

Company announcement no 2021-14

Interim Management Statement covering the period year-to-date

2 November 2021

**EBIT outlook upgraded to DKK 3,300-3,500 million before one-offs (previously DKK 3,150-3,450 million)
Higher-than-expected EBIT driven by strong performance in Hearing Aids, Hearing Care and Diagnostics
We now expect to realise profit of around DKK 160 million from two additional one-off items**

In the following, all commentary is based on adjusted figures *before* one-offs, unless otherwise stated.

- In H2, the **Group** has so far generated low double-digit organic revenue growth in line with our most recent expectations. Acquisitions have to a minor degree contributed positively to growth, while exchange rate effects have been more or less neutral. As the same period in 2019 was severely impacted by the IT incident, 2019 no longer serves as a relevant comparative base, so we only make comparisons to 2020.
- **Hearing Healthcare** has seen very strong performance so far in H2 with double-digit organic growth. Hearing Care, in particular, has continued to benefit from the positive impact of the hearing healthcare reform in France and has also seen growth in most other markets. In Hearing Aids, our Oticon More and Philips HearLink flagship products are maintaining strong momentum, delivering further market share gains, particularly in the important US market. Diagnostics has continued to perform very well and to gain market share thanks to broad-based growth. Revenue in Hearing Implants has been impacted by the voluntary field corrective action announced by our cochlear implants business on 14 October, which has led to a temporary halt to sales of new cochlear implants. Compared to revenue generated in the months prior to the field corrective action, revenue in Hearing Implants (i.e. CI and BAHS) is currently at a run rate of around 65%.
- In H2, **Communications** has so far seen negative growth in line with our most recent expectations, which reflects low exposure to the relatively high-growth US market and the ongoing establishment of the EPOS brand. For H2 as a whole, we still expect revenue to decline by more than 10% compared to H1, but we have seen an increase in the intake of new orders and in revenue in recent months.
- In H2, the Group's **gross margin** has so far improved compared to the gross margin of 74.5% realised in H1. The improvement is driven by Hearing Healthcare, which has seen an improved gross margin and has also accounted for a larger share of total revenue for the Group than in H1. The gross margin for Communications has declined compared to H1 due to the slowdown in revenue. Both segments have seen additional costs related to current supply chain dynamics.
- In local currencies, **OPEX** has so far in H2 seen growth similar to the 18% realised in H1, which reflects coronavirus-related cost savings in the comparative period, including government support schemes. We consider our cost base largely normalised with no material element of temporary cost savings, and we still expect to see mid-single digit growth in OPEX in H2 relative to H1.
- In H2, the Group's **profitability** has so far remained very strong and exceeded our expectations. This development is driven by Hearing Healthcare, which has seen better-than-expected profitability, as strong momentum in Hearing Aids, Hearing Care and Diagnostics has more than offset the negative impact of the halt of sales of new cochlear implants. As expected, Communications has seen negative profitability.
- **Cash flows** have remained strong so far in H2 thanks to the profit generated, and we have bought back shares worth DKK 958 million. Total share buy-backs year-to-date thus amount to DKK 2,771 million.

Outlook for 2021

Due to coronavirus, our outlook (summarised below) is still subject to greater uncertainty than usually. However, supported by the release of some pent-up demand, we still expect to see further gradual recovery in the global hearing healthcare market for the remainder of 2021, and we still expect growth for 2021 as a whole to be close to normal levels of 4-6% per year in developed markets, except in the large government channels, Veterans Affairs (VA) and the NHS. We still believe that the normalisation in emerging markets is likely to go beyond 2021. For Communications, we assume that the addressable market will grow at least in line with its structural trend of around 12%, despite strong comparative figures in 2020.

The current supply chain situation remains highly dynamic and has resulted in additional costs related to the sourcing of components and to freight. Such additional costs have increased in H2 compared to H1, and we assume in our outlook that this trend will continue for the remainder of the year. Due to our mitigating actions, we still expect no material impact on our sales.

