

ÖSSUR Q2 RESULTS 2014

Highlights Q2 2014

- Net profit increased by 106% and amounted to USD 17 million or 13% of sales, compared to USD 8 million and 8% of sales in Q2 2013.
- Sales amounted to USD 133 million compared to USD 106 million in Q2 2013, corresponding to 23% growth and 3% organic growth, both measured in local currency.
- Bracing and supports sales growth compared to Q2 2013 was 30% while organic sales growth declined by 1%, both measured in local currency.
- Prosthetics sales growth compared to Q2 2013 was 15% and 8% organic, both measured in local currency.
- Gross profit amounted to USD 85 million and 64% of sales, compared to USD 65 million and 61% of sales in Q2 2013.
- EBITDA amounted to USD 29 million and 22% of sales, compared to USD 15 million and 14% of sales in Q2 2013.
- Cash generated by operations amounted to USD 25 million and 19% of sales, compared to USD 11 million and 11% of sales in Q2 2013.

Revised Guidance for 2014

The company has decided to revise the guidance for 2014 due to strong growth in prosthetics sales, increased efficiency in operations and effects of two small acquisitions. The new guidance for the full year of 2014 is as follows:

- Total sales growth LCY in the range of 16-18% (previously 14-16%)
- Organic sales growth LCY in the range of 3-4% (previously 2-4%)
- EBITDA margin in the range of 19-20% of sales (previously 17-19%)
- Capital expenditures in the range of 2.5-3.5% of sales (unchanged)
- Effective tax rate around 26% (unchanged)

Jón Sigurðsson, President & CEO, comments:

"I'm pleased to present strong performance in the first half of 2014. We have successfully built on the good start of the year by delivering robust profits in this quarter. Our cash flow from operations also continues to be solid. Sales in EMEA continues to be good and the performance of our recently acquired companies is in line with our expectations. Prosthetics sales growth in the quarter is excellent, primarily driven by bionic products, yet again confirming the success of the bionic platform we have built."

Conference Call

Össur will host a conference call on Friday 25 July 2014 at 12:00 CET/ 10:00 GMT/ 6:00 EDT.
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: +354 800 8660

Financial Highlights

USD M	Q2 2014	Q2 2013	2013	2012	2011	2010	
Income Statements							
Net sales	133	106	436	399	398	359	
Gross profit	85	65	270	248	246	223	
Operating expenses (excl. other income)	61	53	210	191	189	164	
Profit from operations	25	12	60	57	59	60	
Net profit	17	8	41	38	35	35	
EBITDA	29	15	75	70	73	74	
Sales growth							
Sales growth USD	%	25	3	9	0	11	9
Growth breakdown:							
Organic growth in LCY	%	3	3	2	3	5	6
Currency effect	%	2	0	1	(3)	3	(1)
Acquired/divested business	%	20	0	6	1	4	4
Balance Sheets							
Total assets		712	594	706	591	580	607
Equity		466	410	448	408	365	344
Net interest-bearing debt (NIBD)		98	85	108	82	111	133
Cash Flows							
Cash generated by operations		25	11	73	71	68	64
Cash provided by operating activities		22	11	66	58	48	40
Cash flows from investing activities		(5)	(5)	(81)	(27)	(19)	(19)
Cash flows from financing activities		(6)	(7)	33	(29)	(65)	(46)
Free cash flow		17	6	49	43	32	33
Key ratios							
Operating margin	%	19	11	14	14	15	17
EBITDA margin	%	22	14	17	18	18	21
Equity ratio	%	65	69	63	69	63	57
Ratio of net debt to EBITDA*		1.0	1.4	1.4	1.2	1.5	1.8
Ratio of debt to EBITDA*		1.5	1.7	2.0	1.5	1.8	2.5
Current ratio		2.6	1.9	1.9	1.9	1.7	1.9
Return on equity (ROE)*	%	13	8	10	10	10	10
Market							
Market value of equity		1,130	600	880	606	600	778
Number of shares	Millions	454	454	454	454	454	454
Price/earnings ratio, (P/E)*		20.6	18.0	21.7	15.8	20.0	22.3
Diluted EPS*	US cent	12.3	7.2	9.1	8.4	7.7	7.8
Diluted cash EPS*	US cent	16.1	10.2	12.5	11.3	10.6	10.9

*Financial ratios for Q2 2014 and Q2 2013 are based on operations for the preceding 12 months.

