

Demant

Interim Report 2021

12 August 2021

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Investor Relations



Agenda

**Life-changing
hearing health**

- 1 Key take-aways**
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 - 4 Group financial review**
 - 5 Outlook**
 - 6 Q&A**
-



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Key take-aways

Excellent Group performance in H1

1

Very strong growth and profitability in Hearing Healthcare

- Market share gains in **Hearing Aids** thanks to successful product launches
- Strong performance in **Hearing Care**, boosted by reform in France
- Further market share gains in **Diagnostics**
- Continued impact of coronavirus in **Hearing Implants**

2

Revenue slowdown in Communications driving negative EBIT

3

Expectations of continued momentum and market share gains in H2 lead to upgraded outlook for 2021

Revenue and growth rates	Revenue (DKK million)			Organic growth	
	H1 21	H1 20	H1 19	vs H1 20	vs H1 19
Hearing Aids	4,416	2,937	3,852	55%	17%
<i>Hereof sales to Hearing Care</i>	-871	-465	-607	90%	42%
Hearing Care	3,737	2,154	3,128	72%	15%
Hearing Implants	266	246	304	11%	-9%
Diagnostics	843	660	673	34%	29%
Hearing Healthcare	8,391	5,532	7,350	55%	14%
Communications	621	546	-	16%	n.a.
Group	9,012	6,078	7,350	51%	15%

Group key figures



Revenue growth of 53% in local currencies (26% vs H1 19) with 51% organic growth (15% vs H1 19)



OPEX grew 18% in local currencies reflecting sales growth and temporary savings last year, including government support



Better-than-expected **EBIT** of DKK 1,638 million, corresponding to EBIT margin of 18.2%, driven by very strong profitability in Hearing Healthcare of 20.0%



Strong cash flows with **CFFO** and **FCF** more than doubling, reflecting the Group's improved profitability



Upgraded outlook for 2021:

Organic revenue growth of 26-30% (24-28%)
EBIT of DKK 3,150-3,450 million (DKK 3,000-3,300 million)
Share buy-backs of DKK >3.0 billion (DKK >2.5 billion)

(DKK million)	H1 21	H1 20	H1 19	Δ vs H1 20	Δ vs H1 19
Hearing Healthcare					
Revenue	8,391	5,532	7,350	52%	14%
EBIT	1,682	-214	1,085	n.a.	55%
<i>EBIT margin</i>	20.0%	-3.9%	14.8%		
Communications					
Revenue	621	546	-	14%	-
EBIT	-44	21	28	-310%	-257%
<i>EBIT margin</i>	-7.1%	3.8%	-		
Group					
Revenue	9,012	6,078	7,350	48%	23%
OPEX	5,137	4,461	4,628	15%	11%
EBIT*	1,638	-193	1,113	n.a.	47%
<i>EBIT margin*</i>	18.2%	-3.2%	15.1%		
CFFO	1,511	729	1,047	107%	44%
FCF	1,234	489	702	152%	76%

* EBIT in H1 20 adjusted for net positive one-offs related to EPOS



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Hearing Healthcare

Hearing Aids
Hearing Care
Hearing Implants
Diagnostics

Hearing Healthcare: Financial review

- Very strong performance driven by successful product launches and market recovery
- Positive impact of reform in France, which will not recur to same extent in H2
 - Revenue: DKK 200 million
 - EBIT: DKK 100 million

(DKK million)	H1 21	H1 20	H1 19	Δ vs H1 20	Δ vs H1 19
Revenue	8,391	5,532	7,350	52%	14%
Gross profit	6,418	4,000	5,701	60%	13%
<i>Gross margin</i>	76.5%	72.3%	77.6%		
OPEX	4,793	4,227	4,628	13%	4%
EBIT	1,682	-214	1,085	n.a.	55%
<i>EBIT margin</i>	20.0%	-3.9%	14.8%		

- Gross margin improvement vs H1 20 driven by higher production volumes and business mix – dilution vs H1 19 driven by higher share of rechargeable devices
- OPEX increase reflects sales growth and government support in H1 20
- Very strong profitability with EBIT margin of 20.0% supported by temporary cost savings and impact of French reform

The hearing healthcare market in H1 2021

Hearing aids market

Europe: Extraordinary growth in France, slow recoveries in NHS in the UK and in Germany, albeit improving in Q2

North America: Strong sequential improvement driven by the US, as some pent-up demand was released

