

Announcement Össur hf. No. 20/2013
Reykjavik, 24 July 2013

Second Quarter Report 2013

Highlights

- Sales amounted to USD 106 million compared to USD 103 million in Q2'12, corresponding to a 3% local currency growth.
- Bracing and supports sales were flat while prosthetics sales grew by 6%, measured in local currency.
- Performance in EMEA was excellent with strong growth across all markets and segments. Performance in the US was mixed and continued to be impacted by turbulence in the US reimbursement environment.
- The cost reduction initiative is on track and expected to reduce costs by USD 5 million in 2013. Full year 2014 impact of these initiatives amounts to USD 8 million. One-time expenses relating to these initiatives amounted USD 4.5 million in Q2'13.
- Gross profit amounted to USD 65 million and 61% of sales. Adjusted for one-time expenses gross profit amounted to USD 66 million or 62% of sales. Gross profit margin in Q2'12 was 62%.
- EBITDA amounted to USD 15 million corresponding to 14% of sales. Adjusted for one-time expenses, EBITDA amounted to USD 20 million corresponding to a margin of 19%, the same ratio as in Q2'12.
- Net profit amounted to USD 8 million or 8% of sales. Adjusted for one-time expenses net profit amounted to USD 12 million and 11% of sales. Net profit in Q2'12 amounted to USD 10 million and 10% of sales.
- Cash generated by operations was 11% of sales, compared to 19% in Q2'12. Affecting cash generation is the payment of one-time expenses as well as an increase in working capital.
- In May Össur signed an agreement to acquire the Swedish orthotic and prosthetic provider TeamOlmed for USD 47 million. The acquisition is expected to close in Q3'13.

Financial Guidance for 2013

- Management reiterates its previous guidance for 2013; LCY organic sales growth is expected to be in the range of 2-4% and adjusted EBITDA margin 18-19%.
- As communicated in the Q1'13 report, 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 results of the second quarter are in line with our expectations. Performance in EMEA is excellent, delivering growth in all product segments and markets. Challenges in Americas continue as previously communicated. Cost reduction initiatives already executed are on track and we are confident that they will yield the expected results. In May we signed an agreement to acquire TeamOlmed, an orthotic and prosthetic provider, strengthening our position in the Swedish market".

Conference Call

Össur will host a conference call on Thursday 25 July 2013 at 12:00 CET/ 10:00 GMT/ 6:00 EST. To participate in the call please dial Europe: +44 (0) 203 364 5374 or +46 (0) 8 505 564 74, The United States: + 1 855 753 2230, Iceland: 800 8660

Key Financial Figures (USD millions)

		Q2 2013	Q2 2012	Change	2012	2011
Income statements						
Net sales		106	103	3%	399	398
Gross profit		65	64	1%	248	246
Operating expenses (excl. other income)		53	47	11%	191	189
Profit from operations		12	16	-27%	57	59
Net profit		8	10	-16%	38	35
EBITDA		15	19	-22%	70	73
Balance sheets						
Total assets		594	591	1%	591	580
Equity		410	382	7%	408	365
Net interest-bearing debt (NIBD)		85	106	-20%	82	111
Cash flow						
Cash generated by operations		11	19	-42%	71	68
Cash provided by operating activities		11	17	-35%	58	48
Cash flows from investing activities		(5)	(5)	-7%	(27)	(19)
Cash flows from financing activities		(7)	(10)	-26%	(29)	(65)
Free cash flow		6	13	-56%	43	32
Sales growth						
Sales growth USD	%	3	(2)		0	11
Organic growth in LCY	%	3	3		3	5
Currency effect	%	0	(5)		(3)	3
Acquired/divested business	%	0	0		1	4
Key figures						
Operating margin	%	11	16		14	15
EBITDA margin	%	14	19		18	18
Equity ratio	%	69	65		69	63
Ratio of net debt to EBITDA ¹		1.4	1.4		1.2	1.5
Ratio of debt to EBITDA ¹		1.7	1.7		1.5	1.8
Current ratio		1.9	1.8		1.9	1.7
Return on equity ¹	%	8	10		10	10
Market						
Market value of equity		600	626		606	676
Number of shares (millions)		454	454		454	454
Price/earnings ratio, (P/E) ¹		18.0	17.4		15.8	20.0
Diluted EPS ¹	US Cent	7.2	8.3		8.4	7.7
Diluted Cash EPS ¹	US Cent	10.2	11.2		11.3	10.6

¹ Financial ratios for Q2 2013 and Q2 2012 are based on operations for the preceding 12 months.

