



Demant

Interim Management Statement

2 November 2021

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Investor Relations

Agenda

- 1 Key take-aways
 - 2 Hearing Healthcare
 - 3 Communications
 - 4 Update on supply chain situation
 - 5 Outlook
 - 6 Q&A
-

Life-changing
hearing health



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Key take-aways

Strong Group performance so far in H2 and increased EBIT outlook

1

Higher-than-expected EBIT driven by Hearing Healthcare

- Market share gains in **Hearing Aids** thanks to successful product launches
- Strong performance in **Hearing Care**, supported by reform in France
- Further market share gains in **Diagnostics**
- Continued impact of coronavirus in **Hearing Implants** and headwind from voluntary field corrective action in CI

2

Recovery in hearing healthcare market progressing well

- Hearing healthcare market has year-to-date recovered well and at least in line with our expectations
- Large differences between our three market segments and between regions
- For 2021, we still expect the hearing aid market to be close to normal level of 4-6% growth per year in *developed* markets, except in the large government channels, Veterans Affairs (VA) and the NHS

3

Increased EBIT outlook for the Group

- Strong profitability in Hearing Healthcare has driven increase of EBIT outlook to DKK 3,300-3,500 million (prev. DKK 3,150-3,450 million)
- EBIT outlook increased in spite of negative impact from the halt of sales of new cochlear implants and additional component and freight costs

4

Now expect net positive impact from three one-off items

- Now expect to realise three one-off effects in H2 with an aggregate net positive EBIT impact of DKK 60-90 million (prev. negative DKK 70-100 million)

H2-to-date commentary

All commentary is based on adjusted figures *before* one-offs, unless otherwise stated



Revenue: Low double-digit organic growth for the Group in addition to minor growth from acquisitions and more or less neutral FX impact



Gross margin: Improved compared to the level in H1 of 74.5% driven by Hearing Healthcare in spite of additional costs related to current supply chain dynamics



OPEX: LCY growth similar to the level in H1 of 18%, reflecting coronavirus-related savings in H2 20, including DKK 100 million in government support. OPEX largely normalised and still expected to see mid-single digit growth in H2 vs H1



EBIT: Profitability has remained very strong and exceeded expectations driven by Hearing Healthcare despite the negative impact from the halt of sales of new cochlear implants and additional component and freight costs



Cash flows: CFFO and FCF have remained strong. Share buy-backs of DKK 958 million so far in H2 and DKK 2,771 million year-to-date



Outlook for 2021: Organic revenue growth of 26-30% (unchanged)
EBIT of DKK 3,300-3,500 million before one-offs (prev. DKK 3,150-3,450 million)
Share buy-backs of more than DKK 3.0 billion (unchanged)



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Hearing Healthcare

Hearing Aids
Hearing Care
Hearing Implants
Diagnostics

The hearing healthcare market in Q3 2021

Hearing aids market

Europe: Extraordinary growth in France and strong improvements in the UK, driven by NHS, and in Germany
North America: Commercial part of the market well above normal, as some pent-up demand was released
Rest of world: Growth was solid in Australia and strong in China and South Korea. Negative but improving growth in Japan

Growth in *commercial* channels in *developed* markets at least in line with structural level of 4-6% per year since 2019

Hearing aid market (unit growth)

Region	2021 vs 2020				2021 vs 2019			
	Q1	Q2	Q3	Total	Q1	Q2	Q3	Total
Europe	10%	130%	12%	36%	-1%	15%	13%	9%
North America	9%	182%	18%	43%	9%	16%	13%	13%
Hereof US (commercial)	12%	156%	17%	41%	12%	22%	17%	17%
Hereof US (VA)	-7%	522%	52%	66%	-7%	3%	-1%	-1%
Rest of world	0%	63%	11%	20%	-6%	7%	5%	2%
Global	6%	115%	14%	33%	0%	13%	10%	8%

