



Announcement Össur hf. No. 24/2013
Reykjavik, 23 October 2013

Third Quarter Report 2013

Highlights

- Net profit was up by 28% and amounted to USD 13 million or 12% of sales, compared to USD 10 million and 10% of sales in Q3'12.
- Sales amounted to USD 105 million compared to USD 99 million in Q3'12, corresponding to a 5% growth and 3% organic growth, both measured in local currency.
- Bracing and supports sales grew by 6% and 1% organic, both measured in local currency.
- Prosthetics sales grew by 5% and 4% organic, both measured in local currency.
- Performance in EMEA continued to be strong across all markets. Americas showed some positive signs, however uncertainty in the US market is expected to continue.
- Gross profit amounted to USD 65 million and 62% of sales, compared to USD 62 million and 63% of sales in Q3'12.
- EBITDA amounted to USD 22 million and 21% of sales, compared to USD 18 million and 19% of sales in Q3'12.
- OPEX as a ratio to sales declined and was 45% compared to 47% of sales in Q3'12. Cost savings initiatives executed in the second quarter are materializing.
- Cash generated by operations was 23% of sales, compared to 17% in Q3'12.
- On 1st of October Össur completed the acquisition of TeamOlmed, announced on 21st of May 2013. TeamOlmed will be included in the Össur consolidation as of 1st of October 2013.
- Two minor acquisitions were closed during the quarter.

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%.

Jón Sigurðsson, President & CEO, comments:

"We are pleased to see the results of the quarter, with the highest operating profits Össur has generated along with a very strong cash flow. In the second quarter we executed cost reduction initiatives which are having the intended impact in this quarter. Performance in EMEA continues to be good and we see some positive signs in Americas. However, we believe that it is realistic to expect some disturbance in the US for the next couple of quarters. In the third quarter we continued to strengthen our position and sales channels through two minor acquisitions, followed by the closing of the acquisition of TeamOlmed in October."

Conference Call

Össur will host a conference call on Thursday 24 October 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)

		Q3 2013	Q3 2012	Change	2012	2011
Income statements						
Net sales		105	99	6%	399	398
Gross profit		65	62	6%	248	246
Operating expenses (excl. other income)		47	47	0%	191	189
Profit from operations		19	15	23%	57	59
Net profit		13	10	28%	38	35
EBITDA		22	18	22%	70	73
Sales growth						
Sales growth USD	%	6	(2)		0	11
Organic growth in LCY	%	3	1		3	5
Currency effect	%	1	(4)		(3)	3
Acquired/divested business	%	2	1		1	4
Cash flow						
Cash generated by operations		24	17	41%	71	68
Cash provided by operating activities		25	15	67%	58	48
Cash flows from investing activities		(14)	(4)	250%	(27)	(19)
Cash flows from financing activities		50	(11)	355%	(29)	(65)
Free cash flow		21	12	75%	43	32
Balance sheets						
Total assets		685	599	14%	591	580
Equity		433	397	9%	408	365
Net interest-bearing debt (NIBD)		78	95	-18%	82	111
Key figures						
Operating margin	%	18	15		14	15
EBITDA margin	%	21	19		18	18
Equity ratio	%	63	66		69	63
Ratio of net debt to EBITDA ¹		1.2	1.6		1.2	1.5
Ratio of debt to EBITDA ¹		2.4	1.9		1.5	1.8
Current ratio		2.5	1.8		1.9	1.7
Return on equity ¹	%	9	10		10	10
Market						
Market value of equity		755	638		606	676
Number of shares (millions)		454	454		454	454
Price/earnings ratio, (P/E) ¹		21.3	17.4		15.8	20.0
Diluted EPS	US Cent	2.8	2.2		8.4	7.7
Diluted Cash EPS	US Cent	3.7	2.9		11.3	10.6

¹ Financial ratios for Q3 2013 and Q3 2012 are based on operations for the preceding 12 months.

HIGHLIGHTS

Sales

Sales amounted to USD 105 million compared to USD 99 million in the third quarter of 2012, corresponding to a 5% growth and 3% organic growth, both measured in local currency. Bracing and supports sales grew by 6% and 1% organic, both measured in local currency. Prosthetics grew by 5% and 4% organic, both measured in local currency. Compression therapy grew by 5%, organic and measured in local currency. Growth from acquired companies was 2% and currency effects accounted for 1%.

