

Demant Interim Management Statement

2 November 2022

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Investor Relations



Agenda

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- 03 Communications**
- 04 Cost reduction initiatives**
- 05 Outlook for 2022**
- 06 Q&A**

Key events in Q3 2022



Global uncertainties, coronavirus-related restrictions and low consumer confidence caused a dynamic business environment for both Hearing Healthcare and Communications



Market share gains in Diagnostics and Hearing Aids. Contrary to expectations, US private market is increasingly negatively impacted by macroeconomic conditions



Communications saw further weakening of the market for gaming headsets, and we have not seen normal seasonality, whereas Enterprise Solutions fared better



The divestment of Hearing Implants to Cochlear Limited is now expected to close in Q2 2023 and remains subject to regulatory approval of customary closing conditions




Key financial take-aways for Q3 2022


Reported revenue growth of 11% but performance below expectations

- 

1% Group **organic growth** of 1% in Q3 (YTD: 3%) driven entirely by Hearing Healthcare
- 

Hearing Healthcare: Organic growth of 1% (YTD: 4%) driven by Diagnostics and Hearing Aids
- 

Communications: Organic growth of 0% (YTD: -10%), reflecting continued weak market for gaming headsets
- 

Gross margin and **OPEX** in line with our plans despite some impact of increasing inflation in the quarter
- 

EBIT below expectations in Q3 driven by weaker-than-expected performance in Hearing Aids, Hearing Care and Communications whereas Diagnostics was above

Outlook for 2022 adjusted:
 Organic revenue growth: 2-4% (prev. 4-6%)
 EBIT: DKK 3,150-3,450 million (prev. DKK 3,500-3,800 million)

Business area (DKK million)	Revenue		Growth				
	Q3 22	Q3 21	Org.	Acq.	LCY	FX	Rep.
Hearing Aids	2,446	2,222	6%	-2%	4%	6%	10%
<i>Hereof sales to Hearing Care</i>	-470	-381	10%	7%	17%	7%	24%
Hearing Care	2,018	1,848	-5%	8%	3%	7%	9%
Diagnostics	613	469	12%	5%	18%	13%	31%
Hearing Healthcare	4,607	4,159	1%	3%	4%	7%	11%
Communications	256	243	0%	0%	0%	5%	5%
Group	4,863	4,402	1%	2%	4%	7%	11%

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Hearing Healthcare



The hearing aid market in 2022

Hearing aid market growth:

- We estimate that the global hearing aid market saw unit growth of 1% in Q3 vs. Q3 2021
- Growth in the hearing aid market in Q3 was below our updated expectations in August, as the hearing aid market has **seen increasing negative impacts from consumer uncertainty**, not least in markets dominated by private pay. This had a larger-than-expected impact on the ASP in Q3

Geographical unit growth:

- Growth in **Europe** was flat in Q3: The UK and Germany grew slightly, as did other smaller markets, whereas France, in line with expectations, saw slightly negative unit growth
- Growth in **North America** slowed down further in Q3, and the US commercial market saw growth below expectations, especially in the private pay market
- **Government channels** (VA and the NHS) saw positive growth, despite remaining below pre-pandemic growth rates, and we saw solid growth in **emerging markets**

Unit growth*	2022			
	Q1	Q2	Q3	YTD
Europe	20%	9%	0%	10%
North America	8%	1%	0%	3%
<i>US (commercial)</i>	6%	-1%	-3%	1%
<i>US (VA)</i>	19%	2%	9%	9%
Rest of world	4%	4%	4%	4%
Global	12%	5%	1%	6%
<i>CAGR vs. 2019</i>	4%	6%	4%	5%

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



Hearing Aids

Performance was below expectations due to a weaker-than-expected hearing aid market

Comments

- Market share gains in Q3 in a hearing aid market with increasing impact of macroeconomic headwinds
- Continued expansion and success of Oticon More and Philips HearLink
- Growth was entirely driven by an increase in unit sales, whereas the ASP declined slightly due to geography and channel mix changes despite price increases in Q3

Europe

- Good performance in many countries, such as Germany, Poland and Italy
- France delivered solid growth in Q3

North America

- Growth below expectations in the independent market
- Positive contribution from VA and large chains