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 Q3 19, growth was above structural growth rate of 3-5% per year

Overall, the hearing healthcare market has recovered well year-to-date and at least in line with expectations, albeit with large differences between market segments and between regions

Proposed OTC rule issued by the FDA

- In mid-October, the FDA issued the long-awaited proposed rule to establish a new over-the-counter (OTC) category of hearing aids
 - Targets adults aged 18 and older with perceived mild to moderate hearing loss
 - OTC hearing aids can be bought online or at retail outlets without a medical exam or fitting by a hearing care professional
- Rule has been published for public comment and subsequent finalisation by FDA
- Helps remove uncertainties that have persisted for an extended period

Key barriers to adoption

Stigma	Hearing impaired people typically worry about being perceived as old
Lack of recognition	Many people do not realise or recognise that they have a mild hearing loss

Content of the proposed rule does not change our fundamental belief that the barriers to adoption are best overcome through the combined delivery of

Personal
counselling

Individual fitting and
life-long service

Highly advanced
technology



Hearing Aids

Double-digit organic growth so far in H2, benefitting from continued market recovery and success of flagship hearing aids

- Continued strong momentum has supported market share gains
- In particular, sales in the important US market have continued to see very strong growth driven by success of Oticon More
- Growth entirely a result of unit growth driven by the NHS, VA and France with flattish ASP development
- Portfolio of flagship products was recently expanded with the launch of non-rechargeable miniRITE form factors



User of Oticon
More hearing aids

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Solid growth driven by recovery in the NHS and continued tailwinds from French reform• Slower recovery in Germany	<ul style="list-style-type: none">• Broadly based growth in the US, including in sales to independents, chains and VA• More modest growth in Canada	<ul style="list-style-type: none">• Pacific region negatively impacted by lockdowns• Slow recovery in Japan• Modest growth in China



Hearing Care



Counselling in
Audika clinic

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">• Biggest growth contributor thanks to significant tailwind in France• Very strong performances in the UK and in Poland	<ul style="list-style-type: none">• Strong organic growth driven mostly by the US• Organic growth more modest in Canada• Growth supported by acquisitions	<ul style="list-style-type: none">• Pacific region negatively impacted by lockdowns and tighter restrictions• Expect easing restrictions to support growth

Strong performance continued so far in H2 with low double-digit organic growth

- Continued strong tailwind from French reform, which has lasted longer than initially expected
- Gradual recovery has continued in most markets with more normal mix of new and existing users
- Growth has been driven entirely by unit growth, whereas ASP growth has been flat
- Additional growth from acquisitions made predominantly in Europe and in North America

