



Demant

Interim Management Statement

13 October 2020

Søren Nielsen, President & CEO

René Schneider, CFO

Investor Relations

Demant

Key take-aways

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Interim Management Statement, 13 October 2020



Continued strong recovery in most hearing healthcare markets supported by pent-up demand, but some important markets and channels recovering only at modest pace



Guidance for Group revenue growth in H2 (incl. EPOS) narrowed to 8-13% in local currencies (prev. 5-15%). Expect negative FX impact on revenue of around 3% including hedging effects



Continued significant OPEX savings – low-single-digit growth expected in H2 (including EPOS). Structural savings of around DKK 250 million annually



Strong EBIT so far in H2 due to continued revenue recovery and cost savings. New H2 EBIT outlook of DKK 1,200-1,500 million before EPOS one-offs of DKK -85 to -105 million (prev. -75 to -125 million)



Better than expected cash flow generation thanks to strong EBIT and tight working capital management – CFFO and FCF now expected to grow in H2 relative to H1

Key take-aways (continued)

Interim Management Statement, 13 October 2020

Growth (in local currencies)	Reported H1 2020 (vs. H1 2019)	Mid-August 2020 run rate (vs. mid-August 2019 run rate)	Outlook H2 2020 (vs. H2 2019)
Group revenue	-18%	-5% to 5%	8% to 13%
Hearing aid wholesale	-25%	-15% to -5%	More or less flat
Hearing aid retail	-31%	-10% to 0%	Positive mid-single digit
Hearing Implants	-18%	-20% to -10%	Less negative vs. mid-August
Diagnostics	-2%	-5% to 5%	Slightly positive
Communications (EPOS)	7pp*	-	9-10pp*
OPEX	-4%	-5% to 5%	Positive low single-digit
EBIT and EPOS one-offs (DKK million)			
EBIT b/f. EPOS one-offs	-193	-	1,200-1,500
EPOS one-offs	307	-	-85 to -105

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

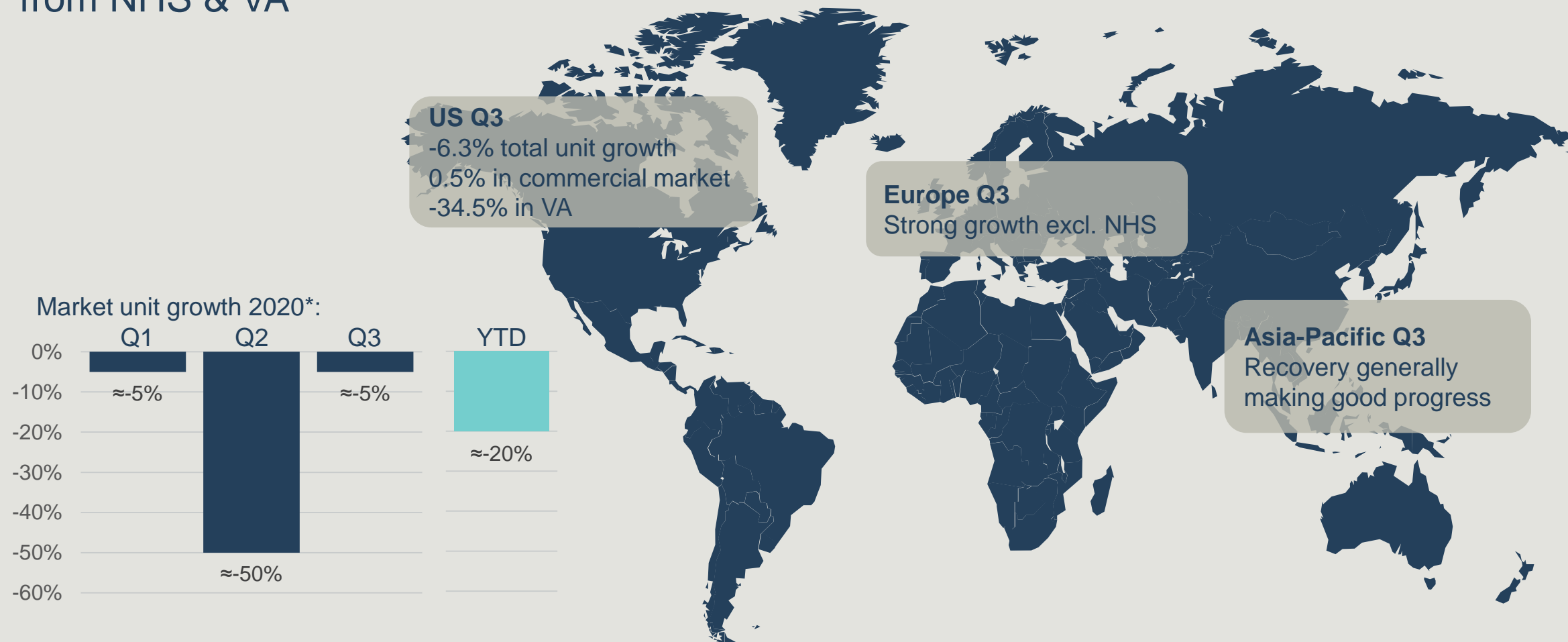
Outlook assumptions:

- No further widespread lockdowns
- Sales in the hearing healthcare market approaching normalisation towards the end of the year on a run rate basis
- So far no impact on our business from recent spike in coronavirus infections

Update on business activities

Global hearing aid market

We estimate mid-single digit negative global unit growth in Q3 due to significant drag from NHS & VA



**Estimate based on available market statistics covering approx. 2/3 of the global hearing aid market*



Continued recovery in hearing aid wholesale driven by the commercial market

- Since mid-August, recovery has continued at gradual pace supported by pent-up demand in a number of markets
- Sales to independents close to normal in most markets
- Strong recovery in sales to large chains
- A number of emerging markets are currently heavily impacted by coronavirus
- Expectations for H2: More or less flat growth in LCY*



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Europe	North America	Asia-Pacific
<ul style="list-style-type: none">• Strong recovery in DE, FR, SP & IT – UK remained a drag mainly due to NHS	<ul style="list-style-type: none">• Gradual recovery at a slower pace than in Europe mainly due to VA	<ul style="list-style-type: none">• Most progressed recovery – particularly strong growth in China

* Negative impact of the IT incident last year on comparative figures of around DKK 300 million



Revenue in hearing aid retail now close to normal level supported by pent-up demand



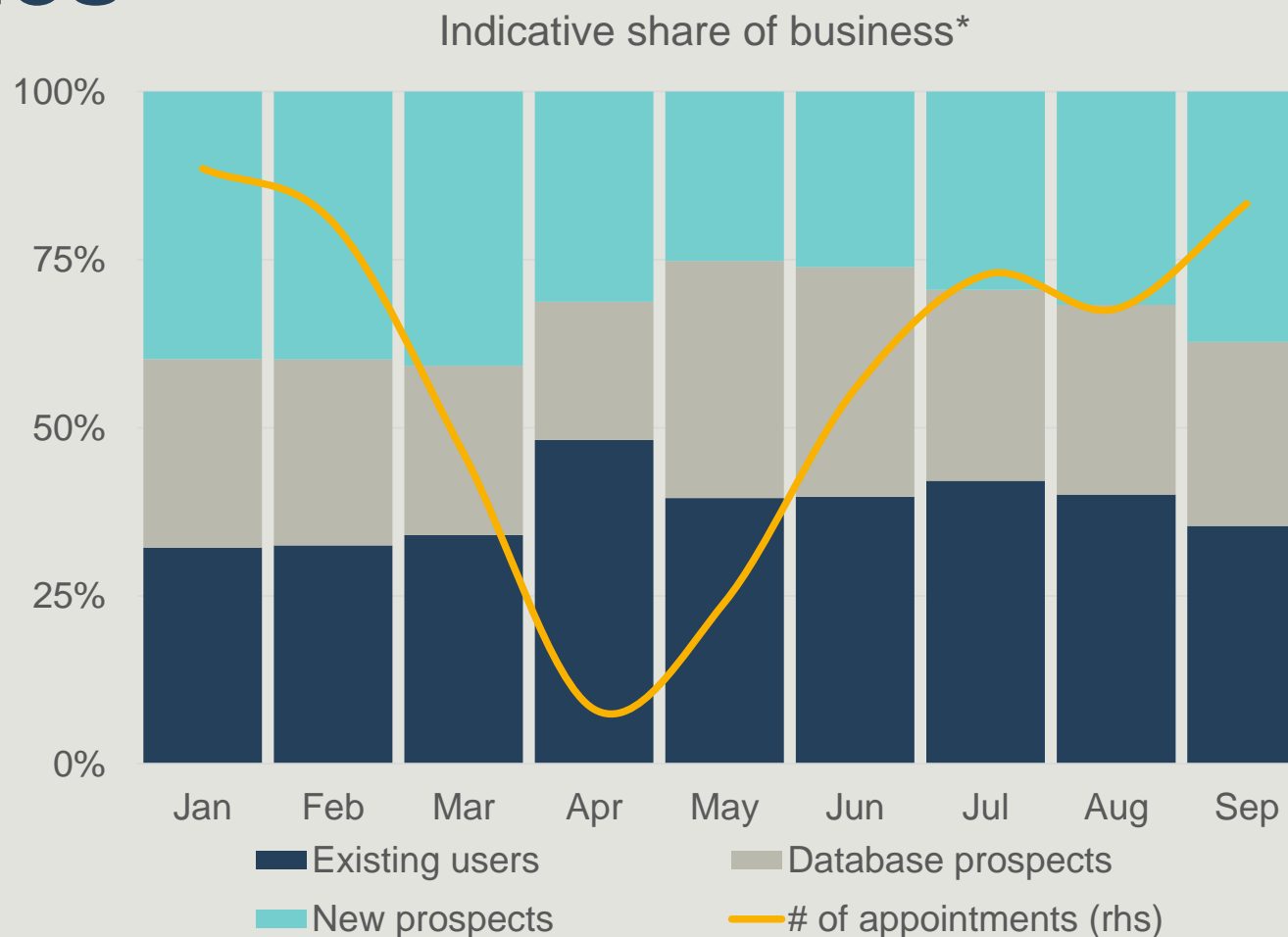
- Recovery has continued since mid-August