Sales by Segments and Regions

USD `000	Q3 2013	% of sales	Growth USD	Growth LCY	Organic growth LCY
Bracing & supports	54,850	53%	7%	6%	1%
Prosthetics	45,551	43%	6%	5%	4%
Compression therapy	4,105	4%	11%	5%	5%
Other	232		-4%	-4%	-4%
Total	104,738	100%	6%	5%	3%

USD `000	Q3 2013	% of sales	Growth USD	Growth LCY	Organic growth LCY
Americas	54,409	52%	1%	2%	1%
EMEA	44,721	43%	15%	12%	7%
Asia	5,608	5%	-8%	-6%	-6%
Total	104,738	100%	6%	5%	3%

Sales in Americas grew by 1%, organic local currency growth. Following a period of challenging times in the US the market is showing some positive signs, however uncertainty in the US market is expected to continue for the next couple of quarters. Direct bracing and supports sales continued to be good while growth in own distribution companies had negative impact, although less than in previous quarters. Prosthetic sales are on the right track. Direct sales are increasing, offsetting decline in sales to Össur's largest customer.

Sales in EMEA continued to be strong and grew by 7%, organic local currency growth. The performance was good across markets and all segments. Excellent growth in bionics continued as well as growth in new markets. Sales of compression therapy products grew by 5% in the quarter.

Sales in Asia declined by 6%, organic local currency growth. Performance in Asia was affected by timing of orders and overall slow sales in the quarter. In addition the comparable quarter in 2012 was very strong with 24% growth. Outlook for the full year remains positive.

Gross Profit

Gross profit amounted to USD 65 million and 62% of sales, compared to USD 62 million and 63% of sales in Q3'12. Efficiency improvements and savings from in-sourcing to Mexico are contributing to a stable gross profit margin.

Operating Expenses

Operating expenses as a ratio to sales were 45% compared to 47% in Q3'12. The decrease in operating expenses is in line with the cost reduction initiatives executed in the second quarter. Operations have been streamlined and headcount reduced, G&A operations simplified and selected cost reduction initiatives executed.

EBITDA

EBITDA amounted to USD 22 million and 21% of sales compared to USD 18 million and 19% of sales in Q3'12.

Financial Items, Tax and Net Profit

Net financial expenses amounted to USD 0.3 million compared to USD 1.5 million in Q3'12. Net exchange rate difference was positive by USD 0.8 million compared to USD 0.2 million in Q3'12. Interest expenses continue to decrease as a result of lower debt and low interest rates.

Negative impact from associated companies amounted to USD 1.2 million, mainly due to loss relating to the sale of two associated companies.

Income tax amounted to USD 4.4 million, corresponding to a 26% effective tax rate, compared to USD 3.8 million and 28% effective tax rate in Q3'12.

Net profit amounted to USD 13 million or 12% of sales, compared to USD 10 million and 10% of sales in Q3'12, increasing by 28% between years.

Earnings per share amounted to 2.8 US cents in the quarter compared to 2.2 US cents in Q3'12, increasing by 27%.

Cash Flow, Balance Sheets and Investments

USD '000	Q3 2013	% of sales	Q3 2012	% of sales
Cash generated by operations	24,227	23%	16,940	17%
Net cash provided by operating activities	25,138	24%	15,238	15%

Cash generated by operations was strong at USD 24 million or 23% of sales, compared to USD 17 million and 17% of sales in Q3'12, increasing by 43% between years. Strong profit from operations and a positive contribution from working capital had positive effect on cash flow in the quarter.

Capital investments in the quarter amounted to USD 3.9 million or 4% of sales, compared to USD 3.7 million and 4% of sales in Q3'12. Capital investments for the full year 2013 are expected to be at the higher end of the guided range of 2.5-3.5%.

The acquisitions completed in the third quarter generated USD 13 million of goodwill. It is estimated that 30% will be allocated to other intangible assets when purchase price allocation has been completed. These acquisitions are not expected to have a material impact on Össur's balance sheets.

Increase in the cash position on the balance sheets is due to financing of TeamOlmed which was completed on 1st of October.

General Update

Products

Sales of low active prosthetic solutions, such as the Balance line and Flex foot assure, introduced in previous quarters, have been well received and are progressing in line with plans.

Sales of bionic products for the quarter accounted for 14% of prosthetic sales, compared to 13% in Q3'12. Sales of POWER KNEE and SYMBIONIC LEG are particularly strong contributors in the quarter.

In total 11 new products were introduced during the quarter; 4 bracing and supports products, 5 prosthetic products and 2 compression therapy products. Product highlights in the quarter are:

VARI-FLEX w/UNITY™: A flex-foot with a vacuum suspension system which offers the same sensation and restrictions as a sleeve. Unity has unique capacity to help stabilizing soft tissue volume and at the same time maintaining more effective suspension.

ASPIRE LINE: A set of 3 products; a foot, a liner and components for emerging markets.

CTi®CUSTOM: A brace designed according to individual measurements to fit unique anatomies and meet individual needs.

Acquisitions during the quarter

During the quarter Össur closed two minor acquisitions strengthening the Company's position and sales channels. Full year 2013 sales for the acquired companies are expected to amount to around USD 30 million with an EBITDA margin of 10%. Sales for Q4 are expected to amount to around USD 8 million with an 18-20% EBITDA margin.