Rest of world: Unit growth very strong in China and South Korea, slightly positive in Australia but negative in Japan

On a run rate basis, growth in *commercial* channels in *developed* markets was largely normalised at end of H1

Hearing aid market

(unit growth)

Region	2021 vs 2020			2021 vs 2019		
	Q1	Q2	H1	Q1	Q2	H1
Europe	10%	130%	52%	-1%	15%	7%
North America	9%	182%	61%	9%	16%	12%
Hereof US (commercial)	12%	156%	59%	12%	22%	17%
Hereof US (VA)	-7%	522%	74%	-7%	3%	-2%
Rest of world	0%	64%	25%	-6%	7%	0%
Global	6%	116%	45%	0%	12%	6%

Hearing implants market

CI: Activity levels in our core European markets and emerging markets remained low

BAHS: Faster pace of recovery than CI but has yet to fully normalise

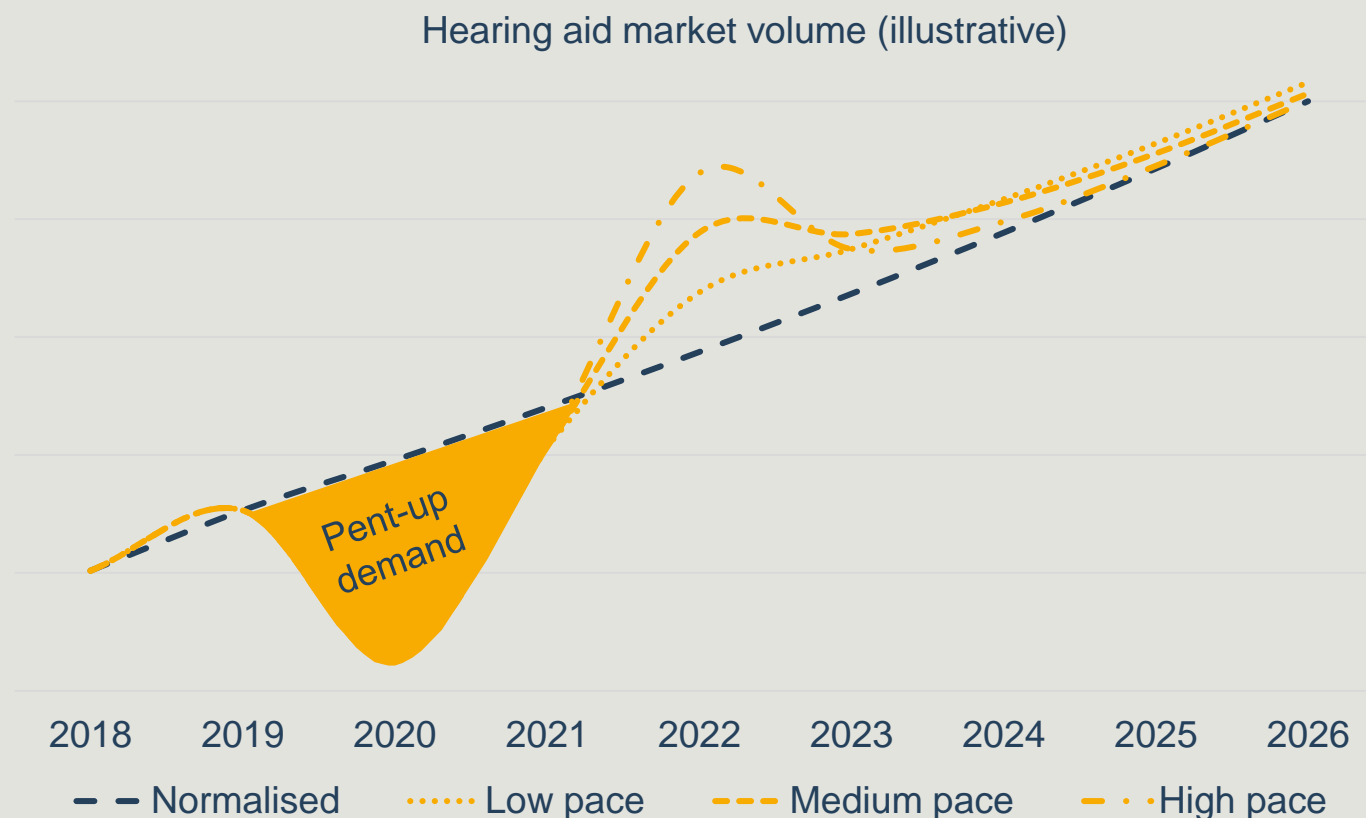
Diagnostics market

Compared to H1 19, growth was slightly above structural growth rate of 3-5% per year, particularly in Q2