Management's Report

Sales Performance

Sales amounted to USD 133 million compared to USD 106 million in Q2 2013, corresponding to 23% growth and 3% organic growth, both measured in local currency. Bracing and supports sales grew by 30% but declined by 1% organic compared to Q2 2013, both measured in local currency. Prosthetics sales grew by 15% and 8% organic compared to Q2 2013, both measured in local currency.

Sales by Segments and Regions in Q2 2014

USD '000	Q2 2014	% of sales	Growth	Growth LCY	Organic growth LCY
Bracing and supports	77,952	59%	32%	30%	-1%
Prosthetics	54,391	41%	17%	15%	8%
Other	302	0%	72%	60%	5%
Total	132,645	100%	25%	23%	3%

USD '000	Q2 2014	% of sales	Growth	Growth LCY	Organic growth LCY
EMEA	72,131	54%	51%	46%	3%
Americas	53,072	40%	2%	2%	2%
Asia	7,442	6%	22%	23%	10%
Total	132,645	100%	25%	23%	3%

Sales in EMEA grew by 46% and 3% organic compared to Q2 2013, both measured in local currency. The high total sales growth was driven by recently acquired companies in Scandinavia which were performing in line with expectations. Sales performance of bracing and supports was moderate in the quarter. Prosthetics sales continued to be good across all major markets and product lines.

Sales in Americas grew 2% and 2% organic compared to Q2 2013, both measured in local currency. Sales of bracing and supports declined in the quarter. Sales performance was affected by more focus on high end products and increased profitability along with challenging market conditions. Prosthetics sales were strong in the quarter, driven by growth in all major product lines.

Sales in Asia grew by 23% and 10% organic compared to Q2 2013, both measured in local currency. Sales performance was good in the quarter. Two small acquisitions have been completed in the year, one in Q1 and the other in the very beginning of Q3, which further strengthen the sales platform.

Sales of bionic products in the quarter accounted for 16% of prosthetic sales, compared to 14% in Q2 2013.

Gross Profit

Gross profit amounted to USD 85 million and 64% of sales, compared to USD 65 million and 61% of sales in Q2 2013. The main factors contributing to higher gross profit margin are; improved efficiency in manufacturing, positive impact from strong prosthetic sales growth and favorable currency fluctuations when comparing to Q2 2013.

EBITDA

EBITDA amounted to USD 29 million and 22% of sales compared to USD 15 million and 14% of sales in Q2 2013, increasing by USD 14 million between quarters.

The increase in EBITDA and EBITDA margin was largely a result of improved gross profit margin and more efficient operations. Currency fluctuations do not have any material impact on the reported EBITDA margin when comparing to Q2 2013.

The acquired companies in Scandinavia have more seasonality in their operations. Therefore, their contribution in terms of profitability varies between quarters, with Q2 and Q4 being the strongest.

The profitability of Q2 2013 was significantly affected by USD 5 million one-time expenses which should be taken into consideration when comparing to Q2 2014 numbers.

Financial Items, Tax and Net Profit

Income tax amounted to USD 6 million, corresponding to a 25% effective tax rate, compared to USD 3 million and 26% effective tax rate in Q2 2013.

Net profit increased by 106% and amounted to USD 17 million or 13% of sales, compared to USD 8 million and 8% of sales in Q2 2013.

As previously announced, on 2 April 2014, Össur amended and extended the Company's long term financing by 3 years, or until 2019, with its banking partners ING, Nordea and SEB. The current average interest terms are LIBOR/EURIBOR + 105bps, changing in line with financial leverage.

Interest expenses amounted to USD 1.4 million, increasing by USD 0.2 million compared to Q2 2013. Exchange rate difference was negative by USD 0.1 million compared to positive USD 0.3 million in Q2 2013.

Earnings per share amounted to 3.8 US cents, compared to 1.9 US cents in Q2 2013, increasing by 106%.