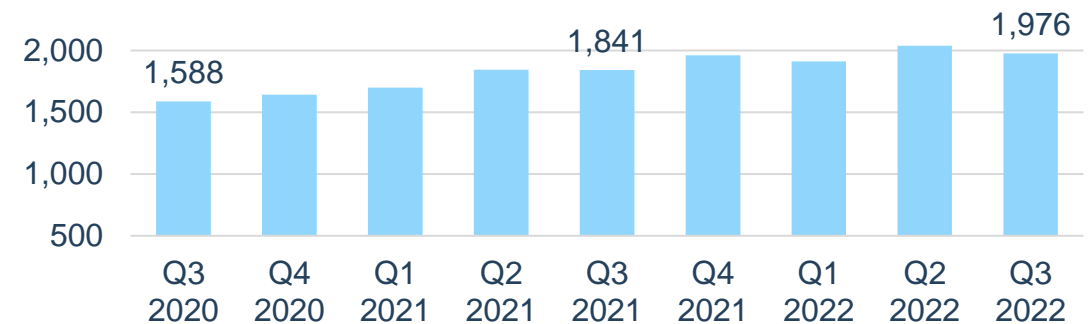
Asia/Pacific/Other

- Strong growth in emerging markets
- Good growth in China and solid growth in the Pacific region and Japan

Financials

Revenue (DKK million)	Q3 22	Q3 21	Growth				
			Org.	Acq.	LCY	FX	Rep.
Hearing Aids	2,446	2,222	6%	-2%	4%	6%	10%
Internal sales to Hearing Care	470	381	10%	7%	17%	7%	24%
Sales to external customers	1,976	1,841	5%	-3%	2%	6%	7%

Quarterly revenue





Hearing Care

Performance below expectations especially in the US private pay market

Comments

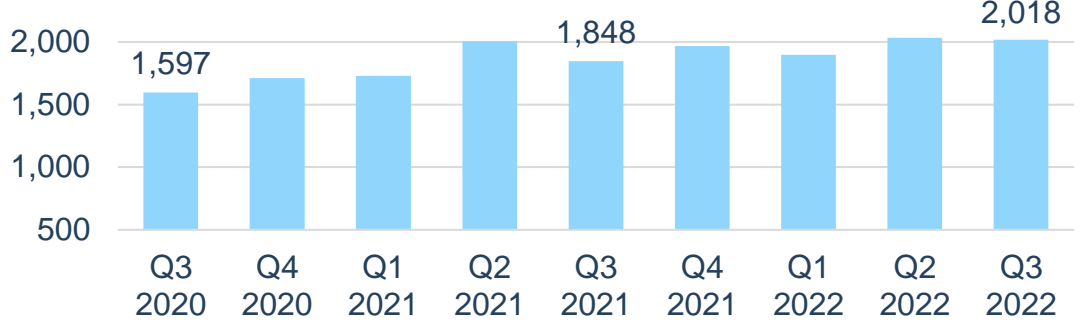
- Weaker-than-expected performance due to increasing negative developments in the US private pay market and to our decision to exit selected managed care plans, both of which had a bigger impact than expected
- Strong contribution from acquisitions in line with our strategic priorities, especially in China and North America

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none"> • Many smaller European markets saw positive development • The UK and France delivered negative growth 	<ul style="list-style-type: none"> • Weak performance in the US due to the decline in the private pay market • Canada saw growth in the period 	<ul style="list-style-type: none"> • Australia saw good growth in Q3 despite being impacted by some restrictions in the early part of Q3

Financials

Revenue <small>(DKK million)</small>	Q3 22	Q3 21	Growth				
			Org.	Acq.	LCY	FX	Rep.
Hearing Care	2,018	1,848	-5%	8%	3%	7%	9%

