

# Demant

## Annual Report 2020

*9 February 2021*

Søren Nielsen, President & CEO

René Schneider, CFO

Investor Relations



# Agenda

**Life-changing  
hearing health**

- 01** Changes to reporting structure
- 02** 2020 highlights
- 03** Hearing Healthcare
- 04** Communications
- 05** Group financials
- 06** Recent developments and outlook for 2021
- 07** Q&A

# Changes to reporting structure

Several changes made to more accurately reflect the products and services we offer and to further improve transparency in the value creation in each business area

#1

Two segments with separate income statements

## Hearing Healthcare

Hearing Aids  
Hearing Care  
Hearing Implants  
Diagnostics

## Communications

EPOS

#2

New descriptive names

Hearing aid wholesale is now  
**Hearing Aids**

Hearing aid retail is now  
**Hearing Care**

#3

New revenue and growth disclosures

Revenue now reported separately for Hearing Aids and Hearing Care

Growth rates for CI and BAHS no longer reported separately

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# 2020 highlights

# Financial highlights in 2020

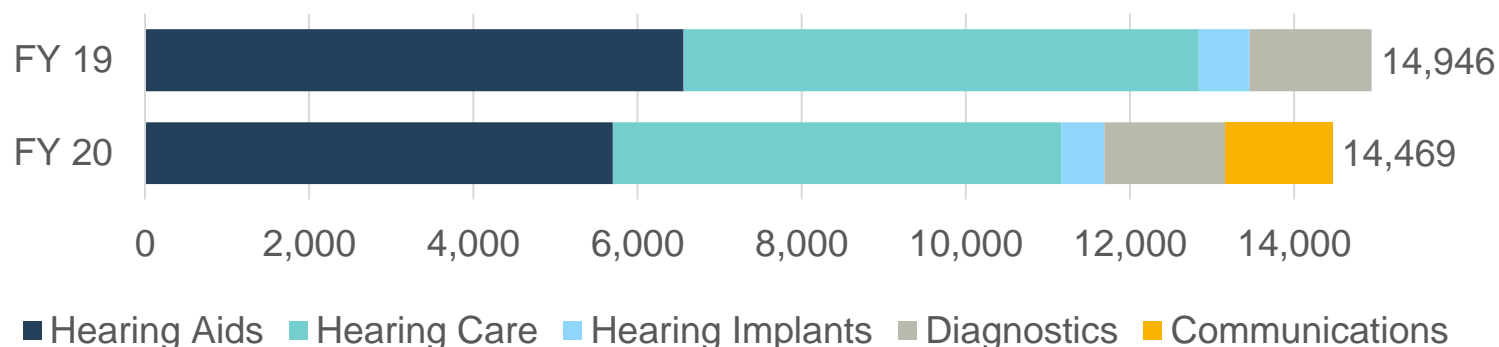
## FY revenue growth

**-13%** organic

**-2%** local currencies

**-3%** reported

## Revenue (DKK million)

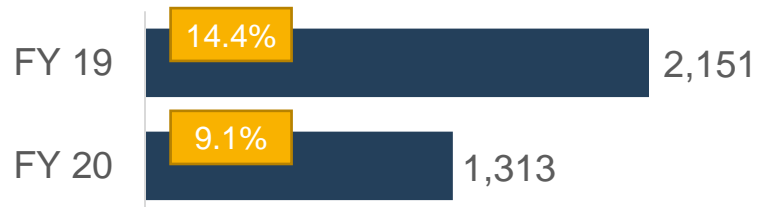


## Adjusted gross profit (DKK million)



Significant dilution of gross margin due to coronavirus and consolidation of EPOS

## Adjusted EBIT (DKK million)




Negative EBIT before EPOS one-offs in H1 but strong recovery in profitability in H2


## Free cash flow (DKK million)





Very strong cash flows driven by tight working capital management


# H2 2020: Key take-aways


- 

**Group** LCY growth of 14%, i.e. at the upper end of the most recent outlook range of 12-14%
- 

Significant recovery in **Hearing Healthcare** – release of some pent-up demand in Q3 but halt in recovery in Q4 due to new restrictions
- 

Very strong performance in **Communications** supported by increased production capacity
- 

Flat LCY growth in **OPEX** driven by both temporary and structural savings
- 

Very strong profitability with **EBIT** of DKK 1,506 million before EPOS one-offs and EBIT margin of 17.9%
- 

Very strong cash flows driven by tight working capital management: **CFFO** of DKK 1,892 million and **FCF** of DKK 1,534 million

Growth in LCY*	H1	H2	FY
Hearing Aids	-25%	1%	-12%
<i>Hereof sales to Hearing Care</i>	-24%	12%	-6%
Hearing Care	-31%	9%	-12%
Hearing Implants	-18%	-9%	-13%
Diagnostics	-3%	6%	2%
Hearing Healthcare	-25%	4%	-11%
Communications (EPOS)	7pp**	10pp**	9pp**
<b>Group</b>	<b>-18%</b>	<b>14%</b>	<b>-2%</b>

\*Estimated impact (DKK 575 million) of the IT incident in 2019 had a positive contribution of 7 percentage points on Group growth in H2 2020.

