

Demant Interim Report 2022

16 August 2022

Søren Nielsen, President & CEO
René Schneider, CFO
Investor Relations



Agenda

- 01 Key events and financial take-aways in H1 2022**
- 02 Hearing Healthcare**
- 03 Communications**
- 04 Financial review**
- 05 Outlook**
- 06 Q&A**

Key events in H1 2022



We deliver market share gains in Hearing Aids and Diagnostics in a weaker-than-expected hearing healthcare market, particularly in the US, however offset by lower-than-expected growth in Hearing Care in the US and Pacific region



Communications saw continued weakening of the gaming market and supply chain challenges, resulting in negative growth for the period



Global uncertainties, volatile markets and coronavirus-related restrictions continue to cause a dynamic business environment for both Hearing Healthcare and Communications



We finalised the full acquisition of ShengWang, a leading network of around 500 hearing aid clinics in China, which will be a platform for future growth for Demant in China



As announced in H1, Demant has decided to discontinue its efforts in Hearing Implants business area; the divestment process is still presumed to close in H2 and is currently progressing as expected



Oticon More mini-RITE

Key financial take-aways for H1 2022

4%

Group **organic growth** of 4% in H1 in a weaker-than-expected hearing aid market, particularly in the US



Hearing Healthcare: Organic growth of 6% (Q2: 3%) driven by strong performances by Hearing Aids and Diagnostics, but more than offset by lower-than-expected growth in Hearing Care



Communications: Organic growth of -14% (Q2: 5%), reflecting very strong comparative figures in Q1 2021 and continued weakness in the market for gaming headsets



OPEX slightly below our original plans although we continue to invest significantly in R&D



EBIT for the Group was DKK 1,588 million, a decline of 5%, but adjusted for temporary cost savings and the French reform in H1 2021, EBIT growth was around 13%, which is slightly below expectations



Outlook for 2022 adjusted:

Organic revenue growth 4-6% (prev. 5-9%)
EBIT of DKK 3,500-3,800 million (prev. DKK 3,600-3,900 million)

(DKK million)	H1 2022	H1 2021	Change
Hearing Healthcare			
Revenue	8,945	8,125	10%
Organic growth	6%		
Operating profit (EBIT)	1,695	1,718	-1%
EBIT margin	18.9%	21.1%	
Communications			
Revenue	552	621	-11%
Organic growth	-14%		
Operating profit (EBIT)	-107	-44	n.a.
EBIT margin	-19.4%	-7.1%	
Group			
Revenue	9,497	8,746	9%
Organic growth	4%		
Operating profit (EBIT)	1,588	1,674	-5%
EBIT margin	16.7%	19.1%	

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Hearing Healthcare



Hearing Healthcare in H1 2022

6%

Hearing Healthcare generated organic growth of 6% in a weaker-than-expected hearing aid market, driven by strong performance by Hearing Aids and Diagnostics, however more than offset by lower-than-expected organic growth in Hearing Care



Gross margin declined slightly due to more-pronounced-than-expected geography and channel mix but was partially offset by a positive development in exchange rates



OPEX saw organic growth of 8% of which around half can be attributed to temporary cost savings in the comparative period and the other half to increased activity levels and R&D investments



EBIT of DKK 1,695 million and EBIT margin of 18.9% which is a decrease of 2.2 percentage points compared to H1 2021. Adjusted for the French healthcare reform and temporary savings, we estimate that the EBIT margin improved by approx. 1 percentage point, partly supported by positive exchange rate effects

(DKK million)	H1 2022	H1 2021	Growth
Revenue	8,945	8,125	10%
Production costs	-2,115	-1,905	11%
Gross profit	6,830	6,220	10%
<i>Gross margin</i>	76.4%	76.6%	
R&D costs	-534	-466	15%
Distribution cost	-4,170	-3,688	13%
Administrative expenses	-488	-405	20%
Share of profit after tax, associates and JVs	57	57	0%
EBIT	1,695	1,718	-1%
<i>EBIT margin</i>	18.9%	21.1%	