Overall, the hearing healthcare market recovered well in H1 2021 and at least in line with expectations, albeit with differences between market segments and regions

Pent-up demand to support volumes in the hearing aid market in the coming years

- Hearing aid market characterised by stable and predictable long-term drivers
- Short-term growth currently difficult to predict as magnitude and timing of release of pent-up demand is uncertain
 - Uncertainty particularly pronounced for new users
- Pace of release will determine steepness of curve





Hearing Aids

Strong performance due to very positive traction of new flagship hearing aids and market recovery

- Sales to independents benefitted strongly from Oticon More, not least in the US
- Market share gains across markets
- Strong sales to Hearing Care driven by France

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Solid growth vs H1 19 driven by France, Spain and Nordics• Slow recovery in NHS in UK and Germany	<ul style="list-style-type: none">• Main growth driver vs H1 19 due to launches of Oticon More and Philips HearLink in US• Slower recovery in Canada	<ul style="list-style-type: none">• Strong growth vs H1 19 in China, South Korea and Pacific• Continued restrictions in Japan• Emerging markets heavily impacted

Revenue	H1 21	H1 20	H1 19
(DKK million)	4,416	2,937	3,852
Growth		vs H1 20	vs H1 19
Organic		55%	17%
Acquisitions		0%	1%
Local currencies		55%	17%
FX		-5%	-3%
Total		50%	15%

Unit & ASP growth in H1 21		
(local currencies)	vs H1 20	vs H1 19
Units	50%	3%
ASP	4%	14%
Total	55%	17%



Expanding product portfolio in all brands

- Latest flagship product families expanded to include non-rechargeable miniRITE style (available at the three upper price points)
- Introduction of new programmes that deliver excellent music performance thanks to dedicated music-oriented signal processing
- New CROS solutions in a rechargeable miniRITE style
- New portable SmartCharger that fits our latest generation of rechargeable hearing aids will be rolled out during H2

Oticon MyMusic – A dedicated programme for music lovers





Hearing Care

Strong performance across many markets supported by general recovery from coronavirus

- Growth driven by strong position in France which saw high demand due to reform
- Increasing vaccination rates supported market recovery in H1
- Launch of Oticon More supported ASP growth

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Revenue above normal due to France and strong recovery in most markets• Coronavirus still impacting Sweden and Portugal	<ul style="list-style-type: none">• Strong improvement in US after slow start to the year• Renewed restrictions in Canada• Growth supported by acquisitions	<ul style="list-style-type: none">• Strong recovery in Australia at beginning of H1 but temporary, local lockdowns in latter part of H1

Revenue	H1 21	H1 20	H1 19
(DKK million)	3,737	2,154	3,128
Growth		vs H1 20	vs H1 19
Organic		72%	15%
Acquisitions		5%	7%
Local currencies		78%	23%
FX		-4%	-3%
Total		74%	20%





Hearing Implants

Continued severe impact of coronavirus, particularly in cochlear implants

- Several of our key **CI** markets highly affected by coronavirus and low activity levels in our export markets
 - Signs of recovery in most markets towards end of H1

Revenue	H1 21	H1 20	H1 19
(DKK million)	266	246	304
Growth		vs H1 20	vs H1 19
Organic		11%	-9%
Acquisitions		0%	1%
Local currencies		12%	-8%
FX		-3%	-4%
Total		8%	-13%



User of Ponto 4
BAHS processor

- Positive development in **BAHS** with less impact of coronavirus than CI due to support from sales of sound processors
 - Solid performance in many European markets but the UK and US are not yet at pre-coronavirus levels