\*\*Contribution to Group's total growth in local currencies (EPOS was not consolidated in 2019).

# Revenue in H2

(DKK million)	H2 20	H2 19	Change		
			DKK	LCY	Organic
Europe	3,850	3,114	24%	25%	7%
North America	3,082	3,131	-2%	3%	-5%
Pacific	526	449	17%	19%	10%
Asia	738	614	20%	25%	13%
Other countries	195	288	-32%	-21%	-22%
<b>Total</b>	<b>8,391</b>	<b>7,596</b>	<b>11%</b>	<b>14%</b>	<b>2%</b>

## Europe

- Organic growth mainly driven by low comparative figures due to IT incident
- EPOS main driver of acquisitive growth

## Asia & Pacific

- Strongest recovery in Asia driven by China
- Strong growth in Pacific aided by soft comparative figures

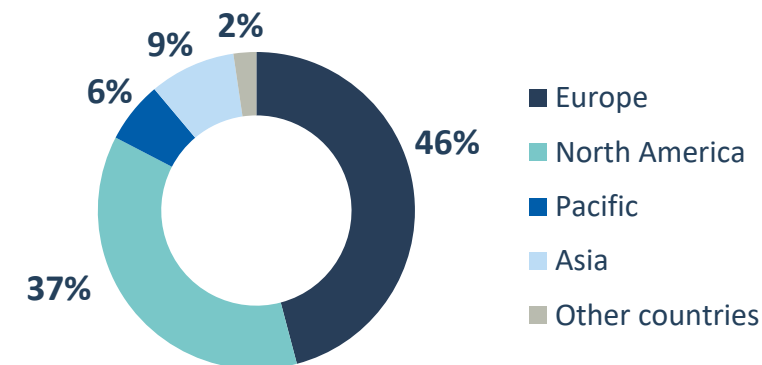
## North America

- Recovery at a slower pace than in other developed markets
- Particularly slow recovery in VA

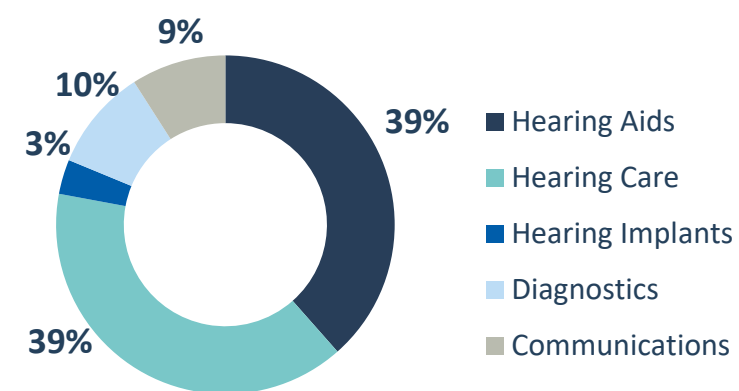
## Other countries

- Continued severe impact of coronavirus in emerging markets throughout H2

Revenue by geography



Revenue by business area



# Hearing Healthcare

Hearing Aids  
Hearing Care  
Hearing Implants  
Diagnostics



# Hearing Healthcare: Strong profitability in H2

## Revenue in H2

- Significant revenue improvement but still below normal level
- -5% underlying organic growth\*

## Gross profit in H2

- Gross margin expansion of 0.5pp driven by a higher share of revenue generated by Hearing Care

## OPEX in H2

- Material savings with organic growth of -9%

## EBIT in H2

- Material lift in profitability with EBIT margin of 18.7% despite subdued revenue