The hearing aid market in 2022

Market unit growth:

- We estimate that overall unit growth was 8% in H1 2022. Growth in Q1 was 12% which decreased to 5% in Q2
- Growth in the hearing aid market was below expectations in H1 as headwinds from consumer uncertainty outweighed any tailwinds from the release of pent-up demand not least in the US

Geographical unit growth:

- Growth in **Europe** was driven by the UK, but also other markets, e.g. Germany, performed well. As expected, unit growth in France was negative in Q2
- Growth in **North America** slowed down in Q2 and the US commercial market developed below expectations
- As expected, **government channels** (VA and the NHS) saw strong growth, and in **emerging markets** growth was stronger than anticipated in H1

Unit growth*	2022		
	Q1	Q2	H1
Europe	20%	9%	14%
North America	8%	1%	4%
US (commercial)	6%	-1%	2%
US (VA)	19%	2%	9%
Rest of world	4%	4%	4%
Global	12%	5%	8%
CAGR vs. 2019	4%	6%	5%

Larger-than-expected ASP decline in the period driven by unfavourable geography and channel mix changes



Hearing Aids

Comments

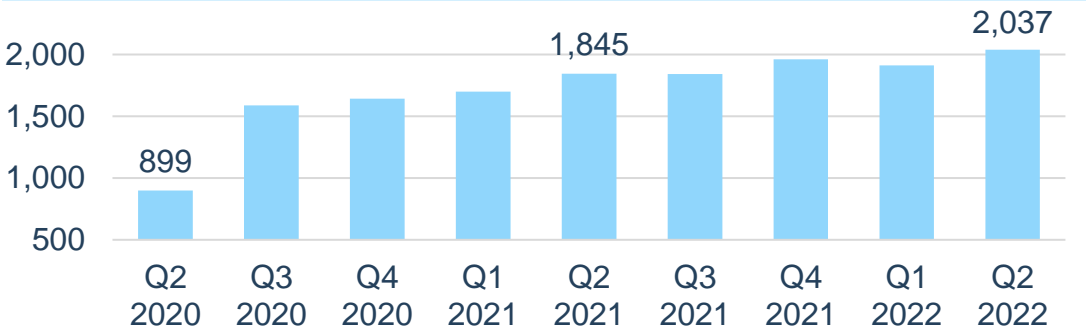
- In a weaker-than-expected market, we continue to gain market shares in many markets driven by the continued success of Oticon More and Philips HearLink
- Unit growth of 16% and ASP decline of 8% in H1, entirely reflecting geography and channel mix changes. This development in the ASP was more negative than anticipated in the period

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Good performances by many countries, especially by the NHS in the UK• Market share gains in France	<ul style="list-style-type: none">• Solid growth and market share gains in H1• Good performance in large chains	<ul style="list-style-type: none">• Very strong growth in emerging markets• Growth in the Pacific region and China was negative in H1 due to coronavirus impacts

Revenue and growth

Revenue (DKK million)	H1 22	H1 21	Growth				
			Org.	Acq.	LCY	FX	Rep.
Hearing Aids	4,842	4,416	9%	-2%	7%	3%	10%
Internal sales to Hearing Care	895	871	-5%	4%	-1%	4%	3%
Sales to external customers	3,947	3,545	12%	-3%	9%	3%	11%

Quarterly revenue





Further expansion of our product portfolio

- We recently announced the continued expansion of our portfolio of industry-leading hearing aids with new **custom form factors** built on our ground-breaking Polaris technology
 - First in-the-ear hearing aid to include an on-board Deep Neural Network for improved speech processing
- In addition, we are introducing new products in the Essential category in all four hearing aid brands

