

Company announcement no 2022-12

Interim Report 2022

16 August 2022

Group revenue growth of 9% in H1 (4% organic) due to strong performances by Hearing Aids and Diagnostics
Market share gains in Hearing Aids offset lower-than-expected market growth in Q2
EBIT of DKK 1,588 million in H1, slightly below expectations and corresponding to an EBIT margin of 16.7%
Outlook for 2022 adjusted to reflect continuation of weaker-than-expected market growth into H2:
Organic growth of 4-6% (prev. 5-9%) and EBIT of DKK 3,500-3,800 million (prev. DKK 3,600-3,900 million)

"In the first half of 2022, our Hearing Healthcare business segment delivered solid growth – in spite of strong comparative figures – thanks to double-digit revenue growth in our Hearing Aids and Diagnostics business areas. Both businesses gained market shares in a hearing healthcare market that grew less than anticipated. The strong performances did not fully offset lower-than-expected growth in Hearing Care, and with negative growth in our business for premium audio technology, EPOS, the Group's total performance ended slightly below expectations. Looking ahead to the second half-year for the Group, we expect global uncertainties to continue to cause a dynamic business environment, and we now expect our markets to grow less than originally anticipated. We thus adjust our outlook for the full year for the Group, although we still expect growth to accelerate compared to the first half-year due to improving market conditions, most importantly in the US market, and to continued market share gains," says Søren Nielsen, President & CEO of Demant.

The Group reports revenue and growth rates on a quarterly basis, whereas full income statements, balance sheets and cash flow statements are only reported on a half-yearly basis. Unless otherwise indicated, the commentary below relates to H1 2022. Comparative figures have been restated to reflect that Hearing Implants is now recognised as a discontinued operation.

Business area	Revenue (DKK million)		Growth				
	Q2 2022	Q2 2021	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids	2,491	2,257	8%	-2%	6%	4%	10%
Hereof sales to Hearing Care	-454	-412	1%	4%	6%	5%	10%
Hearing Care	2,034	2,006	-7%	4%	-3%	5%	1%
Diagnostics	563	441	16%	3%	18%	10%	28%
Hearing Healthcare	4,634	4,292	3%	1%	3%	5%	8%
Communications	260	240	5%	0%	5%	4%	8%
Group	4,894	4,532	3%	1%	3%	5%	8%

Business area	Revenue (DKK million)		Growth				
	H1 2022	H1 2021	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids	4,842	4,416	9%	-2%	7%	3%	10%
Hereof sales to Hearing Care	-895	-871	-5%	4%	-1%	4%	3%
Hearing Care	3,932	3,737	-3%	4%	1%	4%	5%
Diagnostics	1,066	843	17%	2%	19%	8%	27%
Hearing Healthcare	8,945	8,125	6%	1%	6%	4%	10%
Communications	552	621	-14%	0%	-14%	3%	-11%
Group	9,497	8,746	4%	1%	5%	4%	9%