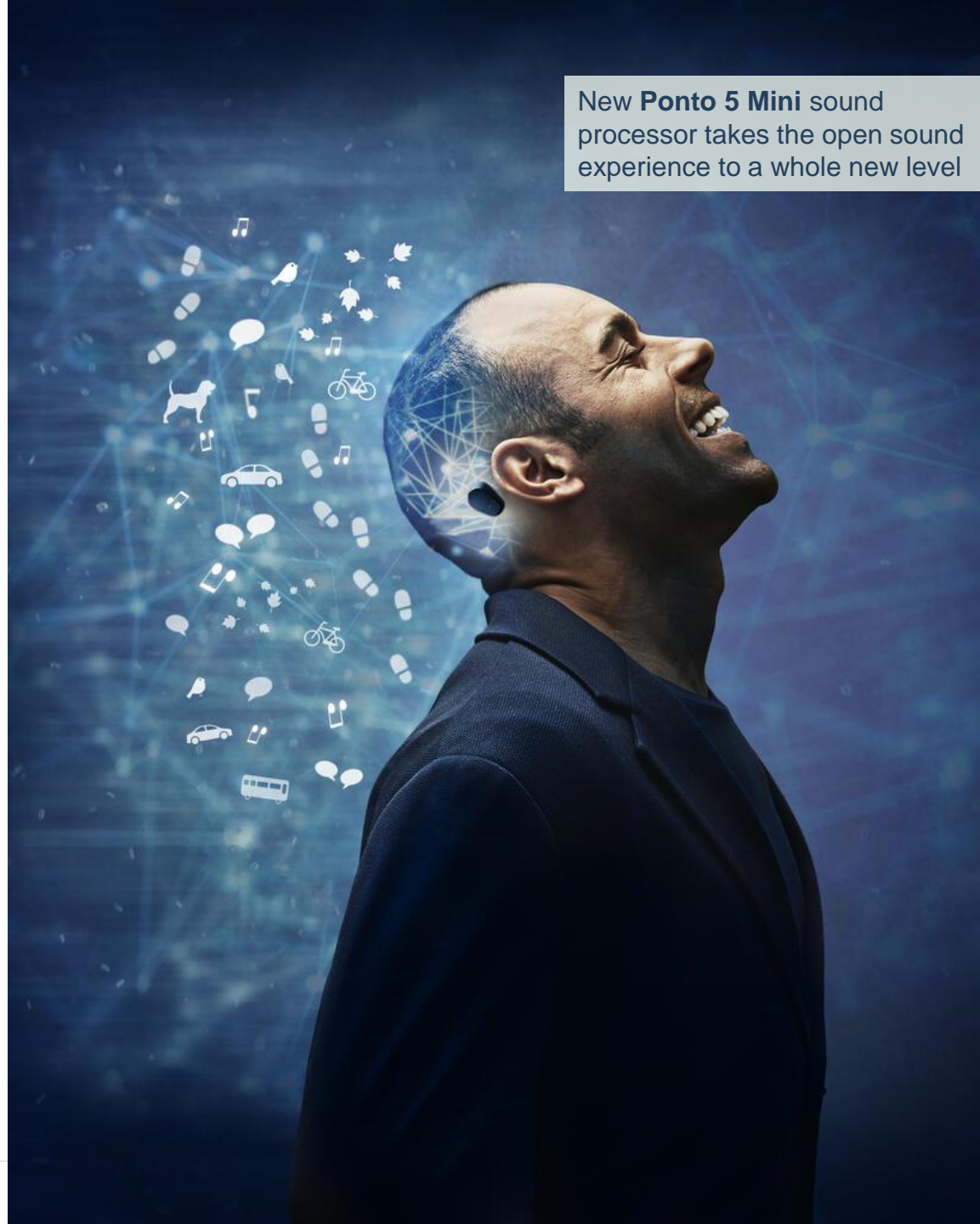


Hearing Implants

Negative growth – due to slow market recovery and the voluntary field corrective action in CI

- Voluntary field corrective action entails the recall of non-implanted Neuro Zti cochlear implants and the temporary halt of sales of new cochlear implants
- Our BAHS business is unaffected by the headwinds in CI but has yet to fully normalise post-coronavirus
- Recent launches will support growth in BAHS in the coming periods
 - New Ponto 5 Mini sound processor
 - MONO, a next-generation surgical procedure

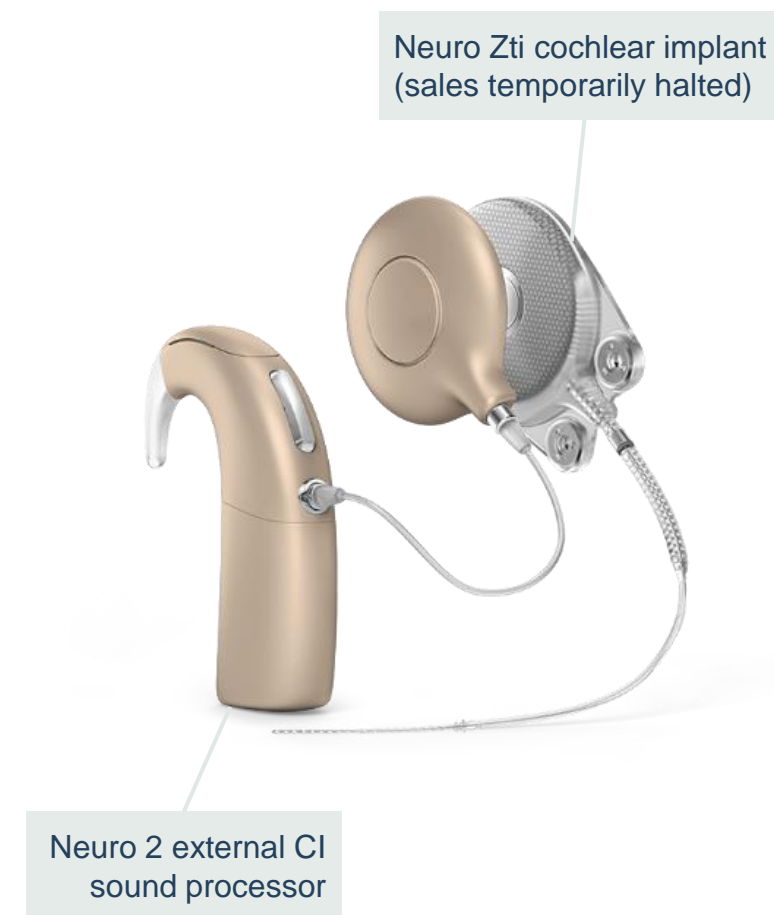
New **Ponto 5 Mini** sound processor takes the open sound experience to a whole new level





Voluntary field corrective action in cochlear implants

- Oticon Medical has recalled non-implanted Neuro Zti cochlear implants and temporarily halted sales of new implants
 - Identification of performance issues in small subset of implants related to loss of hermeticity (electronic components get exposed to moisture)
 - No reported safety events with the implants
- Temporary halt of sales likely to extend into 2022, pending a resolution to the issue
 - Until sales recommence, revenue will only comprise sales of external CI sound processors to existing users and BAHS products (approx. 65% of Hearing Implants revenue)
- We expect one-off costs of DKK 70-100 million in 2021 related to product returns, inventory write-downs, certain provision etc.





Diagnostics

Strong performance so far in H2 with double-digit growth broadly based in all regions



- We have seen positive developments in most markets, including
 - The US
 - Europe, driven by France and the UK
 - Australia
- Highest growth rates seen in instruments for hearing aid fitting and for balance testing
- Strong order intake further supporting our order book

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Communications

EPOS





Communications

Very soft start to H2 with negative organic growth so far, in line with most recent expectations

- Negative growth realised due to combination of low exposure to the high-growth US market and ongoing establishment of the EPOS brand
- Still early in entry into video solutions for enterprises, which is a key growth pocket in the market
- Negative growth so far in H2 has been most pronounced in Enterprise Solutions
- As expected, we have seen an increase in the intake of new orders and in revenue in recent months



EPOS: Crafted to last,
designed to excite



Communications: Unchanged expectations for H2 21 and beyond

- Communications is currently in a transition phase, but structural drivers are intact, and we see revenue slowdown as temporary with new orders picking up in recent months
- We continue to invest significantly in future growth, including in brand, product roadmap and in entering video solutions
- The combination of revenue slowdown and large investments is resulting in negative EBIT in 2021 and 2022, but we expect to see slightly positive EBIT in 2023

Expectations for
H2 21 and beyond



Period	H1 21	H2 21	FY 22	FY 23	Beyond
Revenue	621	Decline more than 10% vs H1 21	Above-market growth		
EBIT	-44	Negative by DKK 50-100 million	Slightly negative	Slightly positive	Steadily improving margin



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**Update on supply
chain situation**

Update on supply chain situation

Current situation:

- Highly dynamic sourcing situation for a number of components
- Shortage in global chipset supply mainly seen in older technologies
- Shipping capacity constraints are impacting lead times for components and increasing freight prices

Mitigating actions:

- Redesign of selected products and qualification of alternative suppliers of components
- Incurring higher costs to secure components and ensure on-time shipping
- Real-time inventory management and close collaboration between central manufacturing in Poland and local sales subsidiaries

Manufacturing footprint

Global locations:

Poland, Mexico, Denmark and France (CI)

Service and custom production for local market:

Italy, Germany, France, USA, Canada, China, Korea, Australia and Japan



Dynamic supply situation continues and drives some additional costs related to sourcing of components and freight – such additional costs have increased in H2 compared to H1



Subject to availability of components, our central manufacturing sites in Poland and Denmark are able to operate as normal – we expect no material impact on our sales



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Outlook

Outlook assumptions

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

- 1 Supported by the release of some pent-up demand, we still expect to see further gradual recovery in the global hearing healthcare market for the remainder of 2021
- 2 We still expect growth for 2021 as a whole to be close to normal levels in developed markets, except in the large government channels, Veterans Affairs (VA) and the NHS
- 3 We still believe that the normalisation in emerging markets is likely to go beyond 2021
- 4 For Communications, we assume that the addressable market will grow at least in line with its structural trend of around 12%, despite strong comparative figures in 2020
- 5 We assume additional costs related to sourcing of components and freight charges to persist for remainder of 2021. Due to mitigating actions, we still expect no material impact on our sales

Outlook for 2021

Metric	Outlook for 2021
Group revenue growth	
Organic	26-30%, with revenue in Communications declining by more than 10% in H2 relative to H1
Acquisitive	1% based on revenue from acquisitions completed as of 1 November 2021
FX (incl. hedging)	-1% based on FX rates as of 1 November 2021
EBIT	DKK 3,300-3,500 million (previously DKK 3,150-3,450 million) before one-offs, including a negative EBIT in Communications of DKK 50-100 million in H2
One-offs	Net positive impact on the Group's reported EBIT of DKK 60-90 million
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

Now expect to realise three one-off effects in H2 with net positive EBIT impact

Voluntary field corrective action: Negative DKK 70-100 million

- Certain returns for credit of implants already sold
- Write-down of inventory related to affected implants
- Certain provisions etc.
- Limited cash flow effect

Divestment of FrontRow: Positive DKK 100 million

- Recently agreed divestment of our 75% ownership of FrontRow Calypso LLC to Boxlight Corporation
- Focused specifically on audio systems for classrooms and schools
- Financial effect as of 31 October 2021
- Purchase price paid in cash at closing, expectedly in mid-November 2021

Reversal of provision for bad debt: Positive DKK 60 million

- Expect to reverse rest of provision for additional bad debt recognised in H1 2020
- Originally, the provision amounted to DKK 150 million, but DKK 40 million has been realised and DKK 50 million was reversed in H2 2020
- No cash flow effect

Expect aggregate net positive EBIT impact of one-offs of DKK 60-90 million

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The background image shows a modern, multi-level office atrium. Numerous people are standing on different levels, some leaning on railings, others walking. The architecture features glass railings and a bright, open space. A large, semi-transparent circular graphic is overlaid on the right side of the image, containing the text 'Q&A'.

Demant

Founded in 2008

Focus on health

Shareholder

Life-changing hearing health

Q&A

IR contact

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Roadshows and conferences:

03 Nov	London (J.P. Morgan)
03 Nov	Paris (SEB)
04 Nov	Copenhagen (Carnegie)
05 Nov	Zurich & Geneva (Mirabaud)
05 Nov	Frankfurt (Danske Bank)
01 Dec	Copenhagen (Danske Bank seminar)
09 Dec	US & Canada (Jefferies)
14 Dec	Paris (Exane Hearing Aid CEO Conference)