Acquisition of TeamOlmed closed

Össur has completed the acquisition of TeamOlmed and as of 1st of October TeamOlmed is included in the Össur Consolidation. TeamOlmed was acquired for SEK 310 million (USD 49 million). Sales for TeamOlmed for the full year 2013 are expected to amount to USD 52 million with an EBITDA margin of 12%. Sales for Q4 are expected to amount to USD 16 million with an 18-20% EBITDA margin. Sales and EBITDA are seasonally strong in Q4. The goodwill amounts to about USD 39 million, of which an estimated 15-20% are considered intangible assets that will be amortized over a period of approximately 5 years.

Favorable settlement of litigation against iWalk

In 2011 Össur filed a lawsuit against iWalk (now BiOM), claiming they were infringing on Össur's patents. The case was officially closed on the 17th of October 2013 when the district court of Massachusetts ordered a consent decree and permanent injunction against iWalk's original PowerFoot BiOM product. The permanent injunction prohibits iWalk of re-introducing the first version of their PowerFoot BiOM that was claimed to be infringing Össur's patents.

Focus on Safety at Össur manufacturing and warehouse locations

In the past years increased focus has been on process improvements, fire protection and employee safety in all Össur manufacturing and warehouse locations. This autumn two of Össur locations have received recognition regarding safety. Össur Europe was in 2nd place in a competition on the "safest warehouse" in the Netherlands and Össur Mexico was certified as a "safe company" which is awarded to companies that maintain highest standard of voluntary compliance with Mexican Safety Regulations and accident prevention. These recognitions are important for Össur and confirm the professional work environment that has been created.

Income Statements and Balance Sheets

Income Statements Q3 2013

USD '000	Q3 2013	% of sales	Q3 2012	% of sales	Change
Net sales	104,738	100.0%	98,517	100.0%	6.3%
Cost of goods sold	(39,349)	-37.6%	(36,830)	-37.4%	6.8%
Gross profit	65,389	62.4%	61,687	62.6%	6.0%
Other income	96	0.1%	42	0.0%	128.6%
Sales & marketing expenses	(30,967)	-29.6%	(29,353)	-29.8%	5.5%
Research & development expenses	(4,813)	-4.6%	(5,531)	-5.6%	-13.0%
General & administrative expenses	(11,147)	-10.6%	(11,818)	-12.0%	-5.7%
Profit from operations	18,558	17.7%	15,027	15.3%	23.5%
Net financial income (expenses)	(251)	0.2%	(1,513)	1.5%	-83.4%
Share in net profit of associates	(1,269)	-1.2%	131	0.1%	-1068.7%
Profit before tax	17,038	16.3%	13,645	13.9%	24.9%
Income tax	(4,357)	-4.2%	(3,758)	-3.8%	15.9%
Net profit for the period	12,681	12.1%	9,887	10.0%	28.3%
EBITDA	22,295	21.3%	18,242	18.5%	22.2%

Balance Sheets

USD '000	30 Sept. 2013	31 Dec. 2012	Change
Non-current assets	465,445	450,949	3%
Current assets	219,846	140,214	57%
Total assets	685,291	591,163	16%
Stockholders' equity	433,091	407,734	6%
Non-current liabilities	163,265	108,418	51%
Current liabilities	88,935	75,011	19%
Total equity and liabilities	685,291	591,163	16%
Current ratio*	2.5	1.9	
Equity ratio*	63%	69%	
Net interest bearing debt / EBITDA*	1.2	1.2	
Debt/EBITDA*	2.4	1.5	

*Financial ratios 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	307,802	100.0%	301,042	100.0%	2.2%
Cost of goods sold	(117,753)	-38.3%	(113,417)	-37.7%	3.8%
Gross profit	190,049	61.7%	187,625	62.3%	1.3%
Other income	339	0.1%	(173)	-0.1%	-296.0%
Sales & marketing expenses	(96,579)	-31.4%	(89,670)	-29.8%	7.7%
Research & development expenses	(16,044)	-5.2%	(16,234)	-5.4%	-1.2%
General & administrative expenses	(37,235)	-12.1%	(35,540)	-11.8%	4.8%
Profit from operations	40,530	13.2%	46,008	15.3%	-11.9%
Net financial income (expenses)	(3,128)	1.0%	(5,869)	-1.9%	-46.7%
Share in net profit of associates	(1,211)	-0.4%	182	0.1%	-765.4%
Profit before tax	36,191	11.8%	40,321	13.4%	-10.2%
Income tax	(9,367)	-3.0%	(10,629)	-3.5%	-11.9%
Net profit for the period	26,824	8.7%	29,692	9.9%	-9.7%
EBITDA	51,119	16.6%	55,572	18.5%	-8.0%
EBITDA adjusted*	56,083	18.2%	55,572	18.5%	0.9%

*Adjusted for one-time expenses

Further information:

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Financial Calendar 2013

Date

Q3 conference call	24 October 12:00 CET
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.