Demant

Interim Management Statement

November 18 2019 – covering the period year-to-date

Søren Nielsen, President & CEO

René Schneider, CFO

Investor Relations

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Life-changing hearing health

Recovery progressing as planned – growth momentum is building up

- Planned acceleration of growth in hearing aid wholesale business materialised in July and August
- IT incident significantly impacted our ability to operate our business in a normal manner and to execute on our ambitious growth targets in H2 – flat organic growth in wholesale in H2 so far
  - No permanent, material loss of existing customers
  - Constraints in supply chain likely to persist until year-end for a small part of the portfolio
  - Despite a very strong product portfolio and improvement in sales momentum, run rate in the remainder of the year is likely to be lower than anticipated before the incident
- Material impact on retail in September and October – business has normalised during November
- No noteworthy commercial impact on Hearing Implants and Diagnostics

Key take-aways year-to-date

- Solid growth year-to-date despite a significant, negative impact from the IT incident. Growth driven by modest organic growth and positive contributions from acquisitions and exchange rates

- Growth in hearing aid wholesale driven by strong unit growth with negative ASP-development in H1 due to product mix effects. Strong organic growth in H2 offset by negative effects of IT incident. Growth momentum now building up despite supply chain constraints for a small part of the portfolio – focus on growth

- Growth in hearing aid retail business driven by acquisitions mainly made in H1 2018. Solid organic growth in July and August more than offset by negative effects of IT incident, particularly in North America and Pacific regions

- Very strong organic growth in Hearing Implants. Growth acceleration in H2 driven by launch of Ponto 4 in BAHS and continued very strong organic growth in CI

- Continued growth momentum in Diagnostics from H1 driven by continued strong performance in North America and by significant tender in the third quarter in *Other countries* region

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Key take-aways year-to-date (continued)

Continued growth momentum in Sennheiser Communications driven by wireless products in Mobile Music. Profit lower than last year due to product mix changes and increased R&D and distribution spend

Significant, year-over-year capacity costs increase expected – sequential development from H1 much more muted. Low single-digit growth in capacity costs expected in H2 vs. H1 due to acquisitions and costs directly related to the IT incident – underlying flat sequential development

Maintaining outlook for EBIT of DKK 2,000-2,300 million, corresponding to an EBIT of DKK 2,650-2,850 million before the IT incident

Excluding the positive impact of IFRS 16, we now expect growth in cash flow from operating activities (CFFO) to be negative. Share buy-backs resumed as of today – expected to amount to around DKK 1.0 billion for the year

Gearing multiple at year-end expected to temporarily exceed our target range 1.7-2.2 measured as net interest-bearing debt (NIBD) excluding lease liabilities, relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16)

Demant's IT infrastructure was hit by a cybercrime incident on 3 September 2019

- Ransomware intrusion led to immediate shut-down of IT systems across multiple sites and business units
- IT recovery from back-ups completed as communicated on 11 October 2019
- Estimated negative financial impact on EBIT in 2019 of DKK 550-650 million maintained,
  - Lost sales and weakening of growth momentum of DKK 600-700 million mainly in Hearing Devices, effectively 1:1 impact on EBIT due to fixed cost base
  - DKK 50 million incurred directly related to the incident
  - Expected insurance coverage of approx. DKK 100 million
- Direct costs are split between production and capacity costs lines
- Insurance expected to be recognised as a separate item under *Other operating income before EBIT*

Update on business activities

The global hearing aid market

Growth rates in line with our general expectation of 4-6% unit growth per year when adjusting for NHS stock-building in preparation for Brexit

- 4.9% unit growth in US in the first nine months of 2019 (4.2% in the commercial market and 7.9% in VA)
- Very strong unit growth in Europe year-to-date
  - NHS stock-building in Q1 in preparation for Brexit
  - Strong unit growth in Germany and in several smaller markets
  - Very solid unit growth in France at wholesale level albeit significant fluctuations due to new hearing healthcare reform
- Solid growth in Japan following acceleration in Q3 and continued double-digit growth in China
- Wholesale value growth consistent with our general expectations of 2-4% when adjusting for extraordinary growth in NHS

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

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Modest organic growth year-to-date in wholesale driven by strong unit growth

- Strong unit growth year-to-date driven by NHS, large chains and customers in Asia – negative ASP development due to mix effects in H1
  - Flat unit and ASP growth in H2
- Opn S has been a key growth driver since launch in late February and full rollout in following months – encouraging uptake, particularly of the rechargeable version
  - Net sales hampered by higher-than-normal level of returns of legacy rechargeable products – level normalised since end of August
- Strong demand for rechargeable products, increasingly extending to the mid-priced segments