Both portfolio expansions were rolled out at the beginning of H2 2022



Oticon Own



Hearing Care

Comments

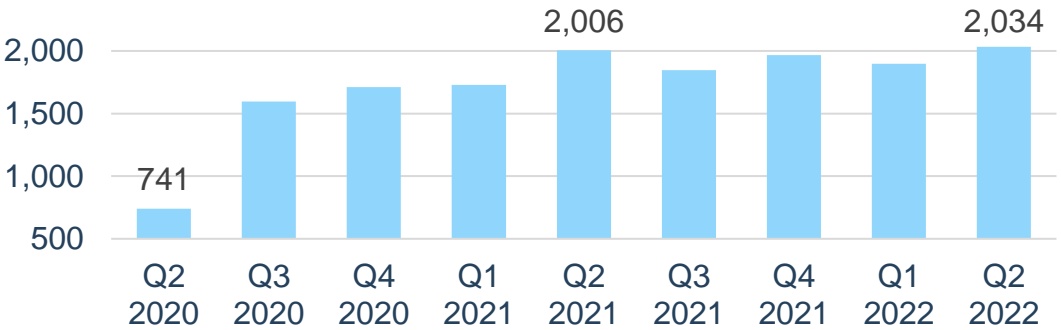
- Hearing Care performed below expectations in H1, mainly attributable to lower-than-expected sales in the US and the Pacific region. Many smaller markets delivered positive growth in the period
- In the US, the negative impact of the decision to exit selected managed care plans was exacerbated by lower-than-expected market growth in Q2
- Positive contribution from acquisitions in line with our strategic priorities, especially in the US, Canada and Germany

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Positive development in several markets• Growth negatively impacted by high comparative figures in France	<ul style="list-style-type: none">• Negative organic growth in North America• Headwind from weak end markets and decision to exit selected managed care contracts	<ul style="list-style-type: none">• Coronavirus-related restrictions and floodings in some areas weighed on growth in Australia throughout H1

Revenue and growth

Revenue <small>(DKK million)</small>	Growth						
	H1 22	H1 21	Org.	Acq.	LCY	FX	Rep.
Hearing Care	3,932	3,737	-3%	4%	1%	4%	5%

Quarterly revenue





Diagnostics

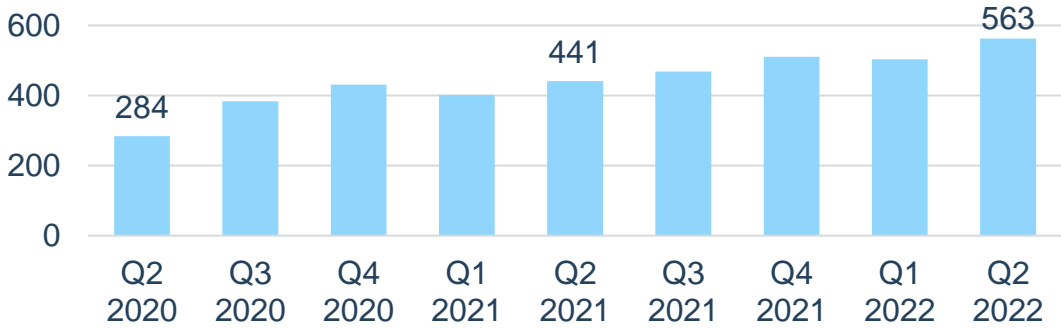
Comments

- We estimate that in H1, the market growth rate was above the estimated structural growth rate of 3-5% per year
- Strong growth and market share gains in H1 in both instrument sales and services in many markets. Growth was board-based but lockdowns in China limited growth, particularly in Q2
- The US was the most significant growth contributor, but Europe and South America also performed very well
- Continued strong order book, so the outlook for our Diagnostics business remains positive
- In Q2, we acquired Inventis Srl., a strong player that focuses on software for audiometers and balance solutions. Inventis will remain a separate brand in our Diagnostics business area going forward

Revenue and growth

Revenue (DKK million)			Growth				
	H1 22	H1 21	Org.	Acq.	LCY	FX	Rep.
Diagnostics	1,066	843	17%	2%	19%	8%	27%

Quarterly revenue




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Communications


EPOS



Communications in H1 2022

 **Communications** organic growth of -14% which is below expectations due to market slowdown in gaming and supply chain challenges

 Decline in **gross margin** due to mix effects, elevated supply chain costs and negative exchange rate developments