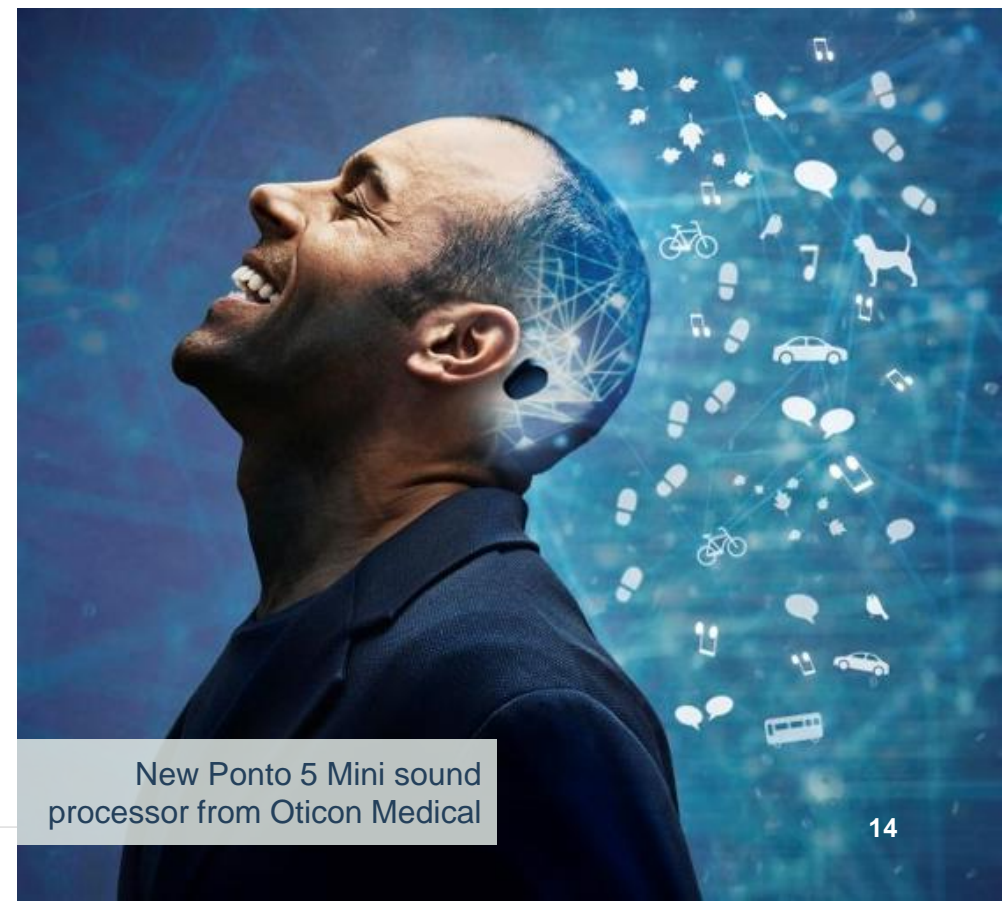


Several important milestones for Hearing Implants in H2

- Launch of Neuro Zti 3T cochlear implant which is approved for 3 Tesla MRI scanning
- Commercial launch of Neuro system in the US towards end of 2021 following FDA pre-market approval
- Launch of Ponto 5 Mini sound processor taking the open sound experience to a whole new level for BAHS users
- Introduction of the MONO procedure, the next-generation surgical procedure in BAHS, which will further enhance clinical efficiency



New Neuro Zti 3T cochlear implant from Oticon Medical



New Ponto 5 Mini sound processor from Oticon Medical



Diagnostics

Strong momentum thanks to combination of market share gains and resilient markets

- Strong performance in most markets with US as the biggest contributor to growth
- Broadly based growth, including in balance, newborn hearing screening products and fitting
- Some headwinds in market for newborn hearing screening services due to reductions in reimbursement
- Release of some pent-up demand in many markets in latter part of H1 – exited H1 with all-time high order book

Revenue	H1 21	H1 20	H1 19
(DKK million)	843	660	673
Growth		vs H1 20	vs H1 19
Organic		34%	29%
Acquisitions		1%	2%
Local currencies		35%	31%
FX		-7%	-6%
Total		28%	25%





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Communications

EPOS



Communications: Financial review

- Revenue growth was extremely mixed in H1 with significant slowdown in the latter part of the reporting period (see next slide)
- Gross margin improvement vs H1 20 driven by better product mix
- OPEX growth reflects continued investments in the business, including R&D and sales & marketing
- Negative EBIT due to combination of revenue slowdown and OPEX investments

(DKK million)	H1 21	H1 20	H1 19*	Δ vs H1 20	Δ vs H1 19
Revenue	621	546	-	14%	-
Gross profit	300	255	-	18%	-
Gross margin	48.3%	46.7%	-		
OPEX	344	234	-	47%	-
EBIT	-44	21	28	-310%	-257%
EBIT margin	-7.1%	3.8%	n.a.		