Metric	Outlook for 2021
Organic growth	26-30%, with revenue in Communications declining by more than 10% in H2 relative to H1.
Acquisitive growth	1% based on revenue from acquisitions completed as of 1 November 2021.
FX growth	-1% based on exchange rates as of 1 November 2021 and including the impact of exchange rate hedging.
EBIT	DKK 3,300-3,500 million (previously DKK 3,150-3,450 million) before one-offs, including a negative EBIT in Communications of DKK 50-100 million in H2.
One-offs	Net positive impact on the Group's reported EBIT of DKK 60-90 million
Effective tax rate	Around 23%.
Gearing	Gearing multiple at the end of 2021 in line with our medium- to long-term target of 2.0-2.5 (NIBD relative to EBITDA).
Share buy-backs	More than DKK 3.0 billion.

Based on results so far in H2 and on our expectations for the remainder of the year, which include the negative impact of the halt of sales of new cochlear implants, we maintain our outlook for Group organic growth in 2021 of 26-30%. Despite the impact of additional component and freight costs, we increase our outlook for EBIT to DKK 3,300-3,500 million before one-offs (previously DKK 3,150-3,450 million) driven by strong profitability in Hearing Healthcare.

As previously announced, we expect to realise one-off costs of DKK 70-100 million in relation to the voluntary field corrective action by our cochlear implants business. We now also expect to realise two one-off gains in H2:

- We now expect to realise a one-off gain of DKK 100 million due to the divestment of FrontRow Calypso LLC, a 75%-owned subsidiary focused specifically on audio systems for classrooms and schools, to Boxlight Corporation. Upon closing, the transaction will be effective as of 31 October 2021.
- We now expect to reverse the rest of the provision for additional bad debt recognised in H1 2020, which will result in a net gain of DKK 60 million that is one-off by nature. Originally, the provision amounted to DKK 150 million, but DKK 40 million has been realised and DKK 50 million was reversed in H2 2020.

We thus expect one-off items to have an aggregate net positive impact of DKK 60-90 million on the Group's reported EBIT in 2021.

"As expected, the positive development that we saw in Hearing Healthcare in the first half-year has continued into the second half and even at such pace that we increase our expectations of profit for the year. Our Hearing Care business area continues to grow, and we have welcomed many new and existing users into our clinics where we offer important personalised counselling and care. To our great satisfaction, Diagnostics continues to see broadly based growth, and our flagship hearing aids are doing extremely well, with particularly Oticon More driving market share gains. Going forward, Hearing Implants will be negatively impacted after our voluntary field corrective action in cochlear implants, but we are happy to see our employees acting with great resolve to support patients and customers. All in all, I have great confidence in the Demant Group and our ability to exit 2021 on a high note," says Søren Nielsen, President & CEO of Demant.

Demant will host a conference call on 2 November 2021 at 14:00 CEST. To attend this call, please use one of the following dial-ins: +45 3544 5577 (DK), +44 3333 000 804 (UK) or +1 6319 131 422 (US). The pin code is 46691538#. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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Hearing Healthcare

Market trends

Overall, the hearing healthcare market, which comprises the markets for hearing aids, hearing implants and diagnostic instruments and services, has year-to-date recovered well and at least in line with expectations, albeit with large differences between the three market segments and between regions.

Hearing aid market

Based on available market statistics, covering slightly less than two-thirds of the market, and on our own assumptions, we estimate that the global hearing aid market saw unit growth of around 14% in Q3 or around 33% in the first nine months of the year compared to 2020. Compared to 2019, we estimate that unit growth was around 10% in Q3 or around 8% in the first nine months of the year. This includes both government channels and emerging markets where growth, as expected, has lagged behind growth in the commercial channels in developed markets. Looking only at the latter – and even when excluding France, which has seen extraordinary growth due to the hearing healthcare reform – we estimate that growth in Q3 compared to Q3 2019 was at least in line with the structural level of 4-6% per year. This includes large differences between markets and between channels of which growth in some is below normal and in others above normal due to support from pent-up demand.

Estimated hearing aid market unit growth by region

Region	2021 vs 2020			
	Q1	Q2	Q3	Total
Europe	10%	130%	12%	36%
North America	9%	182%	18%	43%
<i>Hereof US (commercial)</i>	12%	156%	17%	41%
<i>Hereof US (VA)</i>	-7%	522%	52%	66%
Rest of world	0%	63%	11%	20%
Global	6%	115%	14%	33%

Region	2021 vs 2019			
	Q1	Q2	Q3	Total
Europe	-1%	15%	13%	9%
North America	9%	16%	13%	13%
<i>Hereof US (commercial)</i>	12%	22%	17%	17%
<i>Hereof US (VA)</i>	-7%	3%	-1%	-1%
Rest of world	-6%	7%	5%	2%
Global	0%	13%	10%	8%

Compared to the same period in 2019, growth in Europe in Q3 was first and foremost driven by extraordinary growth in France due to the hearing healthcare reform, which significantly boosted unit sales of lower-priced products. In the UK, market growth was flat, as very strong growth in the commercial market was offset by negative growth in sales to the NHS. However, sales to the NHS recovered strongly in Q3 compared to the material negative growth in recent quarters. Compared to 2019, growth in Germany recovered in Q3 after having been negative in Q1 and Q2.

Compared to 2019, unit growth in North America saw a small sequential decline in Q3, which can be attributed to both the US commercial market and VA, but with some release of pent-up demand, sales in the commercial part of the market remained well above the normal level despite regional flare-ups of coronavirus infections. Growth in Canada accelerated relative to Q2 and was more or less in line with the normal level.

Looking beyond North America and Europe, we estimate that unit growth in Australia was solid in Q3 compared to 2019 despite lockdowns in the quarter, and we estimate that Japan saw negative growth, even though it improved in Q3 compared to Q2. We estimate that growth rates in China and South Korea were strong compared to 2019, whereas other emerging markets remained severely impacted by coronavirus.

In mid-October, the US Food and Drug Administration (FDA) issued a long-awaited *proposed rule* to establish a new over-the-counter (OTC) category of hearing aids. The rule has been published for public comment and will

subsequently be finalised by the FDA, but once effective, adults aged 18 and older with perceived mild to moderate hearing loss will be able to purchase OTC hearing aids online or at retail outlets without a medical exam or fitting by a hearing care professional. We find the proposed rule helpful for providing clarity around technical specifications and requirements, and we welcome the removal of uncertainties that have persisted for an extended period. However, the content of the proposed rule does not change our fundamental belief in the importance of a combined delivery of personal counselling, individual fitting, life-long service and highly advanced technology.

Hearing implants market

In the cochlear implants (CI) market, activity levels in our core markets in Europe and in a number of emerging markets remained low in Q3, although with some improvement compared to previous quarters. The market for bone anchored hearing systems (BAHS) has recovered at a faster pace than the CI market but has yet to fully normalise.

Diagnostics market

Compared with other markets for hearing healthcare products, the market for diagnostic instruments and services has proved very resilient throughout the pandemic. We estimate that compared to the same period in 2019, growth in Q3 was above the estimated structural growth rate of 3-5% per year.

Hearing Aids

In H2, Hearing Aids has so far seen double-digit organic growth, benefitting from both continued market recovery in a number of important geographies and channels and from the continued success of flagship hearing aids in all our brands (Oticon, Philips HearLink, Bernafon and Sonic). Our portfolio of flagship products, which was recently expanded with non-rechargeable miniRITE form factors, has continued to resonate very well with independent hearing care professionals and has supported market share gains. In particular, sales in the important US market have continued to see very strong growth driven by the success of Oticon More.

In H2, growth has so far been driven entirely by unit growth, not least due to the recovery relative to last year of the large government channels, the NHS and VA, and to the extraordinary growth in France. The ASP development has been more or less flat, as a positive ASP impact of our strong performance in the US has been offset by higher sales of low-priced products to large customers, including the NHS.

North America has been the key growth driver so far in H2 thanks to continued success in the US, whereas growth in Canada has been more modest. In the US, growth has been broadly based, and even though sales to independent hearing care professionals have been the biggest contributor, we have also seen growth in sales to chains driven by Philips HearLink and to VA. In the latter channel, Oticon More has since its introduction in May helped us expand our unit market share by 4.8 percentage points to 14.7% in September.

In Europe, growth in H2 has so far been solid, with the UK as the biggest contributor thanks to strong recovery in sales to the NHS after several quarters of subdued sales. Also, France contributed significantly to growth thanks to the positive impact of the hearing healthcare reform, whereas growth in Germany remained impacted by a slower recovery as well as by relatively high comparative figures for 2020.