HIGHLIGHTS

Sales

Sales amounted to USD 106 million compared to USD 103 million in the second quarter of 2012, corresponding to a 3% local currency growth. Bracing and supports sales were flat while prosthetics grew by 6% and compression therapy 4%, measured in local currency and all organic. Number of sales days in the quarter were the same as in Q2'12.

Sales by Segments and Region

USD '000	Q2 2013	% of sales	Growth USD	Organic growth LCY
Bracing & supports	54,540	51%	0%	0%
Prosthetics	46,584	44%	7%	6%
Compression therapy	4,839	5%	6%	4%
Total	105,963	100%	3%	3%

USD '000	Q2 2013	% of sales	Growth USD	Organic growth LCY
Americas	51,967	49%	-3%	-3%
EMEA	47,903	45%	11%	10%
Asia	6,093	6%	6%	6%
Total	105,963	100%	3%	3%

Sales in Americas declined by 3%, measured in local currency. Direct bracing and supports sales were good while growth in own distribution companies was negatively impacted by reimbursement changes. Contribution from own distribution companies is expected to improve in the second half of the year. Prosthetic sales continued to be challenging due to reimbursement audits and related changes in the reimbursement system as well as a decrease in sales to Össur's largest customer. Changes in the reimbursement system are expected to continue to affect the prosthetic segment throughout 2013. To support customers through these changes Össur has introduced various initiatives.

Sales in EMEA were excellent in the quarter and grew by 10%, measured in local currency. The performance was good across all product segments and markets, with strong growth in all major markets and continued excellent growth in bionics. New markets are growing well. Sales of compression therapy products grew by 4% in the quarter.

Sales growth in Asia was 6%, measured in local currency. Comparison is affected by very strong sales growth in Q2'12 of 32%.

Gross Profit

Gross profit amounted to USD 65 million or 61% of sales. Adjusted for one-time expenses gross profit amounted to USD 66 million or 62%, the same ratio as in Q2'12.

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 50%. Adjusted for one-time expenses, operating expenses as a ratio to sales were 46%, the same ratio as in Q2'12.

Increased sales and cost reduction initiatives executed in the quarter contribute to a decrease in operating expenses. Operations have been streamlined and headcount reduced, G&A operations simplified and selected cost reduction initiatives in S&M and R&D executed. One-time expenses in the quarter amount to USD 5 million, USD 4.5 million due to expenses in relation to the cost reduction initiatives and USD 0.5 million due to the acquisition of TeamOlmed. As already communicated, the cost reduction initiatives are expected to reduce cost by USD 5 million in 2013 and USD 8 million in 2014.

EBITDA

EBITDA amounted to USD 15 million and 14% of sales. Adjusted for one-time expenses, EBITDA amounted to USD 20 million and 19% of sales. In Q2'12 EBITDA amounted to USD 19 million and 19% of sales.

Financial Items, Tax and Net Profit

Net financial expenses amounted to USD 0.7 million compared to USD 3.0 million in Q2'12. Net exchange rate difference was positive by USD 0.3 million having been negative by USD 1.2 million in Q2'12. Interest expenses continue to decrease as a result of lower debt and low interest rates.

Income tax amounted to USD 2.9 million, corresponding to a 26% effective tax rate, compared to USD 3.3 million and 25% effective tax rate in Q2'12.

Net profit amounted to USD 8.4 million or 8% of sales. Adjusted for one-time expenses net profit amounted to USD 12 million and 11% of sales. Net profit in Q2'12 amounted to USD 10.0 million and 10% of sales.

Cash Flow and Investments

USD '000	Q2 2013	% of sales	Q2 2012	% of sales
Cash generated by operations	11,162	11%	19,181	19%
Net cash provided by operating activities	10,835	10%	16,579	16%

Cash generated by operations was USD 11.2 million or 11% of sales, compared to USD 19.2 million and 19% in Q2'12. Cash generation was negatively affected by one-time expenses due to the cost reduction initiative as well as an increased investment in working capital.

Capital investments in the quarter amounted to USD 4.8 million or 4% of sales, compared to USD 3.3 million and 3% of sales in Q2'12. Capital investments in 2013 are expected to be at the higher end of the guided range of 2.5-3.5%.

General Update

Products

Few product upgrades were introduced during the quarter. The product pipeline for the second half of the year is strong and exciting new products are to be launched. Sales of low active prosthetic solutions, introduced in previous quarters, are progressing well and in line with plans.

Sales of bionic products for the quarter accounted for 14% of prosthetic sales, compared to 13% in Q2'12.

Acquisition of TeamOlmed

In May, Össur announced the acquisition of TeamOlmed, a Swedish orthotic and prosthetic provider, for USD 47 million. With the acquisition, Össur gains a significant share of the Swedish O&P market. Together Össur and TeamOlmed will be a strong partner for county councils, prescribers and patients offering innovative, cost effective and clinically proven solutions in Sweden. The acquisition is expected to close in Q3 2013.