Quarterly revenue





Diagnostics

Very strong organic growth and continued market share gains

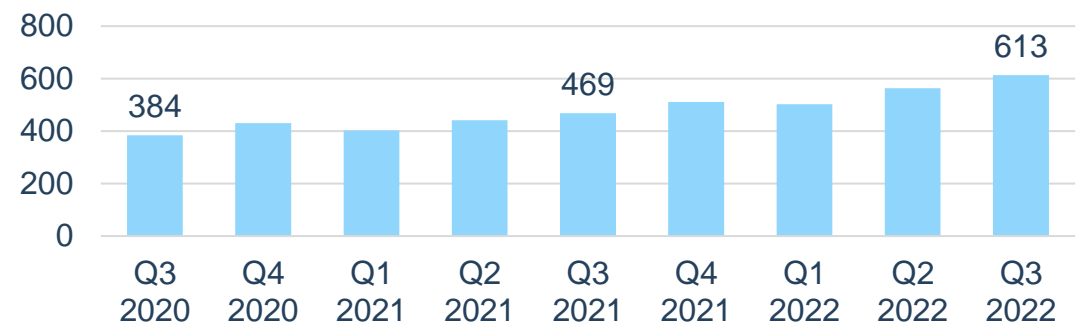
Comments

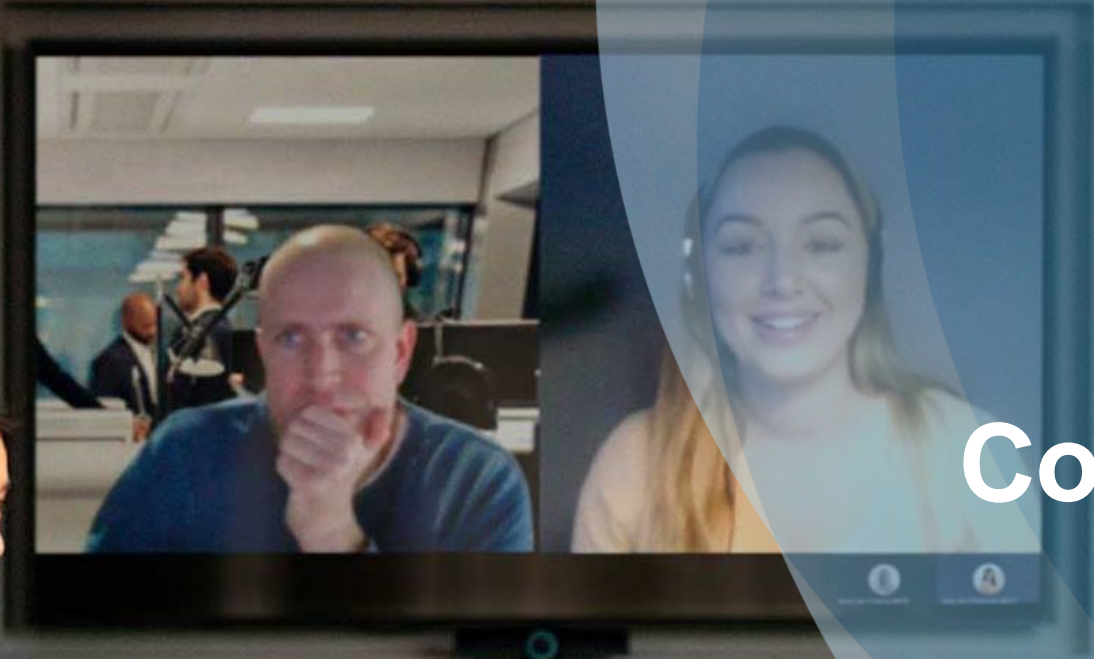
- We estimate that in Q3, market growth was above the estimated structural growth rate of 3-5% per year
- Strong performance with market share gains, particularly driven by instruments for tympanometry, hearing aid fitting and balance testing
- Growth was broadly based, with the US and Asia as the strongest contributors to overall growth. We also saw contribution to growth from the acquisition of Inventis in Q2
- Order intake continues to remain strong at the end of Q3

Financials

Revenue (DKK million)	Q3 22	Q3 21	Growth				
			Org.	Acq.	LCY	FX	Rep.
Diagnostics	613	469	12%	5%	18%	13%	31%