Income statement (DKK million)	H2 19	H2 20	Growth	FY 19	FY 20	Growth
<b>Revenue</b>	<b>7,596</b>	<b>7,631</b>	<b>0%</b>	<b>14,946</b>	<b>13,163</b>	<b>-12%</b>
<i>Organic growth</i>	3%	2%		4%	-13%	
<b>Gross profit</b>	<b>5,624</b>	<b>5,683</b>	<b>1%</b>	<b>11,325</b>	<b>9,683</b>	<b>-14%</b>
<i>Gross margin</i>	74.0%	74.5%	0.5pp	75.8%	73.6%	-2.2pp
OPEX	4,764	4,297	-10%	9,392	8,524	-9%
<i>Organic growth</i>	5%	-9%		7%	-10%	
<b>EBIT</b>	<b>1,000</b>	<b>1,425</b>	<b>43%</b>	<b>2,085</b>	<b>1,211</b>	<b>-42%</b>
<i>EBIT margin</i>	13.2%	18.7%	5.5pp	14.0%	9.2%	-4.8pp

\*Estimated effect (DKK 575 million) of the IT incident in 2019 had a positive contribution of 7 percentage points on organic growth in H2 2020.

# The hearing aid market in 2020

- Severe impact of coronavirus on hearing aid unit sales in 2020 – particularly negative impact in Q2
- Biggest declines in government channels (VA and NHS) and emerging markets
- Significant recovery in Q3 but halt in Q4
- Unit sales dropped by more than 3 million in 2020 compared to normal growth scenario
- Magnitude and timing of pent-up demand remain uncertain

Unit growth in 2020*	Q1	Q2	Q3	Q4	Total
Europe	-10%	-50%	1%	0%	-15%
North America	0%	-59%	-4%	-7%	-18%
US (commercial)	1%	-52%	0%	-6%	-14%
US (VA)	0%	-83%	-34%	-15%	-34%
Rest of world	-5%	-35%	-5%	-5%	-11%
<b>Global</b>	<b>-6%</b>	<b>-48%</b>	<b>-3%</b>	<b>-4%</b>	<b>-15%</b>

\*Estimate based on available market statistics, covering approx. 2/3 of the market, and on own internal assumptions.

# Hearing Aids

Revenue	H1	H2	FY
(DKK million)	2,937	3,886	6,823
Growth			
Organic	-25%	1%	-12%
Acquisitions	1%	0%	1%
Local currencies	-25%	1%	-12%
FX	1%	-2%	0%
Total	-24%	-1%	-12%
Unit & ASP (LCY growth)	H1	H2	FY
Units	-31%	-5%	-18%
ASP	9%	6%	8%
Total	-25%	1%	-12%

- Underlying growth of -8% in H2\*
- Fast-paced recovery in Europe in Q3 driven by France – UK was a drag, especially the NHS
- Recovery in North America was slower and halted in Q4
- Solid organic growth in Asia driven by the launch of Philips Hearing Solutions in China
- New flagship hearing aids in all brands announced on 30 November
  - Launch successfully kicked off, but no material financial impact in 2020
- We are now very well positioned to address the needs of customers and users in 2021 and beyond

Oticon More was announced on 30 November






\*Adjusted for the estimated negative impact of the IT incident in 2019.

## Launched – Oticon More

Nov		Denmark
Nov		Germany
Dec		France
Dec		Netherlands
Dec		Australia & NZ
Dec		Export
Dec		Poland
Jan		Norway
Jan		Sweden
Jan		USA, Spain, Switzerland
Jan		UK., Italy
Jan		Korea, Turkey
Jan		Finland
Jan		Israel
Jan		Canada

## Coming launches

Feb		South Africa
Feb		Japan, Singapore
Later		China, Brazil



# Rolling out Oticon More



# Hearing Care

Revenue	H1	H2	FY
(DKK million)	2,154	3,310	5,464
Growth			
Organic	-35%	4%	-16%
Acquisitions	4%	4%	4%
Local currencies			
FX	0%	-4%	-2%
Total	-31%	5%	-13%

- Underlying growth of -4% in H2\*
- Healthy recovery in H2, not least in Europe, despite new lockdowns in Q4
  - UK was a drag
- Relatively slower recovery in North America – stalling towards end of H2
- Positive growth in Australia mainly driven by low comparative figures due to IT incident



In Hearing Care, we found new ways of operating our business and servicing our customers, while ensuring their safety as well as the safety of our employees

\*Adjusted for the estimated negative impact of the IT incident in 2019.

# Hearing Implants

Revenue	H1	H2	FY
(DKK million)	246	277	523
Growth			
Organic	-18%	-9%	-13%
Acquisitions	0%	0%	0%
Local currencies			
FX	1%	-4%	-3%
Total	-19%	-13%	-16%


- **Cochlear implants:** Sales heavily impacted by widespread lockdowns and the postponement of elective surgeries
  - Returned to growth in H2 in some markets incl. Germany and Italy
  - Stalling market towards year-end
- **Bone anchored hearing solutions:** Also severely impacted but sales of sound processor upgrades supported the business
  - Significant market share gains in 2020



# Diagnostics

Revenue	H1	H2	FY
(DKK million)	660	815	1,475
Growth			
Organic	-3%	4%	1%
Acquisitions	1%	1%	1%
Local currencies			
FX	0%	-5%	-3%
Total	-2%	0%	-1%

- Encouraging recovery in H2 returning to growth
  - Strong sales growth in Germany, France and Switzerland
  - Good performance in Asia and Pacific
  - Slower recovery in the US
- Strong performance by Interacoustics driven by Affinity Compact and by significant growth in the balance segment
- Market share gains
  - Another successful year driven by our multi-brand strategy – allowing us to focus on separate segments and customers



A new milestone in diagnosing patients with balance conditions was reached in autumn 2020 when the third generation of Micromedical VisualEyes™ by Interacoustics was introduced

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# Communications

EPOS



# Significant growth acceleration in EPOS

## Revenue in H2

- Significant growth acceleration from mid-March and into H2
- Performance of EPOS exceeded initial expectations significantly

## Gross profit in H2

- Strong lift from H1 driven by partial normalisation of freight rates

## OPEX in H2

- Further investments in R&D and distribution activities

## EBIT in H2

- Sequential margin expansion in H2 driven by higher revenue and improved gross margin

Income statement (DKK million)	H2 19*	H2 20	Growth	FY 19*	FY 20	Growth
<b>Revenue</b>	-	<b>760</b>	-	-	<b>1,306</b>	-
<i>Contribution to Group growth</i>	-	<i>10pp</i>	-	-	<i>9pp</i>	-
<b>Gross profit</b>	-	<b>402</b>	-	-	<b>657</b>	-
<i>Gross margin</i>	-	<i>52.9%</i>	-	-	<i>50.3%</i>	-
OPEX	-	321	-	-	555	-
<i>Organic growth</i>	-	-	-	-	-	-
<b>EBIT</b>	<b>38</b>	<b>81</b>	<b>113%</b>	<b>66</b>	<b>102</b>	<b>55%</b>
<i>EBIT margin</i>	-	<i>10.7%</i>	-	-	<i>7.8%</i>	-

\*No accurate comparative figures for 2019 (EPOS was not consolidated in 2019). EBIT in 2019 reflects the Group's share of profit after tax in the Sennheiser Communications JV.

## Virtual launch of EPOS

- As a consequence of coronavirus, many marketing activities were converted to virtual set-ups with great success
- Some activities postponed from 2020 to 2021

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# Group financials

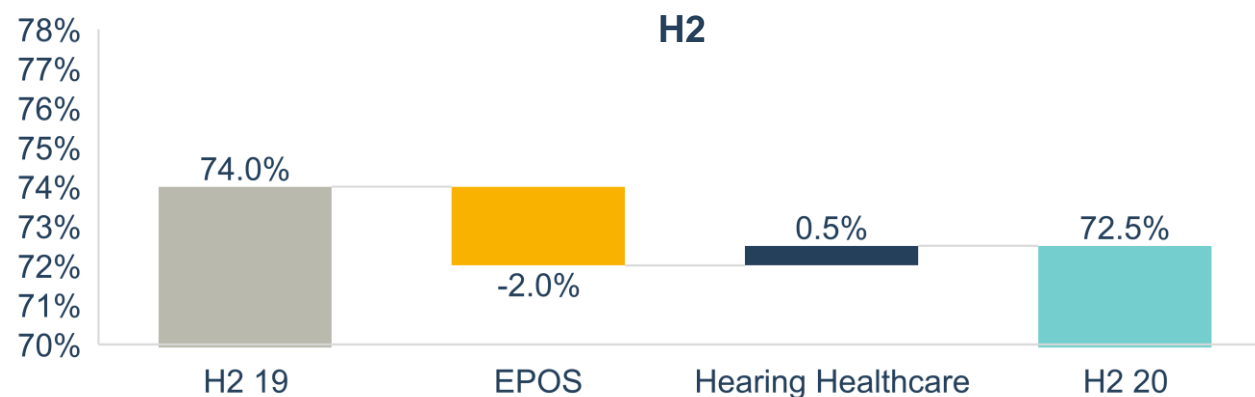
# Income statement

(DKK million adjusted)	H2 19	H2 20	Growth	FY 19	FY 20	Growth
Revenue	7,596	8,391	11%	14,946	14,469	-3%
Production costs	-1,972	-2,306	17%	-3,621	-4,129	14%
<b>Gross profit</b>	<b>5,624</b>	<b>6,085</b>	<b>8%</b>	<b>11,325</b>	<b>10,340</b>	<b>-9%</b>
<i>Gross margin</i>	74.0%	72.5%	-1.5pp	75.8%	71.5%	-4.3pp
R&D costs	-568	-643	13%	-1,120	-1,261	13%
Distribution costs	-3,760	-3,523	-6%	-7,421	-6,978	-6%
Administrative expenses	-436	-452	4%	-851	-840	-1%
Share of profit after tax, associates and joint ventures	78	39	-50%	118	52	-56%
Other operating income	100	0	-	100	0	-
<b>EBIT</b>	<b>1,038</b>	<b>1,506</b>	<b>45%</b>	<b>2,151</b>	<b>1,313</b>	<b>-39%</b>
<i>EBIT margin</i>	13.7%	17.9%	4.2pp	14.4%	9.1%	-5.3pp
EPOS one-offs	0	-90	-	0	217	-
<b>Reported EBIT</b>	<b>1,038</b>	<b>1,416</b>	<b>36%</b>	<b>2,151</b>	<b>1,530</b>	<b>-29%</b>
<i>EBIT margin</i>	13.7%	16.9%	3.2pp	14.4%	10.6%	-3.8pp

# Group gross margin diluted by consolidation of EPOS

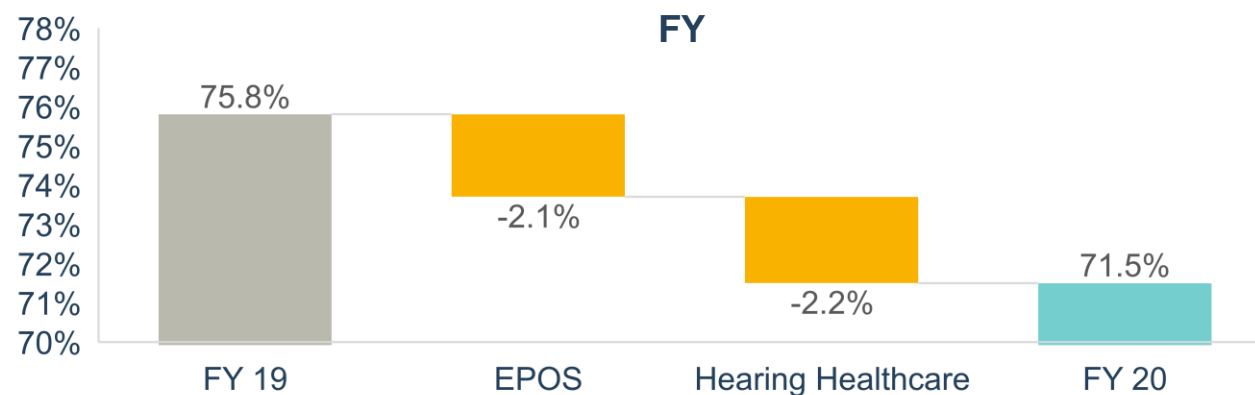
## H2

- Group gross margin decreased by 1.5pp
- Dilution from consolidation of EPOS of 2.0pp
- Slight increase in Hearing Healthcare gross margin driven by change in business mix



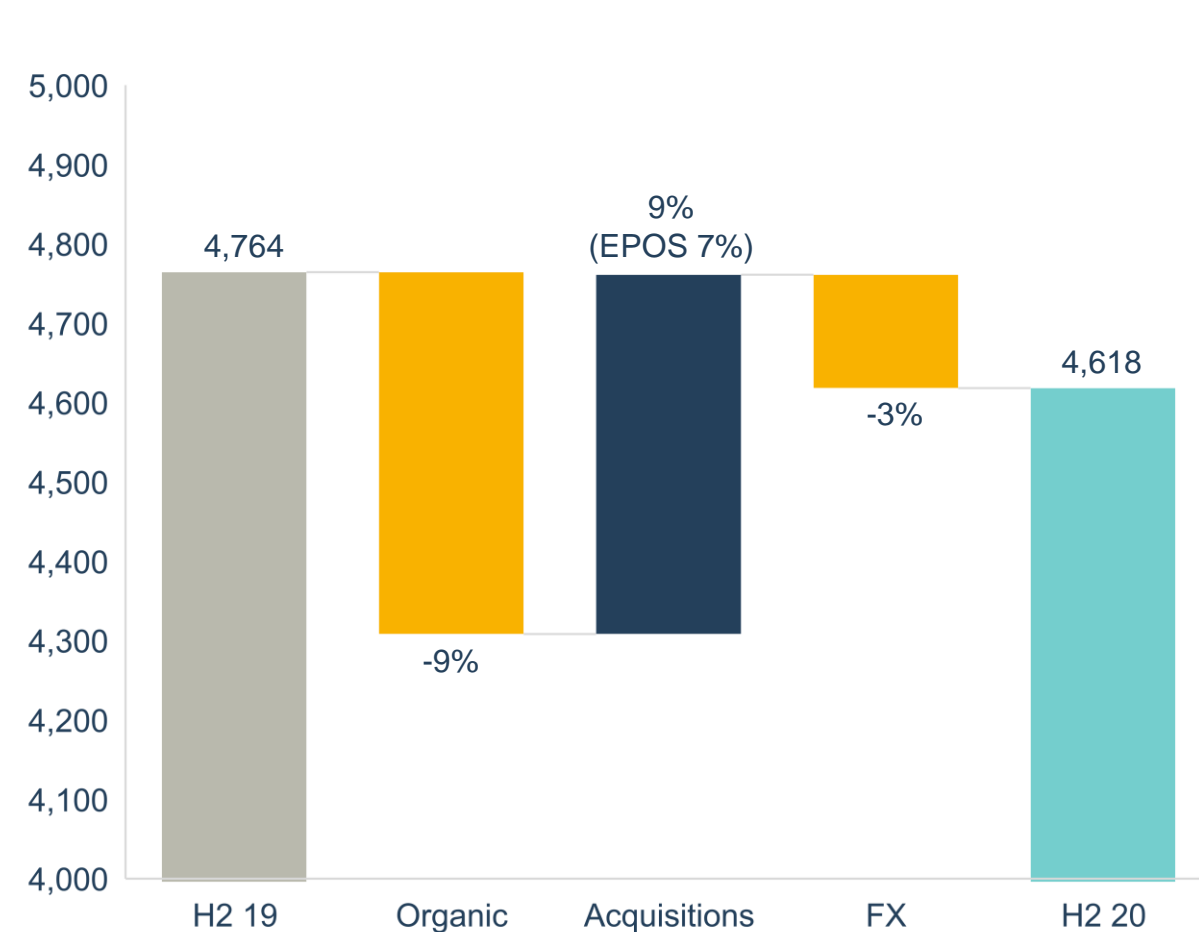
## FY

- Group gross margin decreased by 4.3pp
- Dilution from consolidation of EPOS of 2.1pp
- Significant decline in Hearing Healthcare gross margin due to severe negative impact of coronavirus on revenue in H1



# Material OPEX savings in H2

OPEX decreased by 9% in organic terms



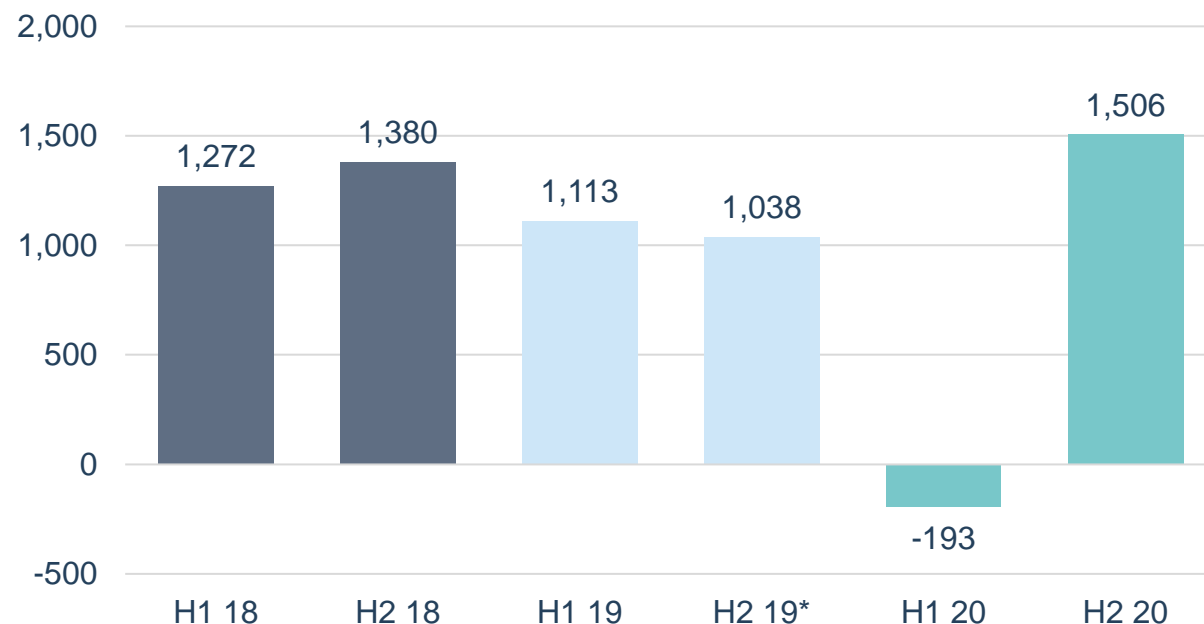
OPEX (DKK million)	H2 20	H2 19	DKK	LCY	Org.
R&D costs	643	568	13%	14%	-3%
Distribution costs	3,523	3,760	-6%	-3%	-12%
Admin. expenses	452	436	4%	7%	3%
<b>Total</b>	<b>4,618</b>	<b>4,764</b>	<b>-3%</b>	<b>0%</b>	<b>-9%</b>

Organic OPEX decline in H2 comprising:

- Significant savings in sales and marketing costs, travelling expenses etc.
- DKK 125 million from structural savings
- DKK 100 million from government support schemes globally
- DKK 50 million from the reversal of provision for bad debt

# Strong profitability in H2

Adjusted EBIT per half-year – DKK million



## H2

- EBIT in H2 reached the upper end of our latest guidance range of DKK 1,400-1,550 million
- EBIT margin of 17.9% before EPOS one-offs
- Strong profitability mainly driven by significant savings in OPEX, whereas revenue remained below the normal level due to coronavirus

## FY

- EBIT for FY significantly below initial expectations due to operating loss in H1

\*EBIT for H2 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.

# 72% growth in CFFO and 141% in FCF in H2

(DKK million)	H2 19	H2 20	Growth	FY 19	FY 20	Growth
CFFO before one-offs	1,102	1,944	76%	2,149	2,710	39%
Cash flow from one-offs	0	-52	-	0	-89	-
<b>CFFO</b>	<b>1,102</b>	<b>1,892</b>	<b>72%</b>	<b>2,149</b>	<b>2,621</b>	<b>22%</b>
Net investments	-466	-358	-23%	-811	-598	-26%
<b>Free cash flow</b>	<b>636</b>	<b>1,534</b>	<b>141%</b>	<b>1,338</b>	<b>2,023</b>	<b>51%</b>
Acquisitions etc.	-285	-101	-65%	-603	-394	-35%
Share buy-backs	-682	0	-100%	-946	-197	-79%
Other financing activities	500	-1,381	-376%	754	-1,238	-264%
<b>Cash flow for the year</b>	<b>169</b>	<b>52</b>	<b>-69%</b>	<b>543</b>	<b>194</b>	<b>-64%</b>

## H2

- Very strong growth in CFFO driven by improved EBIT and tight working capital management
- Decrease in net investments reflects temporary suspension of non-essential investments since mid-March
- Free cash flow increased by 141%
- M&A activities at a lower level than normal
- Other financing activities related to changes in short-term bank facilities

## FY

- 22% growth in CFFO despite full-year decrease in operating profit
- Decrease in net investments – free cash flow increasing by 51%
- Share buy-backs suspended since mid-March

# Balance sheet by main items

(DKK million)	FY 19	H1 20	FY 20	Change	
				H2 20	FY 20
Lease assets	1,937	1,785	1,847	3%	-5%
Non-current assets	12,947	13,871	13,393	-3%	3%
Inventories	1,852	1,936	1,968	2%	6%
Trade receivables	3,209	2,518	2,808	12%	-12%
Cash	792	919	952	4%	20%
Other current assets	1,061	1,038	959	-8%	-10%
<b>Total assets</b>	<b>21,798</b>	<b>22,067</b>	<b>21,927</b>	<b>-1%</b>	<b>1%</b>
Equity	7,645	7,449	8,279	11%	8%
Lease liabilities	1,946	1,831	1,893	3%	-4%
Non-current liabilities	3,763	3,697	4,837	31%	29%
Trade payables	652	643	802	25%	23%
Other current liabilities	7,774	8,447	6,116	-28%	-21%
<b>Total equity and liabilities</b>	<b>21,798</b>	<b>22,067</b>	<b>21,927</b>	<b>-1%</b>	<b>1%</b>

## H2

- Marginal decrease of 1% in total assets
- Decrease in other non-current assets including goodwill and deferred tax assets

## FY

- Growth in total assets of 1%
  - 6% acquisitive growth due to the consolidation of EPOS
  - -1% organic growth
  - -5% impact from FX
- Tight working capital management driving reduction of 24% in net working capital
- NIBD declined 13% due to decrease in short-term debt
- Gearing multiple (NIBD/EBITDA) of 2.8



# EPOS one-offs

One-offs related to extraordinary branding of EPOS were lower than originally expected\*  
– some branding costs are expected to spill over into 2021

P&L impact of EPOS one-offs (DKK million)	H1 20	H2 20	FY 20	Nature
Revenue	-	-	-	
Production costs	-109	-38	-147	Adjustment of inventory (no cash flow effect)
<b>Gross profit</b>	<b>-109</b>	<b>-38</b>	<b>-147</b>	
R&D costs	-	-	-	
Distribution costs	-37	-52	-89	Extraordinary spending on branding (cash flow effect)
Administrative expenses	-	-	-	
Share of profit after tax, associates and joint ventures	453	0	453	Fair value adjustment, primarily of goodwill (no cash flow effect and exempt from taxation)
<b>EBIT</b>	<b>307</b>	<b>-90</b>	<b>217</b>	

\*At the beginning of 2020, one-off costs related to extraordinary branding of EPOS were expected to be DKK 100-200 million in 2020.

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# Outlook for 2021

## Recent developments

### Hearing Healthcare

- Continues to be negatively impacted by coronavirus – revenue remains below normal level
  - Especially the case in the UK and in several emerging markets
  - US also impacted, albeit to a lesser extent
  - Hearing Implants currently the most impacted business area

### Communications

- Continued strong demand for professional headsets
- So far, high double-digit growth rate in 2021 supported by soft comparative figures

## Outlook assumptions

Gradual normalisation of the hearing healthcare market during H1 in developed markets

Slower pace of normalisation in government channels and emerging markets – the latter possibly beyond 2021

Release of some pent-up demand in H2 – some will not be released until 2022 or beyond

Growth of 8-10% on professional headset market despite strong comparative figures – we expect to take market share

# Outlook for 2021

Metrics	Outlook for 2021
Group revenue growth	
Organic	23-27%, Hearing Healthcare growing faster organically than Communications
Acquisitive	1% based on acquisitions completed as of 8 February 2021
FX (incl. hedging)	-2% based on FX rates as of 8 February 2021
EBIT	DKK 2,850-3,150 million, with EBIT skewing towards H2
Effective tax rate	Around 23%
Gearing (NIBD/EBITDA)	In line with medium- to long-term target of 2.0-2.5* at the end of 2021
Share buy-backs	More than DKK 2 billion

\*Gearing target no longer excludes impact of leasing. Target remains unchanged if adjusted for the estimated impact of leasing on gearing of 0.3.

# Medium- to long-term outlook

Metrics	Medium- to long-term outlook
Organic growth	Above estimated market growth rate in both Hearing Healthcare and Communications
EBIT margin	Aim to increase margin in each business area over time. Group's EBIT margin subject to changes in business mix as well as to acquisitions and FX effects
Capex	~4% of annual revenue (excl. customer loans and acquisitions)
Gearing	2.0-2.5 (NIBD/EBITDA)
Capital allocation	Any excess free cash flow after acquisitions will be used for share-buy backs (subject to gearing target)

## Estimated value growth rates and market size by business area

Hearing Aids 2-4% USD 6 billion	Hearing Care 2-4% USD 14 billion	Hearing Implants 10-15% USD 1.8 billion	Diagnostics 3-5% USD 0.5 billion
Hearing Healthcare ~4% USD 23 billion			Communications 8-10% USD 6 billion



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Q&A

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## **Virtual roadshows and conferences:**

10 Feb	<b>Copenhagen</b> (Danske Bank)
11-12 Feb	<b>London</b> (JP Morgan)
12 Feb	<b>Paris</b> (Exane)
15 Feb	<b>Oslo</b> (Nordea)
16 Feb	<b>Helsinki</b> (Nordea)
17 Feb	<b>Stockholm</b> (Nordea)
22 Feb	<b>Benelux</b> (SEB)
24 Feb	<b>Zurich</b> (Credit Suisse)
24-25 Feb	<b>New York, Boston, Toronto</b> (Morgan Stanley)
25 Feb	<b>Geneva</b> (Credit Suisse)
02 Mar	<b>European MedTech Conference</b> (Morgan Stanley)
03 Mar	<b>Frankfurt</b> (Commerzbank)
03 Mar	<b>Milan</b> (JP Morgan)
08 Mar	<b>Barcelona and Madrid</b> (Danske Bank)
09 Mar	<b>Edinburgh and Dublin</b> (Citi)
18-19 Mar	<b>USA</b> (Jefferies)
24-26 Mar	<b>Asia</b> (Goldman Sachs)