 **OPEX** grew by 5% in H1, as we continue to invest in R&D, but distribution costs and administrative expenses were below H1 2021

 As a result of the decline in revenue and of the gross margin headwinds, **EBIT** amounted to DKK -107 million, which is below expectations

(DKK million)	H1 2022	H1 2021	Growth
Revenue	552	621	-11%
Production costs	-299	-321	-7%
Gross profit	253	300	-16%
<i>Gross margin</i>	45.8%	48.3%	
R&D costs	-117	-91	29%
Distribution costs	-224	-233	-4%
Administrative expenses	-19	-20	-5%
EBIT	-107	-44	n.a.
<i>EBIT margin</i>	-19.4%	-7.1%	



Communications

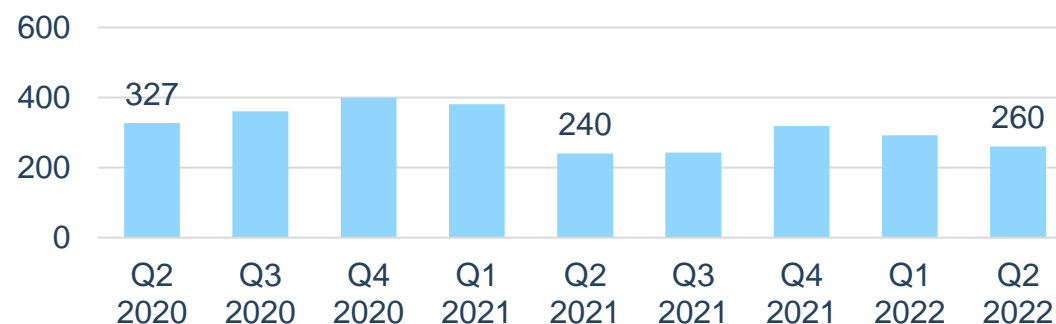
Comments

- We estimate that the market for gaming and enterprise solutions saw negative growth in H1. For Q2 specifically, the market for enterprise solutions improved whereas the gaming market weakened as a result of lower consumer confidence and spending
- **Growth in H1 was below expectations.** In our **Gaming** segment, performance was below expectation due to negative market developments in the period
- Our **Enterprise Solutions** segment saw slightly positive performance during the period but supply chain challenges had a slightly negative impact on the sale of specific product families. We expect the supply chain situation to improve in H2
- In H2, we will launch our new video solutions, the EPOS EXPAND Vision 1 and 5. We expect these products to contribute slightly to growth in the latter part of H2

Revenue and growth

Revenue (DKK million)	Growth						
	H1 22	H1 21	Org.	Acq.	LCY	FX	Rep.
Communications	552	621	-14%	0%	-14%	3%	-11%