Patent Litigation

A competitor has filed a lawsuit in the US against Össur, claiming that certain Össur products infringe one of their patents. Össur has denied the allegations. As a consequence of this dispute, Management expects legal costs to be incurred in 2013. However, as the case is still in its early stages, the majority of related expenses are expected to materialize in 2014 and 2015. The likely outcome of the case remains uncertain.

Income Statements and Balance Sheets

Income Statements Q2 2013

USD '000	Q2 2013	% of sales	Q2 2012	% of sales	Change
Net sales	105,963	100.0%	102,708	100.0%	3.2%
Cost of goods sold	(41,348)	-39.0%	(38,804)	-37.8%	6.6%
Gross profit	64,615	61.0%	63,904	62.2%	1.1%
Other income	58	0.1%	(106)	-0.1%	-154.7%
Sales & marketing expenses	(33,802)	-31.9%	(30,186)	-29.4%	12.0%
Research & development expenses	(5,296)	-5.0%	(5,427)	-5.3%	-2.4%
General & administrative expenses	(13,657)	-12.9%	(11,855)	-11.5%	15.2%
Profit from operations	11,918	11.2%	16,330	15.9%	-27.0%
Net financial income (expenses)	(650)	0.6%	(2,989)	2.9%	-78.3%
Share in net profit of associates	(14)	0.0%	(18)	0.0%	-22.2%
Profit before tax	11,254	10.6%	13,323	13.0%	-15.5%
Income tax	(2,889)	-2.7%	(3,320)	-3.2%	-13.0%
Net profit for the period	8,365	7.9%	10,003	9.7%	-16.4%
EBITDA adjusted*	20,265	19.1%	19,493	19.0%	4.0%
EBITDA	15,301	14.4%	19,493	19.0%	-21.6%

*Adjusted for one-time expenses

Balance Sheets

USD '000	30 June 2013	31 Dec. 2012	Change
Non-current assets	447,340	450,949	-1%
Current assets	146,922	140,214	5%
Total assets	594,262	591,163	1%
Stockholders' equity	409,809	407,734	1%
Non-current liabilities	106,801	108,418	-1%
Current liabilities	77,652	75,011	4%
Total equity and liabilities	594,262	591,163	1%
Current ratio*	1.9	1.9	
Equity ratio*	69%	69%	
Net interest bearing debt / EBITDA*	1.4	1.2	
Debt/EBITDA*	1.7	1.5	

*Financial ratio are based on operations for the preceding 12 months.

Income Statements YTD 2013

USD '000	YTD 2013	% of sales	YTD 2012	% of sales	Change
Net sales	203,064	100.0%	202,525	100.0%	0.3%
Cost of goods sold	(78,404)	-38.6%	(76,587)	-37.8%	2.4%
Gross profit	124,660	61.4%	125,938	62.2%	-1.0%
Other income	243	0.1%	(215)	-0.1%	-213.0%
Sales & marketing expenses	(65,612)	-32.3%	(60,317)	-29.8%	8.8%
Research & development expenses	(11,231)	-5.5%	(10,703)	-5.3%	4.9%
General & administrative expenses	(26,088)	-12.8%	(23,722)	-11.7%	10.0%
Profit from operations	21,972	10.8%	30,981	15.3%	-29.1%
Net financial income (expenses)	(2,877)	3.7%	(4,356)	-2.2%	-34.0%
Share in net profit of associates	58	0.0%	51	0.0%	13.7%
Profit before tax	19,153	9.4%	26,676	13.2%	-28.2%
Income tax	(5,010)	-2.5%	(6,871)	-3.4%	-27.1%
Net profit for the period	14,143	7.0%	19,805	9.8%	-28.6%
EBITDA adjusted*	33,788	16.6%	37,330	18.4%	-9.5%
EBITDA	28,824	14.2%	37,330	18.4%	-22.8%

*Adjusted for one-time expenses

Further information:

Jón Sigurðsson, President & CEO
Sveinn Sölvason, CFO
Sigurborg Arnarsdóttir, IR Manager

Tel: +354 515 1300
Tel: +354 664 1185
Tel: +354 664 1044

Financial Calendar 2013

Date

Q2 Conference call	25 July 2013
Goldman Sachs Healthcare Conference	5 September 2013
Q3 Results	23 October 2013
Q4 Results	5 February 2014
2014 Annual General Meeting	14 March 2014

Össur press releases by e-mail

If you wish to receive Össur press releases by e-mail please register at the following web-site: <http://www.ossur.com/investormailings>.

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.