- In H1, the **Group** generated organic growth of 4% after having seen a material slowdown from 6% in Q1 to 3% in Q2. Growth from acquisitions added 1% (Q2: 1%) and exchange rate effects 4% (Q2: 5%). Total reported revenue growth for the Group was 9% in H1 (Q2: 8%).
- Despite strong comparative figures, **Hearing Healthcare** saw organic growth of 6% in H1 (Q2: 3%), driven by strong performances by Hearing Aids and Diagnostics, which were, however, more than offset by lower-than-expected organic growth in Hearing Care.
 - **Hearing Aids** continued to gain market share throughout H1, which helped offset lower-than-expected market growth in Q2 due to coronavirus impacts in Asia and the Pacific region and to consumer uncertainty, not least in markets dominated by private pay, such as the US. Growth in H1 was driven by strong unit growth of 16%, whereas ASP growth was -8% due to geography and channel mix changes, with particularly strong sales growth in emerging markets and in the NHS.
 - The negative growth in **Hearing Care** can mainly be attributed to very high comparative figures in France due to the hearing healthcare reform implemented last year and to lower-than-expected growth in the US, resulting from the decision to exit selected managed care plans and from weakening market momentum in Q2. Also, growth in Australia was negatively impacted by coronavirus throughout H1. Acquisitions in Hearing Care contributed considerably to growth in both Q1 and Q2.
 - **Diagnostics** continued its very strong momentum throughout H1 despite a slightly negative impact of lockdowns in China.
- **Communications** saw organic growth of -14% in H1 (Q2: 5%) due to very high comparative figures in Q1. Growth in Q2 was positive but below expectations due to the continued weakening of the market for gaming headsets and to certain supply chain challenges, which had a negative impact on sales, particularly in Enterprise Solutions.
- The Group's **gross margin** was 74.6%, a minor increase of 0.1 percentage point compared to H1 2021, driven by a favourable mix between business segments and positive exchange rate effects, but partly offset by negative mix changes in Hearing Aids. The dynamic supply chain situation continued to impact the gross margin by around -0.5 percentage point, primarily due to higher freight charges.
- **OPEX** grew organically by 8% with additional growth of 1% from acquisitions. In local currencies, growth was slightly below our original plans, although we continue to invest significantly in R&D. Around half of the organic growth in OPEX reflects temporary cost savings in the comparative period, which totalled approx. DKK 150-200 million. At this stage, we see no inflationary pressures beyond our initial expectations.
- The Group's **EBIT** amounted to DKK 1,588 million, which is slightly below our original plans due to lower-than-expected revenue and adverse mix effects. The EBIT margin was 16.7%. EBIT declined 5% in H1, as EBIT in the comparative period was boosted by temporary cost savings of DKK 150-200 million and the extraordinary positive impact of around DKK 100 million of the French reform. Adjusted for these factors, EBIT growth was around 13%, including tailwind from exchange rate effects.
- The Group's **cash flows** were negatively impacted by an increase in net working capital due to the normalisation of trade receivables and trade payables and also by the build-up of inventories to mitigate the impacts of supply chain dynamics. CFFO amounted to DKK 915 million and FCF before acquisitions was DKK 398 million.
- Cash spent on acquisitions amounted to DKK 513 million, and as of 30 June 2022, we had bought back shares worth DKK 1,307 million. The Group's gearing multiple (NIBD/EBITDA) was 2.4 at the end of June 2022.
- As announced on 27 April 2022, we have decided to discontinue our **Hearing Implants** business, which is therefore recognised separately as a discontinued operation. Comparative figures have been restated to reflect this. Subject to regulatory approvals and other customary closing conditions, the divestment of the business to Cochlear Limited is still presumed to close in H2 at which time DKK 700 million of the total DKK 850 million consideration will be paid. In H1, profit after tax from discontinued operations amounted to DKK -107 million.
- On 14 June 2022, we announced the acquisition of the remaining 80% of **ShengWang**, the leading hearing care network in China with around 500 clinics, which offers an excellent growth platform for the next many years. The total purchase price for 100% ownership of ShengWang was RMB 1,750 million (DKK 1,863 million), and the transaction was closed with financial effect from 1 July. ShengWang will thus be fully consolidated into Demant from the beginning of H2.

Outlook for 2022

Our outlook for 2022, which is summarised in the table below, is adjusted to reflect that we now expect our markets to grow less in H2 than originally anticipated due to negative impacts of consumer uncertainty, which will more than offset positive exchange rate effects.

Metric	Outlook for 2022
Organic growth	4-6% (previously 5-9%)
Acquisitive growth	2% based on revenue from acquisitions completed as of 15 August 2022
FX growth	5% based on exchange rates as of 15 August 2022 and including the impact of hedging
EBIT	DKK 3,500-3,800 million (DKK 3,600-3,900 million)
Effective tax rate	22-23%
Gearing multiple	Gearing multiple (NIBD relative to EBITDA) at the end of 2022 to slightly exceed medium- to long-term target of 2.0-2.5
Share buy-backs	At least DKK 2.5 billion
Profit after tax from discontinued operations	Negative by DKK 150-200 million

The outlook continues to be based on a number of key assumptions as described below (changes in bold):

- **In H1, value growth in the hearing aid market was below expectations due to developments in Q2. Relative to Q2, we still expect market conditions to improve in H2, particularly in the important US market, but we now only expect total market unit growth in 2022 in line with the structural level of 4-6%. We now only expect limited excess growth, as headwinds from consumer uncertainty are expected to outweigh any tailwinds from the release of pent-up demand. We expect ASP growth in the market in H2 to be less negative than in H1.**
- Growth in the French hearing aid market to be negative in 2022 following the extraordinary demand in 2021, which we estimate benefitted the Group's revenue by DKK 300 million and EBIT by DKK 150 million. We do not expect this benefit to recur. **Developments in H1 were at least in line with expectations.**
- The market for enterprise and gaming headsets and video solutions to grow below the estimated structural growth level of around 12% due to the current supply chain situation. **The weakening of the gaming market in H1 is now also expected to carry over into H2, however we expect the supply chain situation to gradually improve.**
- **In H2, we expect to continue to see market share gains in Hearing Healthcare. For Communications, we expect to see double-digit organic growth in H2.**
- Supply chain situation to remain dynamic throughout the year and to result in higher-than-normal component costs and freight charges with an impact that is roughly similar to the impact in 2021 but with no material disruption to sales activities.
- The Group's OPEX base to see no benefit from temporary cost savings in 2022, which we estimate amounted to DKK 150-200 million in H1 2021.
- **For Communications, we now expect EBIT of around DKK -150 million in 2022 due to negative market trends and supply chain challenges. In the medium to long term, we still consider the fundamental growth drivers of the market to be fully intact.**
- Planned divestment of Hearing Implants to close at the end of 2022.

Demant will host a conference call on 16 August 2022 at 14:00 CEST. To attend this call, please use one of the following dial-ins: +45 8088 6270 (DK), +44 808 101 1183 (UK) or +1 800 420 1271 (US). The pin code is 86628. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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