Interim Report 2019

14 August 2019

Søren Nielsen, President & CEO

René Schneider, CFO

Investor Relations

Demant

Life-changing hearing health

Key take-aways for H1 2019

- 8% growth for the Group – recent product launches drive growth acceleration into second half-year
- 6% organic growth in hearing aid wholesale with 12% unit growth and -5% ASP due to negative product mix changes, including higher-than-normal level of returns of products based on legacy rechargeable technology. Oticon Opn S helped drive higher growth in the last part of the period after a slow start to the year
- Hearing aid retail grew by 9% in local currencies with 7pp acquisitive growth and 2pp organic growth despite negative one-off impact of more than 1pp from new hearing healthcare reform in France. Underlying organic growth of 3% in line with expectations
- Strong growth in Hearing Implants driven by very strong 35% organic growth in cochlear implants due to success of Neuro system. Bone-anchored hearing systems saw organic growth of 4% – now rolling out Ponto 4
- Continuous market share gains in Diagnostics with 8% growth in local currencies of which 7pp are attributable to organic growth following strong growth in North America and Asia
- Sennheiser Communications saw underlying growth of 12% (11% reported) driven by new wireless products, but lower profitability due to mix changes and allocation of further resources to R&D and distribution

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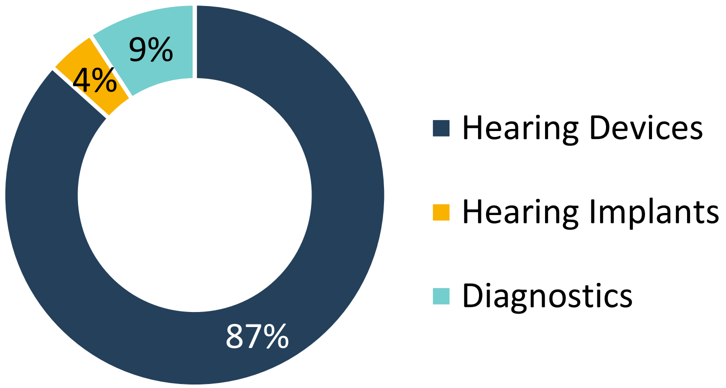
Key take-aways for H1 2019 (continued)

- Significant increase in capacity costs due to increased R&D efforts during 2018 and higher distribution costs, mainly driven by hearing aid retail, including one major acquisition completed in Q2 2018
- EBIT amounted to DKK 1,113 million, a decrease of 9% compared to reported EBIT last year. EBIT margin of 15.1% compared to 18.1% last year. Underlying EBIT of DKK 1,205 million with 16.2% underlying margin
- Significant acceleration of the Group's organic growth in H2: full effect of recent product launches and returns of legacy rechargeable products ending in August, higher organic growth in retail, strong growth in Hearing Implants and Diagnostics and no further impact of French reform. Total capacity costs in H2 will be in line with capacity costs in H1
- Outlook for EBIT in 2019 adjusted to DKK 2.65-2.85bn (previously DKK 2.65-2.95bn) with significantly improved growth and profitability in H2
- We still expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion
- Level of acquisition opportunities and generally attractive access to funding leading to an updated gearing multiple target of 1.7-2.2 (previously 1.5-2.0) measured as net interest-bearing debt (NIBD) relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16)

Revenue by business activity

DKK million	H1 2019	H1 2018	Change DKK	Change LCY	Change Organic
Hearing Devices	6,373	5,917	8%	7%	4%
- Wholesale			6%	6%	6%
- Retail			11%	9%	2%
Hearing Implants	304	275	18%	17%	17%
Diagnostics	673	603	12%	8%	7%
Total	**7,350**	**6,777**	**8%**	**7%**	**5%**



- Reported Group revenue growth of 8%, i.e. 5pp organic, 2pp acquisitive and 1pp FX
- Organic growth accelerated after a slow start to the year
- Solid organic growth in Hearing Devices
- Strong organic growth in Hearing Implants and Diagnostics
- Acquisitive growth mainly related to hearing aid retail business, including one major acquisition completed in Q2 2018

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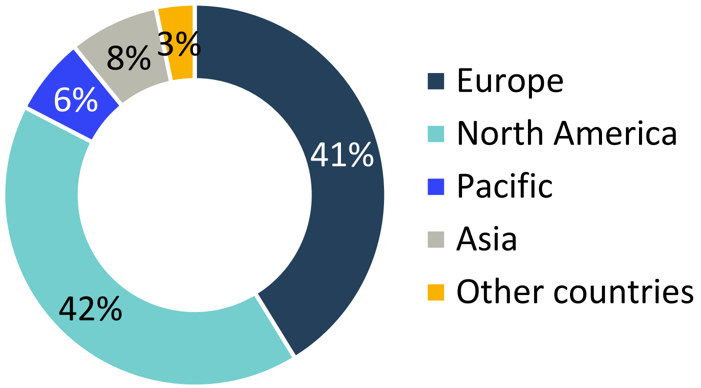
Revenue by geography

DKK million	H1 2019	H1 2018	Change DKK	Change LCY	Change Organic
Europe	2,996	2,810	7%	6%	5%
North America	3,063	2,778	10%	7%	2%
Pacific	459	447	3%	5%	4%
Asia	574	521	10%	12%	12%
Other countries	258	221	17%	19%	19%
Total	**7,350**	**6,777**	**8%**	**7%**	**5%**



- Solid growth in local currencies in all regions, particularly in Other countries and Asia
- Solid organic growth in Europe driven by the UK, Germany and Italy
- Growth in North America driven by acquisitions in retail, however partly offset by negative development in the product mix in hearing aid wholesale
- Significant organic growth in Asia mainly driven by China and Japan

Update on business activities

The global hearing aid market year-to-date

Growth rates at the upper end of our general expectation of 4-6% unit growth per year when adjusting for NHS stockbuilding in preparation for Brexit

- Unit growth in the US of 3.8% in H1 (2.7% in the commercial market and 8.5% in Veterans Affairs)
- Very strong unit growth in Europe driven by NHS stock-building in preparation for Brexit. Strong unit growth in Germany, Italy and several other countries
  - Strong unit growth in France albeit significant fluctuations due to new hearing healthcare reform
- Slightly negative unit growth in Australia and modest unit growth in Japan
- Estimated double-digit growth in China
- Wholesale value growth consistent with our general expectations of 2-4% – most likely at the upper end of this range when adjusting for extraordinary growth in the NHS
- Retail ASPs vary significantly across markets

Market in 2019	Unit growth*	ASP growth
Hearing aid wholesale	4-6%	Flat to slightly negative
Hearing aid retail		Relatively stable

**adjusted for growth in NHS*

Hearing healthcare reform in France

Changes resulting in a significant, negative one-off impact of approx. DKK 50 million on EBIT in Hearing Devices, particularly in our retail business

- Reform took effect on 1 January 2019 with a number of elements:
    - Increased reimbursement for hearing aid users
    - Eligibility for renewal every four years
    - Mandatory trial period of 30 days
    - Mandatory warranty period of four years
    - Ambition to increase the number of trained audiologists to meet demand
- We are generally positive about the potential impact of the reform over the coming years

12% unit growth drives market share gains in wholesale of hearing aids

- Organic growth of 6% driven by broad-based unit growth of 12%
- Profitability diluted by negative product mix changes, resulting in an ASP decline of slightly more than 5%:
  - Weak sales at the beginning of the year in the competitive premium segment diluted product mix
  - Strong growth in sales to the NHS, large retail chains and Asia
  - Strong growth in sales to independents of mid-priced products introduced last year
  - Significantly higher-than-normal level of returns of products based on legacy silver-zinc rechargeable technology – one-off effect ending in August
- Growth accelerated with improving ASP towards the end of the period following recent product launches

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Encouraging uptake of Oticon Opn S – portfolio now expanded further

- Very positive end-user feedback on the industry-leading audiology, dual-radio connectivity and lithium-ion rechargeable solution of Opn S
- Strong demand for rechargeable version – more than half of sales in several markets and channels
- Oticon product portfolio further expanded in August with the launch of Super Power and Ultra Power instruments for adults and children based on the Velox S platform
- Global roll-out of remote care solution for iPhone®, iPad® and Android™ devices, enabling real-time, video-based consultations and remote fine-tuning

True product innovation with Oticon Opn S

Oticon Opn S takes the BrainHearing™ benefits even further and combines superior audiology and the world's first feedback prevention system with state-of-the-art rechargeability and 2.4 GHz direct streaming in one device

Audiology

- Audiology remains the key parameter
- Open sound paradigm vs. traditional directionality
- Active feedback prevention system delivering optimal fitting and avoiding occlusion

Connectivity

- 2.4 GHz Bluetooth Low Energy-based connectivity
- Direct streaming through Made for iPhone® interface
- Streaming in stereo from all devices
- Internet-connected devices (IFTTT)

Rechargeability

- State-of-the-art lithium-ion rechargeable battery for a full day's use
- Fast charging and ability to quick-charge if needed
- Stable, inductive connection

eHealth

- Enabling closer relationship between HCP and end-user
- Tool to improve efficiency in public systems
- Real-time, video-based consultations and remote fine-tuning

Oticon Opn S

Oticon BrainHearing™ Technology
Powered by Velox S™

Remote care solution to be rolled out globally

- Will be available for iPhone®, iPad® and Android™ devices globally
- Will make it possible to have real-time, video-based consultations and remote fine-tuning between the hearing care professional and the end-user

oticon PEOPLE FIRST

Introducing the world’s most powerful hearing aid

146 dB SPL MPO and 87 dB full-on gain

OTICON | Xceed

Oticon BrainHearing™ Technology
Powered by Velox™ S

Up to 10% improvement in speech clarity

Up to 10% less listning effort

Up to 15% better short term memory

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New product families in Bernafon and Sonic

New Super Power and Ultra Power instruments soon to be rolled out in both brands

Leox 7 | 3 SP & UP

- Suited for adult and paediatric users alike
- Based on the latest Viron chipset boasting True Environment Processing™

bernafon
Your hearing · Our passion

Trek™ 80 | 40 SP & UP

- Based on the SoundDNA platform
- Available in two price points

SONIC
Everyday Sounds Better

Continued development towards new connectivity solutions

ASHA

- Significant focus on the implementation of the upcoming Audio Streaming for Hearing Aids (ASHA) specification for Android™ devices
- Based on the Bluetooth Low Energy technology

EHIMA

- Continued work towards new, non-proprietary Bluetooth solution, supporting HI interfacing to consumer devices
- Development driven by the European Hearing Instrument Manufacturers Association (EHIMA)

Connected hearing health with Philips HearLink

PHILIPS

Philips HearLink now launched

- A unique combination of industry-leading hearing technology and a well-known end-user brand
- Philips is all about creating connections to people and to the world around you
- Products have been very well received and will help us address new customer segments globally and gain further market share over the coming years
- Currently expanding into new markets
- Philips HearLink product portfolio to be expanded in August with SuperPower and UltraPower instruments

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9% growth in local currencies in retail driven by acquisitions

- 2% organic growth despite significant negative one-off impact of French hearing healthcare reform
  - Underlying organic growth of 3% in line with expectations
- Significant growth in North America due to acquisitions made mainly in the US in H1 2018
  - Organic growth was flat in US
  - On track to complete brand harmonisation of US retail network by the end of the year
- Solid overall growth in Europe
  - Negative organic growth in France due to reform
  - Strong organic growth in the UK and Poland
- Solid organic growth in Australia due to successful adjustment of our business model

17% organic growth in Hearing Implants driven by cochlear implants

Cochlear implants (CI)

- 35% organic growth, significantly exceeding estimated market growth thanks to continued success of our Neuro system
- Continued traction with existing customers and establishment of relationships with new clinics
- Strong, broad-based growth, particularly in Germany, Brazil and in various export markets

Bone anchored hearing systems (BAHS)

- Modest organic growth of 4% in a slow market
- Ponto 4 launched late in the reporting period – growth expected to accelerate significantly in H2 2019
- Ponto 4 features the smallest design on the market and is based on Velox S, the latest hearing aid platform from Oticon
- Offers wireless streaming from smartphones

Diagnostics once again delivered market share gains with 7% organic growth

- We continued to expand our leading position with growth across all brands despite strong comparative figures
- Audiometers as well as auditory brainstem response (ABR) and impedance equipment drove growth in instrument sales
- Strong growth in services and disposables, which grew as a share of overall revenue
- Geographically, growth was most pronounced in North America and in Asia

Strong underlying growth of 12% in Personal Communication

- 12% underlying growth (adjusted for inventory effects) despite strong comparative figures in our 50/50 joint venture, Sennheiser Communications
- Growth generated by new wireless products
- Demant's share of profit after tax decreased by 38% to DKK 28 million due to product mix changes and increasing R&D and distribution costs
- Growing momentum and strong product pipeline
- Preparation for separation of joint venture from 1 January 2020 progressing according to plan

Financial update

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Income statement

(DKK million)	H1 2019	H1 2018	Growth	Restruc. costs H1 2018	Adjusted H1 2018	Growth
Revenue	7,350	6,777	8%	0	6,777	8%
Production costs	-1,649	-1,576	5%	-10	-1,566	5%
Gross profit	**5,701**	**5,201**	**10%**	**-10**	**5,211**	**9%**
Gross profit margin	*77.6%*	*76.7%*			*76.9%*	
R&D costs	-552	-492	12%	-12	-480	15%
Distribution costs	-3,661	-3,157	16%	-12	-3,145	16%
Administrative expenses	-415	-380	9%	-12	-368	13%
Share of profit after tax, associates and JVs	40	54	-26%	0	54	-26%
Operating profit (EBIT)	**1,113**	**1,226**	**-9%**	**-46**	**1,272**	**-13%**
Operating profit margin (EBIT margin)	*15.1%*	*18.1%*			*18.8%*	

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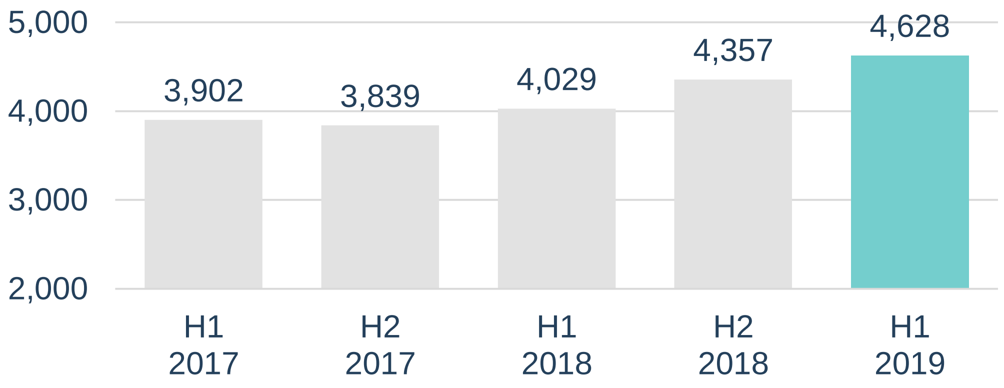
Development in capacity costs

- Increase in R&D costs driven by expansion of R&D efforts during 2018, particularly in software competencies
- Increase in distribution costs mainly related to retail due to a combination of organic growth and acquisitions made primarily in H1 2018
- In H2 2019, total capacity costs are expected to be in line with capacity costs in H1 2019
  - Year-over-year growth rates thus decreasing significantly in H2 2019 compared to H1 2019

Capacity costs – DKK million

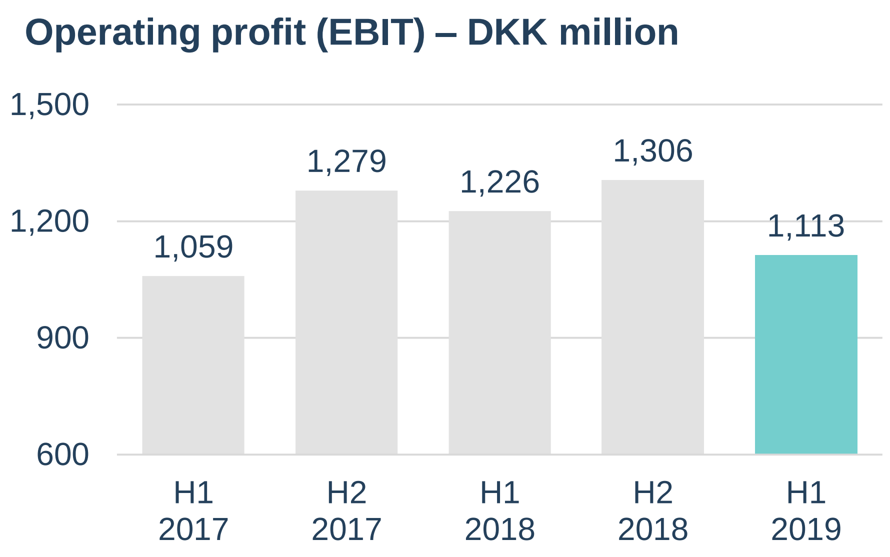
(DKK million)	H1 2019	H1 2018	Change DKK	Change LCY
R&D costs	552	492	12%	12%
Distribution costs	3,661	3,157	16%	13%
Administrative expenses	415	380	9%	8%
Total capacity costs	**4,628**	**4,029**	**15%**	**13%**

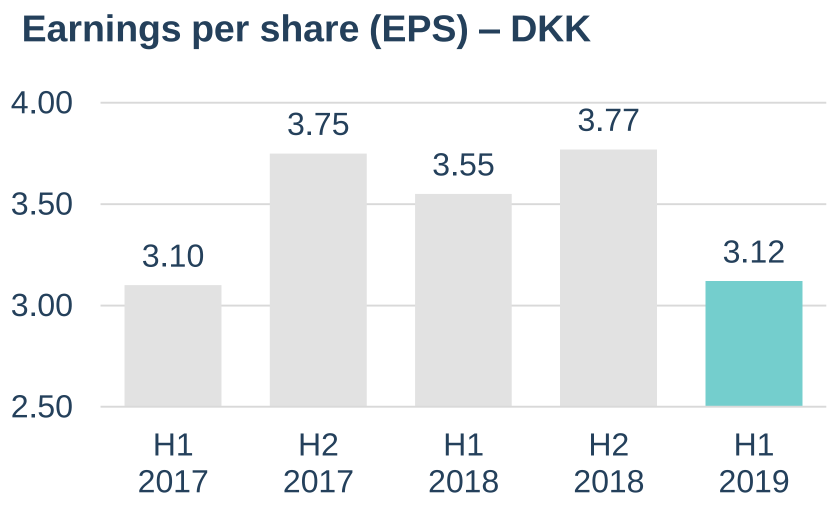
Capacity costs – DKK million



Profits diluted by product mix, one-off effects and significant investments

- EBIT declined by 9% in H1 2019:
  - Slow start to the year due to negative product mix and ASP and significantly higher-than-normal level of returns of products based on legacy silver-zinc rechargeable technology
  - Increased R&D efforts and higher distribution costs, mainly due to retail acquisitions made in H1 2018
  - Negative one-off effect of DKK 50 million related to French reform
- EPS decline of 12% on H1 2018





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Underlying development in revenue and EBIT

DKK million	Reported			Adjustments*		Adjusted			Transaction		Translation		Underlying/LCY		
	H1 2018	**H1 2019**	**%**	**H1 2018**	**H1 2019**	**H1 2018**	**H1 2019**	**%**	**H1 2018**	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**	**H1 2019**	**%**
Revenue	6,777	7,350	*8%*	0	-58	6,777	7,408	*9%*	51	-45	-178	0	6,904	7,453	*8%*
EBIT	1,226	1,113	*-9%*	-46	-41	1,272	1,154	*-9%*	44	-51	-43	0	1,271	1,205	*-5%*
EBIT margin	*18.1%*	*15.1%*				*18.8%*	*15.6%*						*18.4%*	*16.2%*	

- Revenue and EBIT for H1 2018 restated to reflect exchange rates in 2019
- 8% growth in underlying revenue and 5% decline in underlying EBIT
- Underlying EBIT margin for H1 2019 is 2.2 percentage points lower than in H1 2018

**Restructuring costs (DKK -46 million on EBIT in H1 18), effects of French reform (DKK -58 million on rev. and DKK -50 million on EBIT in H1 19) and IFRS 16 (DKK 9 million on EBIT in H1 19)*

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Cash flow by main items

(DKK million)	H1 2019	H1 2018	Change
Operating profit	**1,113**	**1,272***	**-13%**
CFFO	**1,047**	**1,051***	**0%**
Cash flow from restructuring costs	0	-55	-100%
CFFO	**1,047**	**996**	**5%**
CFFI	-345	-50	590%
Free cash flow	**702**	**946**	**-26%**
Acquisition and divestment of enterprises, participating interests and activities	-318	-785	-59%
Share buy-backs	-264	-902	-71%
Other financing activities	254	549	-54%
Cash flow for the period	**-374**	**-192**	**-295%**

**Adjusted*

- Cash flow from operating activities positively impacted by IFRS 16; adjusted for this effect, CFFO decreased by 17%
- Significant increase in CFFI due to settlement of loans issued to acquired entities in the comparison period
- Cash flow from acquisitions and divestments of DKK -318 million
- Share buy-backs materially lower than last year – however expected to accelerate in H2 2019

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Balance sheet by main items

(DKK million)	H1 2019	FY 2018	Change
Lease assets	1,938	0	
Other non-current assets	12,395	11,930	4%
Inventories	1,777	1,641	8%
Trade receivables	3,047	2,763	10%
Cash	614	630	-3%
Other current assets	988	971	2%
Total assets	**20,759**	**17,935**	**16%**
Equity	7,596	7,059	8%
Lease liabilities	1,959	0	
Other non-current liabilities	2,380	3,390	-30%
Trade payables	546	499	9%
Other current liabilities	8,278	6,987	18%
Total equity and liabilities	**20,759**	**17,935**	**16%**

- Growth in total assets of 16% driven by the implementation of IFRS 16 and an increase in goodwill from acquisitions
- Total equity increased by 8% driven by Group profit for the period, but increase partly offset by share buy-backs

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Impact of IFRS 16 in line with expectations

- IFRS 16 implemented with effect from 2019* (comparative figures have not been restated)
- Impact on full year in line with previously communicated expectations

(DKK million)	H1 2019 reported	IFRS 16 impact	H1 2019 excl. IFRS 16
Income statement			
EBITDA	1,582	239	1,343
EBIT	1,113	9	1,104
Profit before tax	994	-13	1,007
Cash flow			
CFFO/FCF	1,047/702	217	830/485
CFFF	-10	-217	207
Balance sheet			
Total assets/total liabilities	20,759	~1,959	18,800
Net interest-bearing debt (NIBD)	7,613	~1,959	5,654
Financial ratios			
Gearing (NIBD/EBITDA)	2.3x	0.3x	2,0x

**Please refer to Note 2 in Interim Report 2019 for more details on the impacts of the new accounting standard*

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Updated gearing outlook due to acquisition opportunities and attractive access to funding

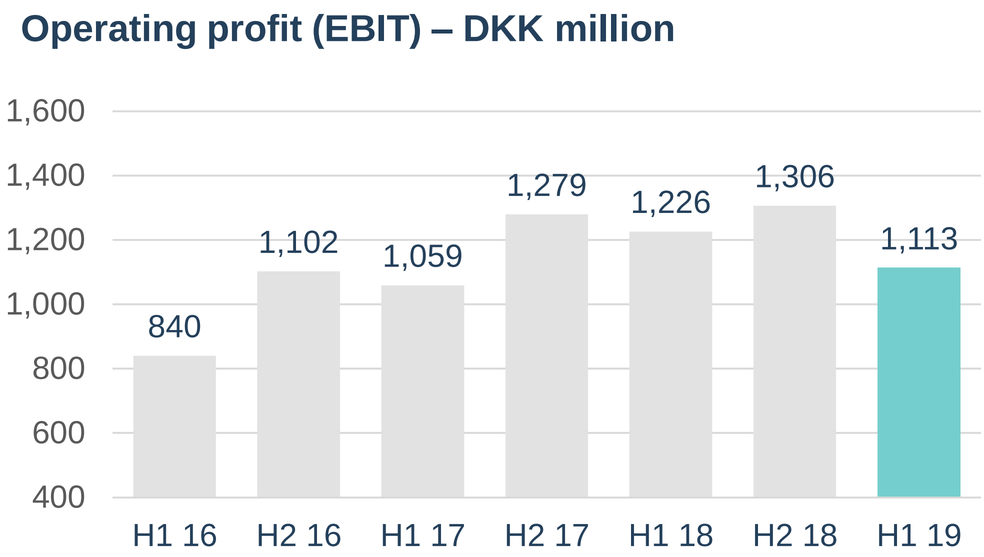
- Updated gearing multiple target of 1.7-2.2 (previously 1.5-2.0) measured as NIBD relative to EBITDA before depreciation related to leased assets (i.e. adjusted for IFRS 16)
- We see several attractive acquisition opportunities in all parts of our business – level of acquisitions now expected to be slightly above the level in 2018
- Access to funding generally attractive
- Updated gearing corresponding to gearing multiple target of 2.0-2.5 (prev. 1.8-2.3), including IFRS 16

(DKK million)	H1 2019	Guidance
Net interest bearing debt (NIBD)	5,654	
NIBD relative to EBITDA before depreciation related to leased assets	**2.0x**	**1.7-2.2 (prev. 1.5-2.0)**
Lease liabilities	*1,959*	
NIBD including lease liabilities	*7,613*	
NIBD including lease liabilities relative to EBITDA	*2.3x*	*2.0-2.5 (prev. 1.8-2.3)*

Outlook 2019

Significant acceleration in organic growth and profitability expected in H2

- Full effect of our many recent product launches combined with returns of legacy rechargeable products ending in August
- Accelerating organic growth in our hearing aid retail business, with no further impact of the reform in France
- Continued strong growth in Hearing Implants and Diagnostics
- Total capacity costs expected to be in line with capacity costs in H1 2019
- All factors will help drive material growth in profitability in H2 2019



Outlook 2019

- We maintain our expectation to generate organic sales growth above market level in 2019, accelerating through the year as a reflection of the timing of new product launches
- We still expect a positive exchange rate effect of 1% on revenue in 2019
- Due to developments in the first half-year, including an adverse product mix development, a higher-than-normal level of returns of legacy rechargeable products and a more competitive environment than originally expected, **we adjust our outlook for reported operating profit (EBIT) to DKK 2,650-2,850 million (previously DKK 2,650-2,950 million)**
- We still expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion
- Due to the level of acquisition opportunities that we see in the market and generally attractive access to funding, we now aim for a gearing multiple of 1.7-2.2 (previously 1.5-2.0) measured as net interest-bearing debt (NIBD) relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16)

Q&A

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Roadshows and conferences:

15 Aug.	**Copenhagen** (Danske Bank)
16 Aug.	**London** (JP Morgan)
27 Aug.	**Frankfurt** (Commerzbank Conference)
30 Aug.	**Zurich** (Credit Suisse)
4 Sept.	**Copenhagen** (ABG Large Cap Seminar)
4-5 Sept.	**London** (Goldman Sachs Conference)
10 Sept.	**New York** (Morgan Stanley Conference)
10 Sept.	**Geneva** (Carnegie)
11 Sept.	**New York** (Jefferies)
11 Sept.	**Paris** (Kepler Cheuvreux Conference)
18 Sept.	**Stockholm** (Handelsbanken)
19 Sept.	**Oslo** (DNB)
25-26 Sept.	**Benelux** (SEB)
9 Oct.	**Tokyo** (Goldman Sachs)
10 Oct.	**Hong Kong** (Goldman Sachs)
11 Oct.	**Singapore** (Goldman Sachs)
16-18 Oct.	**EUHA, Nurnberg**