Quarterly revenue





Communications

EPOS





Communications

Growth below expectations in Q3 due to weak market for gaming headsets

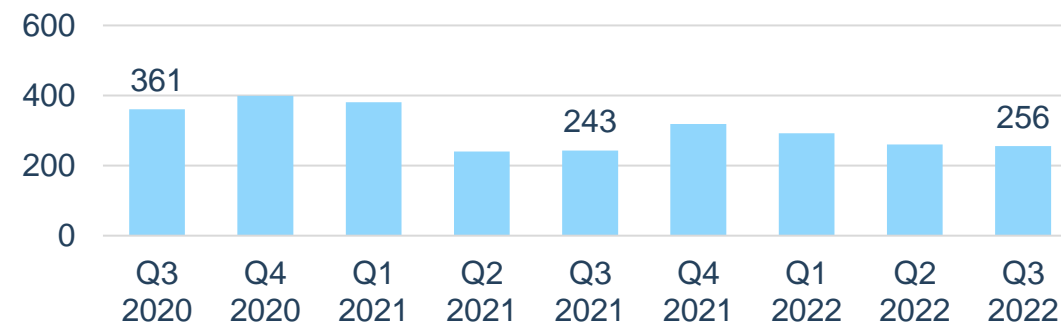
Comments

- We estimate that the market growth rate for enterprise solutions and gaming was mixed in Q3
 - The market for enterprise solutions saw growth in Q3, but the market has seen some softening recently
 - The gaming market continues to see negative growth, and the impact of the weakening of consumer spending in Q3 has been more negative than previously expected
- Growth in our **Gaming** segment was negative and high inventories in the sales channels remained a drag on growth
- **Enterprise Solutions** saw good growth in Q3 partly due to low comparative figures.

Financials

Revenue (DKK million)	Q3 22	Q3 21	Growth				
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Communications	256	243	0%	0%	0%	5%	5%

Quarterly revenue



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Cost reduction initiatives



Cost reduction initiatives

Implementation of cost reduction initiatives to align to the current market development

Background

- In Q3, we saw lower-than-expected growth in the hearing aid market and in the market for gaming headsets
- Current macroeconomic uncertainties impacting our markets are no longer asserted as temporary

Cost reduction initiatives



Hearing Care: Rationalisation of our US store footprint by approx. 50 stores and alignment of the size of our organisation



Hearing Aids: Adjustments to selected parts of our central organisation and already initiated closing and transfer of the Bernafon brand headquarter in Switzerland to the Group's headquarter in Denmark



Communications: Adjustments of the organisation to reflect the current market outlook

We expect these changes to result in 150-200 redundancies globally across the three business areas



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Outlook for 2022

Outlook assumptions

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

Market

- In Q3, value growth in the hearing aid market was below our updated expectations:
 - We now expect total market unit growth in 2022 in the low end of the structural level of 4-6%
 - We now expect ASP growth to be more negatively impacted by channel and geography mix changes
- 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 year-to-date 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 Q3 was more pronounced than expected and we continue to be negatively impacted by supply chain challenges on some product families in Enterprise Solutions**

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- In H2, we expect to continue to see market share gains in Hearing Healthcare. **For Communications, we now expect to see negative high single digit organic growth in H2**
- **For Communications, we now expect EBIT of around DKK -225 million in 2022 due to continued 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 is now presumed to close in Q2 2023. Total profit after tax from discontinued operations in 2022 is now expected to be negative by around DKK 200-250 million, reflecting the delayed recognition of the positive one-off gain from the fair value adjustment of assets and liabilities**

Outlook for 2022

Metric	Current outlook
Organic	2-4% (prev. 4-6%)
Acquisitive	2% based on revenue from acquisitions completed as of 31 October 2022
FX	5% based on FX rates as of 31 October 2022 and including the impact of exchange rate hedging
EBIT	DKK 3,150-3,450 million (prev. DKK 3,500-3,800 million)
Effective tax rate	22-23%
Gearing	Gearing (NIBD relative to EBITDA) to end at or slightly below 3.0 by the end of 2022 (prev. gearing to slightly exceed medium- to long term target of 2.0-2.5)
Share buy-backs	Currently paused. Year-to-date 31 October share buy-backs amount to DKK 1,840 million (prev. at least DKK 2,500 million)
Profit after tax from discontinued operations	Negative by DKK 200-250 million (prev. negative by DKK 150-200 million)

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Q&A

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Roadshows and conferences:

- 10 November **London** (Morgan Stanley)
- 11 November **Copenhagen** (Danske Bank)
- 15 November **Paris** (BNP Paribas Exane Conference)
- 22 November **Netherlands** (SEB)
- 29 November **Copenhagen** (Danske Bank Winter Seminar)