Quarterly revenue





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Group financial review

Income statement H1 2022

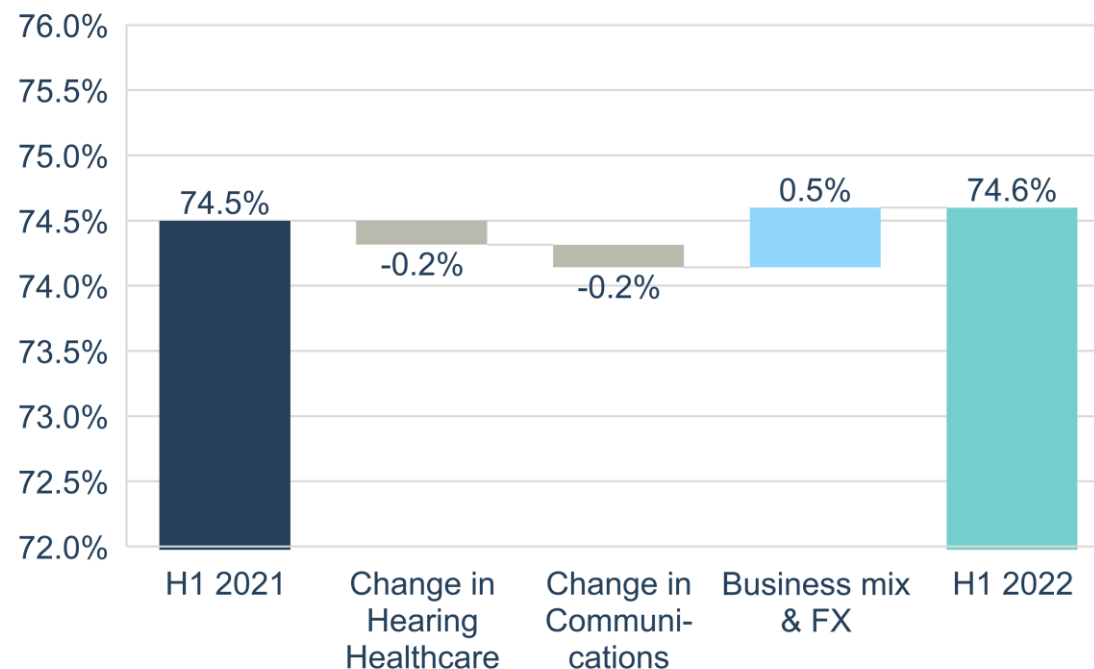
(DKK million)	Hearing Healthcare H1 2022	Communi- cations H1 2022	Group H1 2022	Group H1 2021	Group Growth
Revenue	8,945	552	9,497	8,746	9%
Production costs	-2,115	-299	-2,414	-2,226	8%
Gross profit	6,830	253	7,083	6,520	9%
<i>Gross margin</i>	76.4%	45.8%	74.6%	74.5%	
R&D costs	-534	-117	-651	-557	17%
Distribution costs	-4,170	-224	-4,394	-3,921	12%
Administrative expenses	-488	-19	-507	-425	19%
Share of profit after tax, ass. & JVs	57	-	57	57	-
EBIT	1,695	-107	1,588	1,674	-5%
<i>EBIT margin</i>	18.9%	-19.4%	16.7%	19.1%	

Gross profit

Comments

- Gross profit increased by 9% to DKK 7,083 million
- Gross margin expanded by 0.1 percentage point, driven by business mix and supported by positive exchange rate effects. In Hearing Aids we saw adverse mix effects that impacted the gross margin negatively
- Supply chain headwinds continued to negatively impact the Group's gross margin by around 0.5 percentage points, primarily due to higher freight costs

