in Denmark	6 May 2013
Joint CMD with William Demant in London	20/21 June
Q2 Results	24 July 2013
Q3 Results	23 October 2013
Q4 Results	5 February 2014
2014 Annual General Meeting	14 March 2014

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About Össur

Össur (NASDAQ OMX: OSSR) is a global leader in non-invasive orthopaedics that help people live a life without limitations. Its business is focused on improving people's mobility through the delivery of innovative technologies within the fields of braces, supports, prosthetic limbs and compression therapy. A recognized "Technology Pioneer", Össur invests significantly in research and product development; its award-winning designs ensuring a consistently strong position in the market. Successful patient and clinical outcomes are further empowered via Össur's educational programs and business solutions. Headquartered in Iceland, Össur has major operations in the Americas, Europe and Asia, with additional distributors worldwide. www.ossur.com

Forward-Looking Statements

This press release includes "forward-looking statements" which involve risks and uncertainties that could cause actual results to differ materially from results expressed or implied by these statements. Össur hf. undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement.