



Demant

Estimated financial impact of IT infrastructure incident

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IT infrastructure incident

The Demant Group experienced a critical incident on our internal IT infrastructure on 3 September 2019. The Group's IT infrastructure was hit by cyber-crime.

- Our quick response to the issue by shutting down IT systems across multiple sites and business units contained and limited the issue
- In cooperation with our global IT partners, we initiated a thorough and gradual recovery to recover in a safe and structured manner
- The incident has impacted key business processes throughout the value chain, including R&D, production and distribution
- All business areas impacted with different magnitude and regional differences
- Data back-up was overall intact, enabling recovery in a structured and efficient way while further improving security in the Group's IT infrastructure

Current status on IT infrastructure incident

We are now operational in a substantial number of our sites and business areas

- Recovery and reactivation of systems, applications and servers have continued across regions and business areas
- We expect to have the remaining business-critical systems, applications and servers recovered within the next two or three weeks
- Distribution facilities continue to run at full capacity – production lines in Poland and production in Mexico are quickly approaching full capacity
- Continued ramp-up to accommodate back-log built up since the incident, to rebuild necessary inventories and to reduce turnaround times of repair and custom-made hearing aids
- Amplifier production site in Denmark and cochlear implants production site in France still in the recovery and ramp-up phase

Impact on Demant Group business areas

Approximately half of the estimated lost sales relates to hearing aid wholesale



- Despite our efforts to operate the business in the best possible way, our immediate focus on supporting existing customers to prevent them from being impacted by the incident has impacted sales
- Incident has prevented the execution of ambitious growth activities in some of the most important months of the year – particularly in the US, our biggest market
- Organic growth rate throughout the rest of the year likely impacted – included in the current estimate of lost sales
- The main impact on our wholesale business relates to 2019 and currently we cannot assess if there will also be an effect of the incident beyond 2019

Close to half of estimated lost sales relates to retail



- A significant number of clinics have been unable to service end-users in a regular fashion
- Biggest impact estimated to be in Australia, the US and Canada followed by the UK
 - In the US and Canada, most of the estimated impact has occurred
 - In Australia and the UK, we are still in a ramp-up mode
- The vast majority of our clinics are now fully operational
- However, our ability to generate new appointments during September has been affected – some lost sales in the next one or two months expected (included in the current estimate)

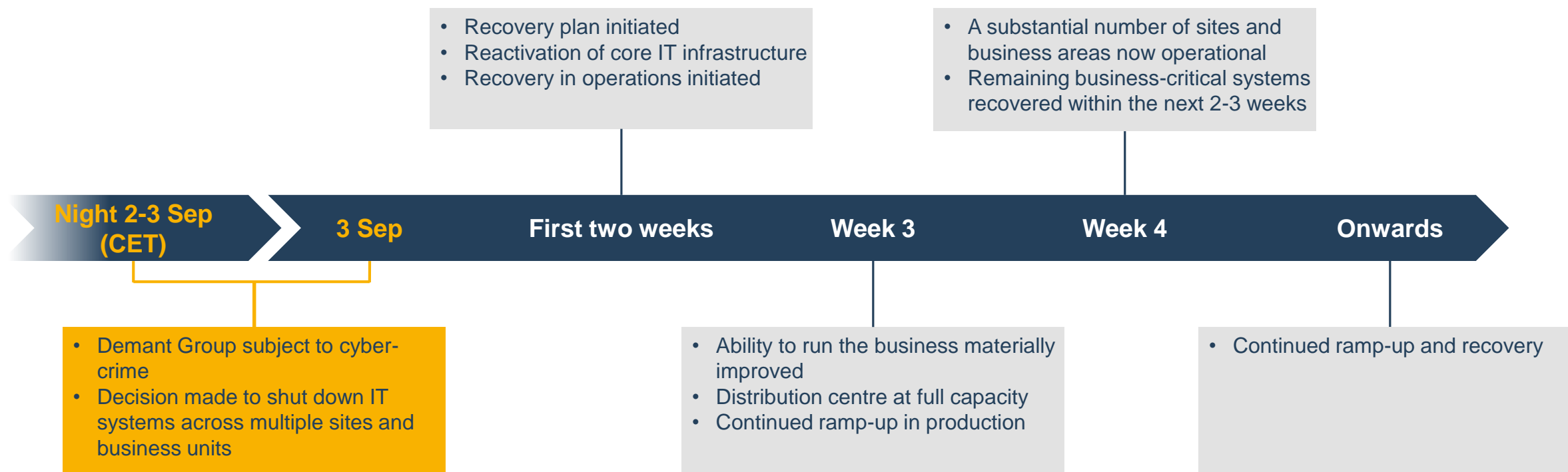
IT incident impacting all business areas

Hearing Implants, Diagnostics and Personal Communication have also been impacted by the incident

- Relatively smaller overall Group impact due to the nature and size of these businesses
- Cochlear implants production site in France still in the recovery and ramp-up phase, but sufficient stock available
- Diagnostics running very close to normal capacity, but we will keep prioritising certain products in the coming weeks
- Limited impact on Sennheiser Communications and joint venture separation continues according to plan



Approximate timeline of IT infrastructure incident



Estimated financial impact of IT incident reflected in outlook

- Current preliminary assessment indicates a total negative financial impact on EBIT in 2019 in the range of DKK 550-650 million, which includes lost sales and weakening of growth momentum of DKK 600-700 million, direct costs of DKK 50 million incurred and the deduction of expected insurance coverage of approx. DKK 100 million
- The estimated lost revenue of DKK 600-700 million, effectively has 1:1 impact on EBIT due to fixed cost base
- **Outlook for reported operating profit (EBIT) for 2019 updated to DKK 2,000-2,300 million (previously DKK 2,650-2,850 million)**
- Assessment of financial impact remains uncertain and is based on the recovery process continuing according to plans
- Impact on organic growth rates, cash flow, gearing ratios etc. cannot be estimated at this point in time. Update expected in connection with interim management statement on 7 November
- Share buy-backs temporarily suspended. Shares worth DKK 580 million bought back in 2019

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Q&A