Gross margin development in H1

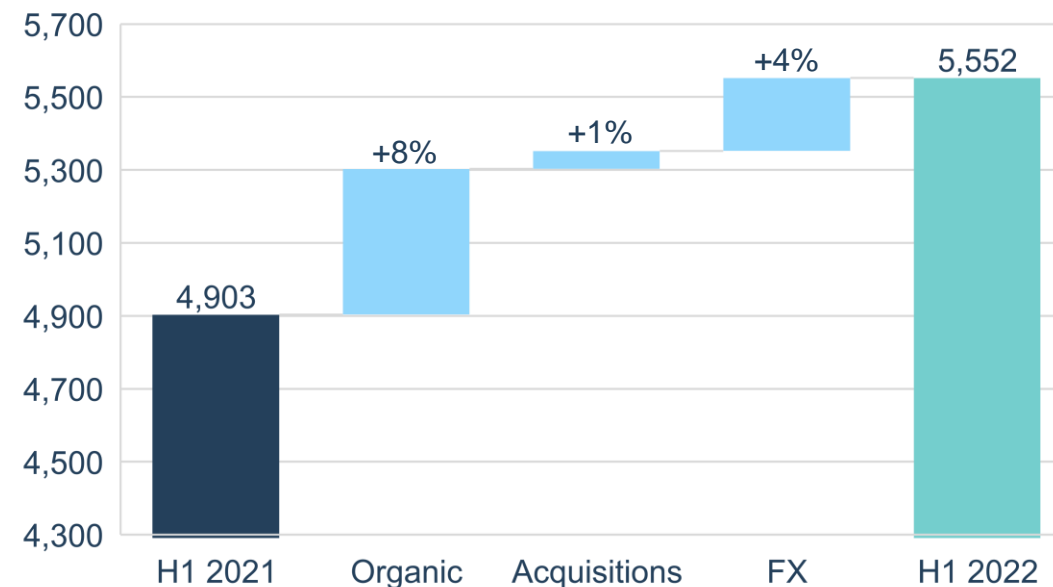


OPEX

Comments

- OPEX saw organic growth of 8% of which around half is attributable to temporary cost savings of DKK 150-200 million in the comparative period
- OPEX was slightly below our original plans, in part due to lower sales in our Hearing Care business
- At this stage, we see no inflationary pressures beyond our initial expectations

OPEX development in H1

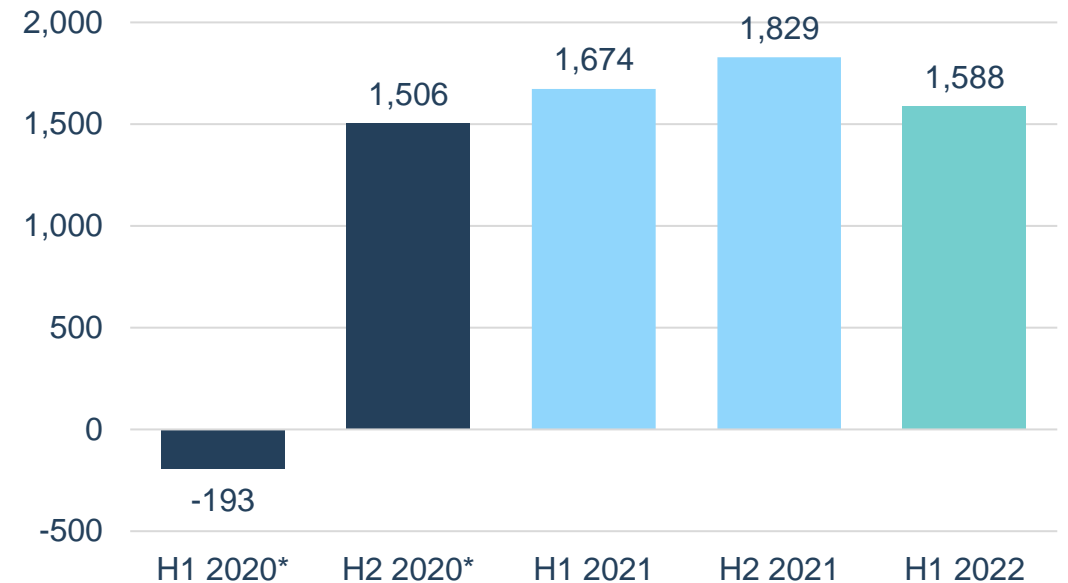


EBIT

Comments

- EBIT was DKK 1,588 million in H1 which ended slightly below expectations
 - Hearing Healthcare: DKK 1,695 million
 - Communications: DKK -107 million
- Group EBIT margin of 16.7%, a decrease of 2.4 percentage points compared to vs. H1 2021
 - The Group's EBIT growth was -5%, but it was around 13%, adjusted for temporary cost savings in the comparative period and for the extraordinary impact on the French reform

Half-year EBIT development



Cash flow statement

- CFFO declined by 43% in H1 due to an increase in the net working capital and the normalisation of trade receivables
- CAPEX was approx. 4% of sales with which is line with our medium- to long-term expectations
- Net cash to acquisitions and divestments was DKK 513 million in H1, mainly reflecting the acquisitions of Inventis and the initial 20% of ShengWang. As previously announced, we acquired the final 80% of the shares in ShengWang at the beginning of H2
- Share buy-backs amounted to DKK 1,307 million in H1

(DKK million)	H1 2022	H1 2021	Change
CFFO	915	1,593	-43%
Net investments	-517	-277	87%
Free cash flow before acquisitions and divestments	398	1,316	-70%
Acquisitions and divestments	-513	-406	26%
Share buy-backs	-1,307	-1,813	-28%
Other financing activities	1,621	1,242	31%
Cash flow for the period	199	339	-41%