Sales in our Pacific region have so far in H2 seen a significant negative impact of new lockdowns related to coronavirus, which have, however, now been eased. In Asia, sales in Japan have been impacted by the relatively slow market recovery, whereas South Korea and Turkey have delivered high growth rates. China has seen modest growth.

Hearing Care

Hearing Care has continued its strong performance so far in H2, delivering organic growth in the low double digits in addition to growth from acquisitions made predominantly in Europe and in North America. Generally speaking, the gradual recovery has continued in most markets, and we have begun to see a more normal mix of new and existing users. Growth has been driven entirely by unit growth, whereas ASP growth has been flat.

Europe has been the biggest growth contributor so far in H2 thanks to the significant tailwind in France from the reform, which has lasted longer than initially expected. We have also seen very strong performances in the UK and in Poland.

North America has also delivered strong organic growth so far in H2 driven mostly by the US, while organic growth in Canada has been more modest. Growth in the region has been supported by acquisitions, primarily in Canada.

In Australia, revenue in H2 has so far been negatively impacted by the lockdowns and tighter restrictions, but we expect restrictions to be eased, which would support growth.

Hearing Implants

In H2, Hearing Implants has so far seen negative growth – initially due to the slow market recovery but more recently also due to the voluntary field corrective action announced by our cochlear implants business on 14 October. The latter entails the recall of non-implanted Neuro Zti implants and the temporary halt of sales of new cochlear implants due to an issue with loss of hermiticity in a small number of implants, causing them to shut down and stop working.

The temporary halt is likely to extend into 2022, pending a resolution to the issue, but the exact duration of such resolution is still unclear. Until sales recommence, Hearing Implants revenue will only comprise sales of external cochlear implant sound processors to existing users and sales of bone anchored hearing systems. In the months prior to the halt, sales of such products, which are unaffected by the halt, accounted for around 65% of total revenue for Hearing Implants. We expect to incur certain one-off costs related to the issue, which are described above.

Our bone anchored hearing systems business is unaffected by the headwinds experienced by the cochlear implants business but has yet to fully normalise post-coronavirus. In the coming periods, growth will be supported by our recent launch of a new sound processor, the Ponto 5 Mini, which takes the open sound experience to a whole new level by eliminating audible feedback and allows the use of RemoteCare for convenient online appointments. Additionally, we have introduced a next-generation surgical procedure, MONO, the world's first single-drill procedure, which will further enhance clinical efficiency.

Diagnostics

As was the case in H1, Diagnostics has continued to deliver strong performance in H2 with double-digit organic growth broadly based in all regions and with a strong order intake, supporting our order book. We have seen positive developments in most markets, including the US and Europe, driven by France and the UK, and in Australia.

In terms of product categories, we have seen the highest growth rates in instruments for hearing aid fitting and for balance testing.

Communications

Market trends

After a very strong start to the year, we estimate that growth in the market for enterprise and gaming headsets decelerated from around mid-March due to both a significantly higher comparative base and a softening of the extraordinary demand seen in the wake of the working-from-home trend. We estimate that the slowdown was more pronounced in Europe than in the US and Asia, partly due to uncertainties as to when and how staff will return to corporate offices.

However, we have recently seen a gradual improvement of the market in line with our expectations, as the market continues to move towards wireless products and equipment for meeting rooms, including video equipment. Overall, we still consider the fundamental growth drivers of the market to be fully intact, and when including enterprise audio, gaming audio and video collaboration, we expect the structural market growth to be around 12%.

Communications (EPOS)

In line with our most recent expectations, our Communications business, which operates under the EPOS brand, has had a very soft start to H2 with negative organic growth so far. The negative growth has been realised due to a combination of low exposure to the US market, which has seen higher growth than Europe, and the ongoing establishment of the EPOS brand. Furthermore, it is still early days as far as our entry into video solutions for enterprises is concerned, a segment which we believe is a key growth pocket in the market.

The negative growth so far in H2 has been most pronounced in Enterprise Solutions, but Gaming has also seen negative growth. However, as expected, we have seen an increase in the intake of new orders and in revenue in recent months.