* EBIT in 2019 relates to the Group's share of profit after tax in our former JV, Sennheiser Communications, which was demerged and consolidated as Communications (EPOS) with financial effect from 1 January 2020.



Communications (EPOS)

Growth in H1 driven by Gaming and extremely mixed

- Very high double-digit growth in first months of the year due to strong market momentum, order backlog and low comparative figures
- Softening in number of new orders, partly due to inventory adjustments in our sales channels
- Growth driven by Europe and Asia, whereas our momentum was slower in the US
- Slowdown will also have a negative impact in H2, but we expect it to be temporary and view fundamental growth drivers as fully intact
- Follow ambitious product roadmap with several large product launches to come within both Gaming and Enterprise Solutions

Revenue	H1 21	H1 20	H1 19
(DKK million)	621	546	-
Growth		vs H1 20	vs H1 19
Organic		16%	n.a.
Acquisitions		0%	n.a.
Local currencies		16%	n.a.
FX		-2%	n.a.
Total		14%	n.a.





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Group financial review

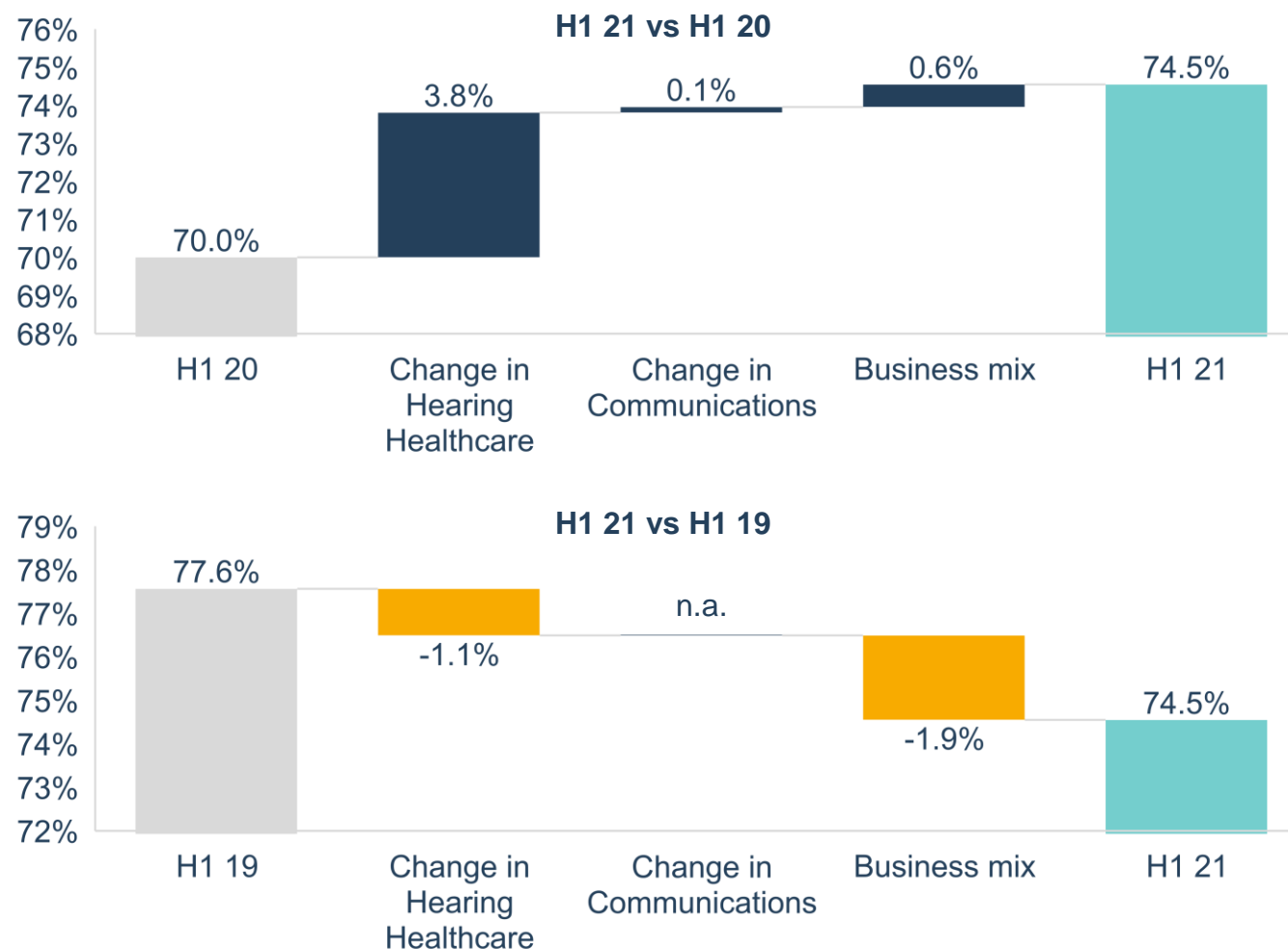
Income statement

	Hearing Healthcare	Communications	Group	Group (adjusted)	Change
(DKK million adjusted)	H1 21	H1 21	H1 21	H1 20	
Revenue	8,391	621	9,012	6,078	48%
Production costs	-1,973	-321	-2,294	-1,823	26%
Gross profit	6,418	300	6,718	4,255	58%
<i>Gross margin</i>	<i>76.5%</i>	<i>48.3%</i>	<i>74.5%</i>	<i>70.0%</i>	<i>4.5pp</i>
R&D costs	-564	-91	-655	-618	6%
Distribution costs	-3,807	-233	-4,040	-3,455	17%
Administrative expenses	-422	-20	-442	-388	14%
Share of profit after tax, associates and JVs	57	-	57	13	338%
EBIT	1,682	-44	1,638	-193	n.a.
<i>EBIT margin</i>	<i>20.0%</i>	<i>-7.1%</i>	<i>18.2%</i>	<i>-3.2%</i>	<i>n.a.</i>
EPOS one-offs			0	307	n.a.
Reported EBIT			1,638	114	1,337%
<i>Reported EBIT margin</i>			<i>18.2%</i>	<i>1.9%</i>	<i>n.a.</i>

Gross profit

- Gross profit increased 58% to DKK 6,718 million
- Gross margin increased 4.5pp, mainly due to higher production volumes in Hearing Healthcare
- Business mix also supported gross margin as Hearing Healthcare has a structurally higher gross margin than Communications