Balance sheet

- 10% increase in total assets vs. FY 2021 of which 3% relates to exchange rate effects
- Increase primarily related to increases in non-current assets, trade receivables and other current assets
- Of the total assets, DKK 1,006 million relates to assets held for sale following the discontinuation of Hearing Implants
- Net working capital increased by 35% to DKK 4,089 million due to the normalisation of trade receivables and to higher inventories and higher prepaid expenses
- NIBD amounted to DKK 10,986 million, corresponding to a gearing multiple of 2.4 (NIBD/EBITDA)

(DKK million)	H1 2022	FY 2021	Change
Lease assets	2,104	2,079	1%
Other non-current assets	15,305	14,895	3%
Inventories	2,445	2,366	3%
Trade receivables	3,609	3,203	13%
Cash	1,245	1,172	6%
Other current assets	1,621	1,145	42%
Assets held for sale	1,006	-	n.a.
Total assets	27,335	24,860	10%
Equity	8,184	7,981	3%
Lease liabilities	2,171	2,121	2%
Other non-current liabilities	4,784	4,296	11%
Trade payables	810	808	0%
Other current liabilities	11,165	9,654	16%
Liabilities related to assets held for sale	221	-	n.a.
Total equity and liabilities	27,335	24,860	10%



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Outlook for 2022

Outlook assumptions

The outlook continues to be based on key assumptions as described below

Market

- In H1, value growth in the hearing aid market was below expectations due to developments in Q2:
 - **We 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**
- Negative growth in the French hearing aid market 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.
Developments in H1 were at least in line with expectations
- Demand for enterprise and gaming headsets and video solutions to grow below the estimated structural growth level of around 12%
 - **The weakening of the gaming market in H1 is now also expected to carry over into H2**
 - **The supply situation is expected to gradually improve**

Demant Group

- 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
- 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
- Supply chain situation to remain dynamic throughout 2022 and to result in higher-than-normal component costs and freight charges with an impact roughly similar to the impact in 2021 but with no material disruption to sales activities
- OPEX to see no benefit from temporary cost savings in 2022, which we estimate amounted to DKK 150-200 million in H1 2021

Discontinued Operations

- Planned divestment of Hearing Implants to close at the end of 2022

Outlook for 2022

Metric	Current outlook
Organic	4-6% (prev. 5-9%)
Acquisitive	2% based on revenue from acquisitions completed as of 15 August 2022
FX	5% based on FX rates as of 15 August 2022 and including the impact of exchange rate hedging
EBIT	DKK 3,500-3,800 million (prev. DKK 3,600-3,900 million)
Effective tax rate	22-23%
Gearing	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

A background image showing a close-up of hands examining a map on a wooden table. A compass is placed on the map, and a red string is tied around it. The map shows various geographical features and place names. The overall tone is warm and focused.

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Q&A

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Roadshows and conferences:

17 Aug	Copenhagen (SEB)
18 Aug	London (J.P. Morgan)
29 Aug	Oslo (DNB)
30 Aug	Stockholm (Handelsbanken)
6 Sep	Frankfurt (ODDO BHF conference)
6-7 Sep	Paris (Exane BNP)
7 Sep	Zurich (Credit Suisse)
8 Sep	London (Goldman Sachs conference)
13 Sep	New York (Morgan Stanley conference)
14 Sep	Denver (Jefferies)
15 Sep	Chicago (Jefferies)
12-13 Oct	Hanover (EUHA)