Cash Flow, Balance Sheets and Investments

USD '000	Q2 2014	% of sales	Q2 2013	% of sales
Cash generated by operations	24,569	19%	11,162	11%
Net cash provided by operating activities	21,892	17%	10,835	10%

Cash generated by operations amounted to USD 25 million or 19% of sales, compared to USD 11 million and 11% of sales in Q2 2013. The strong cash flow was driven by good cash flow from operations and seasonal investment in net working capital.

Capital expenditures amounted to USD 5.1 million or 3.8% of sales, compared to USD 4.8 million and 4.5% of sales in Q2 2013. Capital expenditures in the first half of 2014 amounted to USD 7.8 million or 3.1% of sales.

General Update

Products

In Q2 2014, 9 new products and product upgrades were introduced to the market; 5 bracing and supports products and 4 prosthetic products.

Examples of products launched in the quarter are the Rebound Diabetic Walker® in the bracing and supports segment and Seal-in® X TF liner in the prosthetics segment.

The Rebound Diabetic Walker® is designed for effective treatment of plantar foot diabetic ulcers and enables easy access and re-fitting during wound care, while improving the patient's mobility during the healing process.

The Seal-in® X TF liner features the latest advances in Seal-in technology, with a separate and moveable seal to suit individuals with above knee amputations.

Patent Litigation

As previously communicated, a competitor filed a lawsuit in the US against Össur in Q2 2013, claiming that certain Össur products infringe one of its patents. Early in July 2014, Össur and the competitor entered into a confidential settlement and cross-license agreement that fully resolved the lawsuit.

Income Statements and Balance Sheets

Income Statements

USD '000	Q2 2014	% of sales	Q2 2013	% of sales	Change
Net sales	132,645	100%	105,963	100%	25.2%
Cost of goods sold	(47,586)	-36%	(41,348)	-39%	15.1%
Gross profit	85,059	64.1%	64,615	61.0%	31.6%
Other income	75	0%	58	0%	29.3%
Sales and marketing expenses	(43,446)	-33%	(33,802)	-32%	28.5%
Research and development expenses	(4,924)	-4%	(5,296)	-5%	-7.0%
General and administrative expenses	(12,195)	-9%	(13,657)	-13%	-10.7%
Profit from operations	24,569	18.5%	11,918	11.2%	106.2%
Financial income	21	0%	116	0%	-81.9%
Financial expenses	(1,353)	-1%	(1,113)	-1%	21.6%
Net exchange rate difference	(147)	0%	347	0%	-142.4%
Share in net profit of associated companies	3	0%	(14)	0%	-121.4%
Profit before tax	23,093	17.4%	11,254	10.6%	105.2%
Income tax	(5,846)	-4%	(2,889)	-3%	102.4%
Net profit	17,247	13.0%	8,365	7.9%	106.2%
EBITDA	29,085	21.9%	15,301	14.4%	90.1%
EBITDA adjusted**	29,085	21.9%	20,265	19.1%	43.5%

**Adjusted for USD 5 million one-time expenses in Q2 2013.

Balance Sheets

USD '000	30.6.2014	31.12.2013	Change
Fixed assets	511,651	512,477	-0.2%
Current assets	200,364	193,771	3.4%
Total assets	712,015	706,248	0.8%
Stockholders' equity	465,685	448,037	3.9%
Long-term liabilities	168,673	156,688	7.6%
Current liabilities	77,657	101,523	-23.5%
Total equity and liabilities	712,015	706,248	0.8%
Current ratio*	2.6	1.9	
Equity ratio*	65%	63%	
Net interest bearing debt / EBITDA*	1.0	1.4	
Debt/EBITDA*	1.5	2.0	

*Financial ratios for Q2 2014 and Q2 2013 are based on operations for the preceding 12 months.

Financial Calendar

	Date
Goldman Sachs Healthcare Conference in London	3 September 2014
InvestorDagen (Investor day) in Copenhagen	17 September 2014
Q3 Results	23 October 2014
Q4 Results	5 February 2015
2015 Annual General Meeting	12 March 2015

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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.