Gross margin development



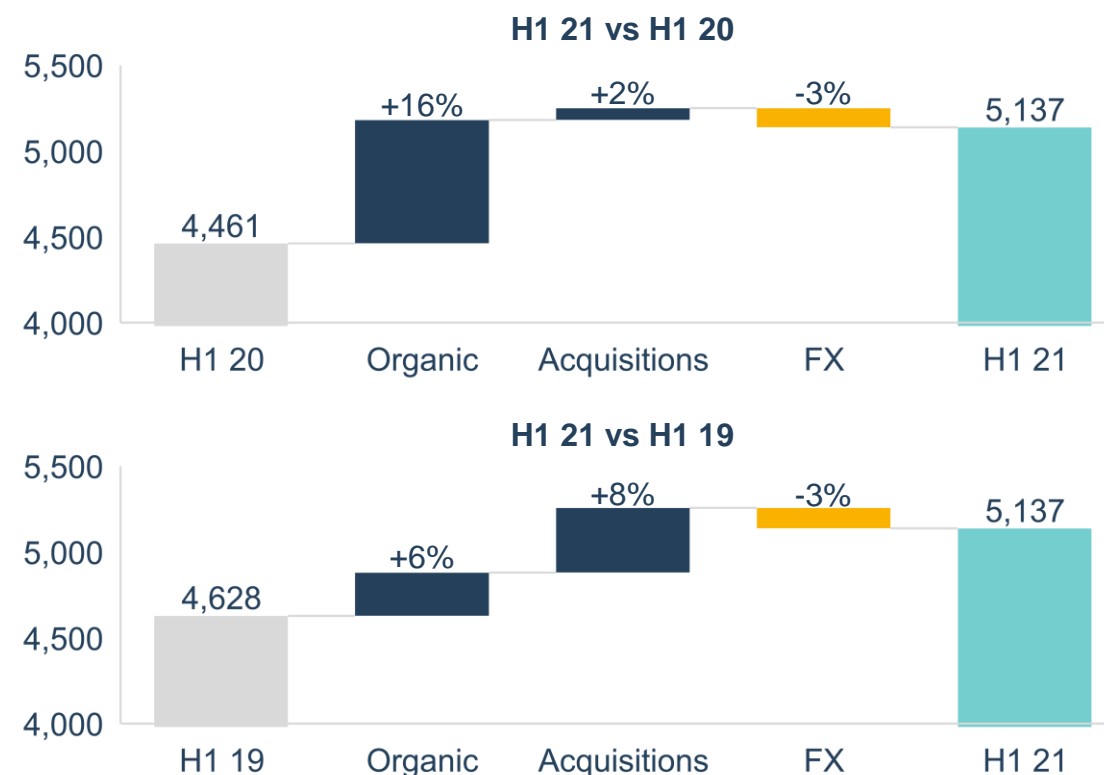
OPEX

- OPEX growth vs H1 20 reflects higher activity levels – driven mostly by distribution costs and administrative expenses
- Extraordinary items in H1 20 related to coronavirus
 - Government support: DKK 350 million
 - Bad debt provision: DKK 150 million
- OPEX growth vs H1 19 was only 6% in organic terms due to realisation of structural and temporary savings in H1
- We only expect limited impact of further temporary savings in H2

OPEX by function (DKK million)

	H1 21	H1 20	DKK	LCY	Org.
R&D costs	655	618	6%	7%	6%
Distribution costs	4,040	3,455	17%	20%	18%
Admin. expenses	442	388	14%	17%	16%
Total	5,137	4,461	15%	18%	16%

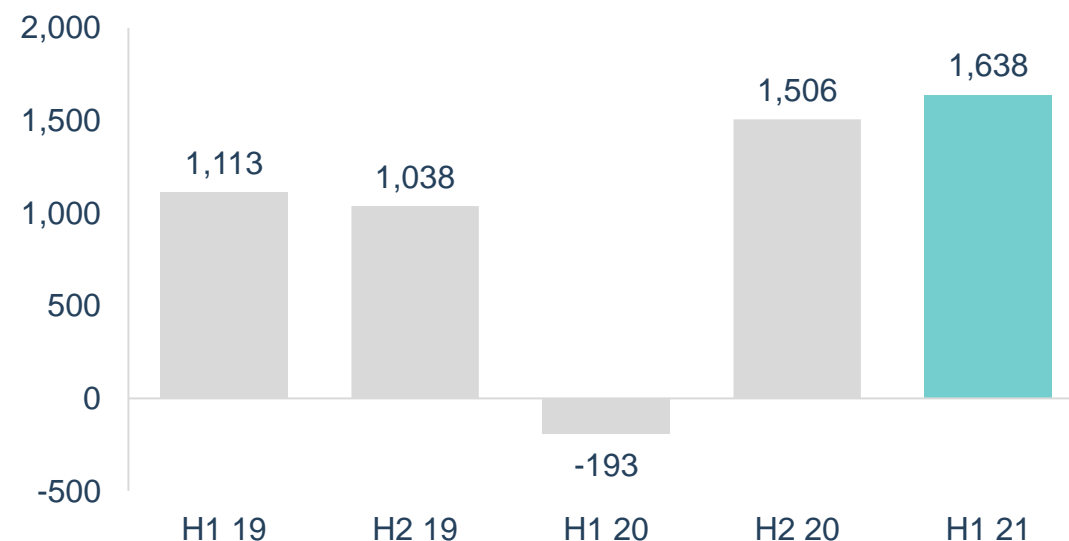
OPEX development (DKK million)



EBIT

- Better-than-expected EBIT due to very strong profitability in Hearing Healthcare
 - Strong revenue growth
 - Continued temporary savings
- Hearing Healthcare: DKK 1,682 million
- Communications: DKK -44 million
- Group EBIT margin of 18.2%, an increase of 3.1pp vs H1 19, despite negative impact of the consolidation of EPOS in 2020

EBIT by half-year (DKK million)



EBIT in H2 19 was negatively impacted by an estimated DKK 550 million as a result of the IT incident. EBIT in H1 and H2 20 are adjusted for one-offs related to EPOS.

