

Company announcement no 2022-11

Demant completes full acquisition of ShengWang

14 June 2022

Today, Demant announces the acquisition of the remaining 80% of the shares in ShengWang, thereby taking full ownership of the leading network of hearing aid clinics in China. This follows the 20% minority investment announced on 4 March 2022 and represents a significant strategic transaction in Demant's continuous journey within hearing healthcare. Including the consideration paid for the initial 20% minority investment, Demant will pay RMB 1,750 million (DKK 1,855 million¹) on a cash- and debt-free basis for 100% ownership of which RMB 1,450 million (DKK 1,537 million¹) will have cash flow effect in H2 2022, and the remaining RMB 300 million (DKK 318 million¹) will be payable over the coming three years. The acquisition will be financed through existing cash reserves and already established credit facilities.

Leading position in a fast-growing market

With its retail market share in China of around 5% in 2021, ShengWang is the leading hearing care network with around 500 hearing aid clinics in the country. The total market for hearing aids in China was approx. 1 million units in 2021, and we estimate that the market will see low double-digit annual growth rates over the next decade driven by an ageing population and by an increased penetration rate for hearing care solutions. Demant intends to leverage ShengWang as a platform for significant growth and market share gains in China over the coming years, both organically by establishing new clinics and through acquisitions.

"I am very excited to welcome more than 1,300 new employees to the Demant Group with the acquisition of ShengWang. China is on a clear path to becoming one of the two biggest hearing aid markets in the world in this decade, and ShengWang is already a strong and trusted business partner for Demant and has been so for several years. I look forward to continuing our strong collaboration to provide even better hearing healthcare to more Chinese users in the future," says Søren Nielsen, President & CEO of Demant.

Financial impact

In its latest financial year ending 31 December 2021, ShengWang reported revenue of RMB 309 million (DKK 295 million²) and a slightly positive EBIT margin³. Revenue and EBIT were, however, significantly impacted by the coronavirus pandemic and also by the establishment of many new clinics in recent years, which are typically less profitable than more mature clinics. Due to coronavirus and local lockdowns that have continued to significantly impact the Chinese hearing aid market in H1 2022, ShengWang has seen material negative growth in H1 and EBIT has been negative, but the long-term growth prospects for the business remain very strong.

Based on the recent easing of restrictions and assuming that we will see no material lockdowns in the remainder of the year, growth is expected to return to positive territory in H2 2022. Subject to customary closing conditions, the transaction is expected to close at the beginning of H2 2022 and to add slightly less than 1 percentage point to the Group's revenue growth in 2022. The impact on the Group's EBIT in 2022 is expected to be roughly neutral, and we still expect to buy back shares worth more than DKK 2.5 billion. As a result of the transaction, we expect the Group's gearing (NIBD/EBITDA) at the end of 2022 to slightly exceed our medium- to long-term target of 2.0 to 2.5.

In a fully normalised market, we expect ShengWang's revenue runrate to be in the region of RMB 400 million. Over the coming years, ShengWang is expected to deliver above-market growth rates and to gradually increase its EBIT margin as the network expands and matures.

¹ Based on RMB/DKK exchange rate of 1.06.

² Based on RMB/DKK exchange rate of 0.97.

³ Unaudited financial data.

About Demant

Demant is a world-leading hearing healthcare and technology Group built on a heritage of care, health and innovation since 1904. The Group offers innovative technologies, solutions and know-how to help improve people's health and hearing. Headquartered in Denmark, the Group employs approx. 18,100 people globally and is present with solutions in 130 countries where we create life-changing hearing health. William Demant Foundation is the majority shareholder in Demant A/S, which is listed on Nasdaq Copenhagen as a blue-chip stock.

About ShengWang

ShengWang was founded in 1998 and has for several years – and particularly following the introduction of Philips Hearing Solutions – been a valued partner of the Demant Group thanks to a strong relationship with our Hearing Aids business area. Today, ShengWang has more than 1,300 employees and runs the leading network of hearing aid clinics in China.

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