- Almost all clinics are currently open but coronavirus is still impacting store traffic in some local regions
- Expectations for H2: Positive mid-single-digit growth in LCY* (mainly organic growth but also minor acquisitive growth)

Europe	North America	Pacific
<ul style="list-style-type: none">• Strong recovery driven by France, Ireland, Spain and Switzerland• UK lagged behind rest of Europe	<ul style="list-style-type: none">• US lagged behind Europe but large regional differences• Canada below normal organically but support from acquisitions	<ul style="list-style-type: none">• Negative impact from restrictions in Victoria in August• Revenue in H2 so far below normal

* Negative impact of the IT incident last year on comparative figures of around DKK 275 million

Higher-than-normal return on sales and marketing activities

- Pent-up demand has lead to an increase in share of business from existing users
- Balance between existing and new users now approaching normal level
- Normalisation less progressed in the US



*Based on share of total appointments created



Slow recovery in Hearing Implants but improving since mid-August

- Slow market recovery but broad-based improvements in both CI and BAHS
- Expectations to H2: Less negative revenue growth in LCY in both CI and BAHS vs. the run rate level in mid-August of -20% to -10%

Cochlear implants (CI)

- Slow market recovery – number of surgeries still at a reduced level in most markets
- Hospitals continue to prioritise paediatrics
- Recovery in our CI business has progressed further since mid-August
- FDA approval of Neuro 2 delayed by coronavirus – expect access to the US market in H2 2021 at the earliest