Cash flow statement

(DKK million)	H1 21	H1 20	Change	Change
Reported EBIT	1,638	114	1,524	1,337%
Non-cash items etc.	509	364	145	40%
Change in working capital	-385	323	-708	-219%
Dividends received	42	20	22	110%
Financial items etc. paid/received	-109	-99	-10	10%
Income tax paid/received	-184	7	-191	n.a.
CFFO	1,511	729	782	107%
Net investments	-277	-240	-37	15%
Free cash flow	1,234	489	745	152%
Acquisitions of enterprises etc.	-406	-293	-113	39%
Share buy-backs*	-1,813	-197	-1,616	820%
Other financing activities	1,242	143	1,099	769%
Cash flow for the period	257	142	115	81%

- Very strong cash flow with CFFO and FCF more than doubling
- Increase in CFFO and FCF of 44% and 76%, respectively, vs H1 19
- Improvement driven by higher EBIT, but partly offset by increase in working capital, primarily in trade receivables due to strong revenue growth
- Modest increase in net investments driven by settlement of customer loan in H1 20
- Acquisitions related to Hearing Care business and M&A activities back to normal levels
- Very high level of share buy-backs

*Equivalent to 5,985,632 shares bought back in H1 21. As of 30 June, total outstanding shares amounted to 240,127,833 and treasury shares to 6,215,010

Balance sheet

(DKK million)	H1 21	FY 20	Change	Change
Lease assets	2,204	1,847	177	10%
Non-current assets	14,064	13,393	671	5%
Inventories	2,088	1,968	120	6%
Trade receivables	3,140	2,808	332	12%
Cash	1,221	952	269	28%
Other current assets	1,042	959	83	9%
Assets	23,579	21,927	1,652	8%
Equity	7,796	8,279	-483	-6%
Lease liabilities	2,077	1,893	184	10%
Non-current liabilities	4,728	4,837	-109	-2%
Trade payables	753	802	-49	-6%
Other current liabilities	8,225	6,116	2,109	34%
Equity and liabilities	23,579	21,927	1,652	8%

- 8% increase in total assets
 - Organic: 4%
 - Acquisitions: 2%
 - FX: 2%
- Increase primarily related to goodwill in connection with acquisitions and an increase in trade receivables
- Net working capital increased by 17% to DKK 2,871 million as a natural consequence of higher revenue
- NIBD amounted to DKK 8,573 million, corresponding to gearing of 2.1 (NIBD/EBITDA)
- Equity decreased due to share buy-backs



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Outlook

Outlook assumptions

Due to coronavirus, outlook is still subject to greater uncertainty than usual

- 1 Hearing healthcare market recovered at least in line with expectations in H1 and we expect further gradual recovery in H2
- 2 Hearing aid market considered largely normalised in developed markets, except in VA and NHS. In these markets, we expect growth in 2021 as a whole to be close to normal levels, supported by release of some pent-up demand in H2
- 3 Normalisation in emerging markets still likely to go beyond 2021
- 4 Growth at least 8-10% in professional headset market despite strong comparative figures in 2020
- 5 In line with developments in H1, our outlook assumes no material impact of potential supply chain constraints

Outlook for 2021

Metric	Outlook for 2021
Group revenue growth	
Organic	26-30% (prev. 24-28%). For Communications, we expect negative organic growth in H2
Acquisitive	1% based on acquisitions completed as of 11 August 2021
FX (incl. hedging)	-1% (prev. -2%) based on FX rates as of 11 August 2021
EBIT	DKK 3,150-3,450 million (prev. DKK 3,000-3,300 million). For Communications, we expect a negative EBIT in H2
Effective tax rate	Around 23%
Gearing	In line with medium- to long-term target of 2.0-2.5 at the end of 2021
Share buy-backs	More than DKK 3.0 billion (prev. more than DKK 2.5 billion)

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The background image shows a modern, multi-story office atrium. Numerous people are standing on different levels, looking towards the camera. A large, semi-transparent circular graphic is overlaid on the right side of the image. The graphic has a dark blue center with the text 'Q&A' in white, and a light blue outer ring. The overall atmosphere is professional and collaborative.

Demant

Founded in 2008

Focus on health

Share

Life-changing
hearing health

Q&A

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Virtual roadshows and conferences:

13 Aug	Copenhagen (Nordea)
17 Aug	London (Goldman Sachs)
18 Aug	Edinburgh & Dublin (Goldman Sachs)
25 Aug	Stockholm (SEB conference)
30 Aug	Oslo (SEB)
31 Aug	Frankfurt (Commerzbank conference)
02 Sep	Benelux (Danske Bank)
07 Sep	Milan (Exane)
07 Sep	Zurich (Credit Suisse)
08 Sep	Geneva (Credit Suisse)
08 Sep	Paris (Exane)
09 Sep	London (Goldman Sachs conference)
15 Sep	New York (Morgan Stanley conference)
27 Sep	Capital Markets Day in Copenhagen
28 Sep	Kepler Cheuvreux Hearing Aid Day
08 Oct	US (DNB Markets)