Restated financial figures for 2021*

Hearing Healthcare P&L (DKK million)	H1 2021			H2 2021			FY 2021		
	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants
Revenue	8,125	266	8,391	8,597	246	8,843	16,722	512	17,235
Production costs	-1,905	-68	-1,973	-1,931	-58	-1,989	-3,836	-126	-3,962
Gross profit	6,220	198	6,418	6,667	188	6,855	12,886	386	13,273
<i>Gross margin</i>	76.6%	74.4%	76.5%	77.6%	76.4%	77.5%	77.1%	75.4%	77.0%
Research and development costs	-466	-98	-564	-476	-113	-589	-942	-211	-1,153
Distribution costs	-3,688	-118	-3,806	-3,891	-140	-4,031	-7,579	-258	-7,837
Administrative expenses	-405	-18	-423	-455	-17	-472	-860	-35	-895
OPEX	-4,559	-234	-4,793	-4,822	-270	-5,092	-9,381	-504	-9,885
Share of profit after tax, associates and joint ventures	57	0	57	63	0	63	120	0	120
EBIT	1,718	-36	1,682	1,907	-81	1,826	3,625	-117	3,508
<i>EBIT margin</i>	21.1%	-13.5%	20.0%	22.2%	-32.9%	20.6%	21.7%	-22.9%	20.4%

Communications P&L (DKK million)	H1 2021			H2 2021			FY 2021		
	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants
Revenue	621	-	621	562	-	562	1,183	-	1,183
Production costs	-321	-	-321	-291	-	-291	-612	-	-612
Gross profit	300	-	300	271	-	271	571	-	571
<i>Gross margin</i>	48.3%	-	48.3%	48.2%	-	48.2%	48.3%	-	48.3%
Research and development costs	-91	-	-91	-106	-	-106	-197	-	-197
Distribution costs	-233	-	-233	-231	-	-231	-464	-	-464
Administrative expenses	-20	-	-20	-12	-	-12	-32	-	-32
OPEX	-344	-	-344	-349	-	-349	-693	-	-693
Share of profit after tax, associates and joint ventures	0	-	0	0	-	0	0	-	0
EBIT	-44	-	-44	-78	-	-78	-122	-	-122
<i>EBIT margin</i>	-7.1%	-	-7.1%	-13.9%	-	-13.9%	-10.3%	-	-10.3%

Restated financial figures for 2021*

Demant Group (DKK million)	H1 2021			H2 2021			FY 2021		
	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants	Cont. Operations	Hearing Implants	Group incl. Hearing Implants
Revenue	8,746	266	9,012	9,159	247	9,406	17,905	512	18,418
Production costs	-2,226	-68	-2,294	-2,221	-59	-2,280	-4,448	-126	-4,574
Gross profit	6,520	198	6,718	6,938	188	7,126	13,458	386	13,844
Gross margin ¹	74.5%	74.6%	74.5%	75.7%	76.1%	75.8%	75.2%	75.3%	75.2%
Research and development costs	-557	-98	-655	-582	-112	-695	-1,139	-211	-1,350
Distribution costs	-3,921	-118	-4,040	-4,122	-139	-4,261	-8,043	-258	-8,301
Administrative expenses	-425	-18	-442	-468	-17	-485	-892	-35	-927
OPEX	-4,903	-234	-5,137	-5,172	-269	-5,441	-10,075	-503	-10,578
Share of profit after tax, associates and joint ventures	57	0	57	63	0	63	120	0	120
EBIT before one-offs	1,674	-36	1,638	1,829	-82	1,748	3,504	-117	3,386
EBIT margin	19.1%	-13.5%	18.2%	20.0%	-33.1%	18.6%	19.6%	-22.9%	18.4%
One-offs	0	0	0	159	-100	59	159	-100	59
EBIT	1,674	-36	1,637	1,989	-182	1,807	3,663	-217	3,445
Net financial income and expenses	-101	2	-103	-101	-1	-99	-202	0	-202
Profit before tax	1,500	-34	1,535	1,525	-183	1,708	3,026	-217	3,243
Tax on ordinary income	-349	4	-353	-332	30	-363	-682	34	-716
Net profit from continuing operations	1,151	-30	1,182	1,193	-152	1,345	2,344	-183	2,527
Net profit from discontinued operations	30	30	0	152	152	0	183	183	0
Profit for the period	1,181	0	1,181	1,345	0	1,345	2,527	0	2,526