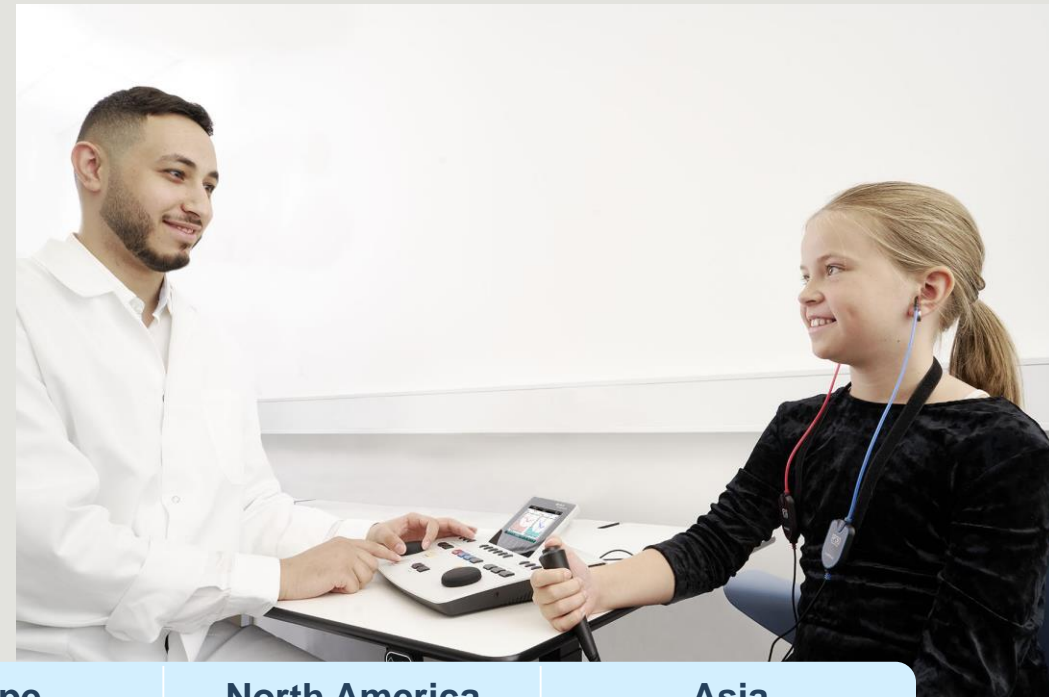
Bone anchored hearing systems (BAHS)

- Slightly faster recovery than CI – strong sound processor sales driven by upgrades and soft band alternative
- Improvement in implants sales – clinics are restarting surgery activities
- Continued market share gains
- Growth improved since mid-August



Diagnostics has performed well and gained market share

- Resilience to difficult market situations proved in H1 with modest revenue decline
- Has continued to perform well and gain market share in H2
- Sales of instruments and consumables still modestly impacted by lower activity levels in some customer segments
- Strong recovery in our service business thanks to pent-up demand
- Expectations to H2: Slightly positive growth in LCY



Europe	North America	Asia
<ul style="list-style-type: none">• Close to normalisation	<ul style="list-style-type: none">• Lagging behind Asia and Europe	<ul style="list-style-type: none">• Sales at normal level



EPOS still benefitting from extraordinary demand for virtual collaboration tools

- Continued strong performance after a very successful H1
- Surge in remote working still the key driver behind extraordinary demand in Enterprise Solutions
- Gaming also seeing tailwind – sales ahead of plans
- Increased production volumes has reduced level of backorders since end of H1
- Expectations to H2:
 - 9-10pp contribution to the Group's total revenue growth in LCY
 - Negative one-off costs of DKK 85-105 million related to extraordinary spending on establishing EPOS brand



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Financial Review

Strong EBIT in H2 so far – strong revenue combined with significant cost savings

Strong development in profitability supported by pent-up demand

Revenue	Gross margin	OPEX
<ul style="list-style-type: none">• Continued positive trend towards normalisation• Strong recovery in most hearing healthcare markets• Positive effect of pent-up demand• Some markets and channels only recovering at modest pace	<ul style="list-style-type: none">• Sequential improvement in H2 relative to H1• Recovery in production output and positive mix effects in hearing aid wholesale	<ul style="list-style-type: none">• Entered H2 at low level – continued significant cost savings• Savings relate to S&M, travelling, headcount reductions and government compensation• Expect low-single-digit growth in local currencies

Cost-reducing actions lead to structural savings of around DKK 250 million annually

- Structural savings of around DKK 250 million implemented:

Headcount reductions made in H1

- Primarily related to elimination of double functions after full integration of a large acquisition in the US completed in 2018

Alignment of marketing model across our US retail network

- Improved efficiency in sales and marketing activities
- Store network remains largely unchanged

Reduction in travelling and conference activities

- Part of current savings related to travelling will persist as we convert to virtual ways of meeting and collaborating
- Vast majority of savings impact distribution costs

Strong and better-than-expected cash flow generation thanks to strong EBIT

- Cash flow from operating activities (CFFO) exceeding expectations:
 - Strong EBIT
 - Tight working capital management
- Increased uncertainty about trade receivables persists
- Free cash flow before acquisitions (FCF) still positively impacted by suspension of non-essential investments
- M&A activities have increased after a quiet period
- Expectations for H2: CFFO & FCF now expected to increase in H2 vs. H1



Negative EPOS one-offs in H2 of DKK 85-105 million

We now expect to recognise DKK 85-105 million (previously DKK 75-125 million) on extraordinary spending on establishing the EPOS brand in the market

P&L impact of EPOS one-offs (DKK million)	H1 20	H2 20	FY 20	Nature
Revenue	-	-	-	
Production costs	-109	0	-109	Revaluation of inventory (no cash flow effect)
Gross profit	-109	0	-109	
R&D costs	-	-	-	
Distribution costs	-37	-85 to -105	-122 to -142	Extraordinary spending on branding (cash flow effect)
Administrative expenses	-	-	-	
Share of profit after tax, associates and JVs	453	0	453	Fair value adjustment, primarily of goodwill (no cash flow effect)
Operating profit (EBIT)	307	-85 to -105	202 to 222	



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Outlook

Assumptions for Outlook 2020

- No further widespread lockdowns
- Sales in the hearing healthcare market approaching normalisation towards the end of the year on a run rate basis

Recent spike in coronavirus infections in many of our key markets but so far no impact on our business

No changes to fundamental drivers of demand for hearing healthcare



New outlook for EBIT and narrowed revenue outlook

- We now expect to generate revenue growth in LCY of 8-13% in H2 2020 (prev. 5-15%)
 - EPOS expected to contribute by 9-10 pp (not consolidated last year)
 - Revenue in H2 2019 was negatively impacted by IT incident (estimated to be DKK 575 million)
- Negative FX impact on H2 revenue of around 3% including hedging
- **Outlook for EBIT in H2: DKK 1,200-1,500 million before negative EPOS one-offs of DKK 85-105 million**
(corresponding to full-year EBIT before one-offs of DKK 1,007-1,307 million)
- We maintain the suspension of our share buy-backs (DKK 197 million year-to-date)



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 image is slightly blurred, giving it a vintage or historical feel.

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Q&A

IR contacts



Mathias Holten Møller

Director, Head of Investor Relations

Email: msmo@demant.com

Tel: +45 3913 8827

Mob: +45 2924 9407



Christian Lange

Investor Relations Officer

Email: chln@demant.com

Tel: +45 3913 8827

Mob: +45 2194 1206

Virtual roadshows and conferences:

14 Oct	London (Berenberg)
14 Oct	Zurich (Nordea)
15 Oct	Geneva (Nordea)
16 Oct	Milan (Kepler Cheuvreux)
19 Oct	Copenhagen (Carnegie)
20 Oct	Paris (Danske Bank)
20 Oct	Edinburgh & Dublin (Berenberg)
21 Oct	Frankfurt (Commerzbank)
28-30 Oct	Asia (UBS)
17-18 Nov	London (Jefferies conference)
19 Nov	London (ABG Nordic Opportunities Seminar)
30 Nov	Toronto (Exane)
01 Dec	New York (Jefferies)
02 Dec	Copenhagen (Danske Bank Winter Seminar)
02 Dec	Montreal (Exane)
03 Dec	Chicago (Goldman Sachs)