Oticon BrainHearing™ Technology

OTICON | **Opn S**

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Wholesale growth in all regions impacted by negative effects of IT-incident

- Flat organic growth in North America year-to-date
  - Accelerating growth towards the end of H1 and into H2 after slow start to the year
  - IT incident has materially impacted growth since 3 September, limiting our ability to execute ambitious growth activities
  - Slightly negative growth in VA in H2 due to strong competition – Oticon Xceed started shipping in November
- Solid organic growth in Europe year-to-date driven by NHS in the UK, Germany and France
  - Modest growth in H2 due to negative effects of IT incident
- Strong, broadly based growth in Asia and negative growth in Pacific due to particularly negative effect of IT incident
- Solid growth in the Other countries region

Oticon product portfolio further expanded with state-of-the-art Power instruments

Oticon BrainHearing™ Technology
Powered by Velox™ S

- Oticon Xceed-family including Super Power, Ultra Power and Xceed Play for children, as well as new CROS/BiCros-solution launched in August
- People with severe/profound hearing loss face complex challenges every day
- OpenSound Navigator and OpenSound Optimizer give 360° consistent access to speech
- 2.4 GHz Bluetooth® low energy technology for wireless connectivity
- Available to Veterans Affairs since 1 November 2019

Oticon Xceed Super Power | Oticon Xceed Ultra Power | Oticon Xceed Play

oticon PEOPLE FIRST

Introducing Oticon EduMic

Breaking barriers to teaching and learning in the classroom

- World class sound quality
- Designed for the classroom
- Excellent compatibility

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The strongest and most up-to-date portfolio in the industry

	Performance		Power	Paediatric	CROS
Premium	RECHARGEABLE Opn S 1	**Feb. 2019**	Xceed **Aug. 2019**	Opn Play **Feb. 2019** Xceed Play **Aug. 2019**	CROS/ BiCROS **Aug. 2019**
Advanced	RECHARGEABLE Opn S 2+3	**Feb. 2019**			
Essential	Siya	**Aug. 2018**			
Basic	Geno	**Jan. 2019**			
Remote Mic	EduMic	**Nov. 2019**			
Fitting software	Genie 2 incl. RemoteCare				
Apps	On App with new features				
Connectivity	ConnectClip				

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Year-to-date growth in retail mainly driven by acquisitions made in H1 2018

- Flat organic growth year-to-date
  - Solid organic growth in July and August offset by IT incident – negative organic growth in H2 so far
  - Retail business normalised during November
- Modest negative organic growth year-to-date in North America due to significant impact from IT incident
  - Flat organic growth in US and Canada prior to September
  - Situation normalised in November – readjustment of US sales organisation completed but processes and marketing initiatives still need improvements
- Solid year-to-date growth in Europe driven modest organic growth and acquisitions
  - Positive organic growth in H2 despite IT incident driven by France and Poland. UK and several other markets have seen a more pronounced effect
- Solid organic growth in Australia prior to September
  - Flat organic growth year-to-date due to significant impact from IT incident

Very strong organic growth in Hearing Implants – market share gains in both businesses

Cochlear implants (CI)

- Continued very strong organic growth in H2 driven by increasing uptake of the Neuro system
- Generally broad-based growth
  - Particularly strong growth in various export markets
  - Strong growth in Germany and Brazil
- No commercial impact from IT incident
- Production site in France operating at normal capacity

Bone anchored hearing systems (BAHS)

- Very strong growth acceleration in H2 driven by the new, ground-breaking Ponto 4 sound processor
- Ponto 4 is based on the latest hearing aid platform from Oticon, Velox S – industry leading audiology, wireless streaming and smallest design on the market
- Growth driven by a number of mature markets

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Strong organic growth and continued momentum in Diagnostics

- Strong organic growth with momentum from H1 carrying over H2
- Growth mainly driven by North America and by a large tender win in Q3
  - Also driven by recurring sales of services and disposables
- New hearing aid fitting system, Affinity Compact, launched at EUHA will support growth in this important segment
- Other recent products launches across several brands will drive continued market share gains

Strong year-to-date organic growth in Personal Communication

- Strong organic growth in our 50/50 joint venture, Sennheiser Communications
- Momentum gained in H1 largely continuing into H2 despite very strong comparative figures
- Growth primarily driven by Mobile Music
- Lower growth rates in Enterprise Solutions and Gaming due to strong comparative figures
- Materially lower EBIT-contribution than last year due to negative mix changes, FX effects and increased R&D and distribution spend
- Preparation for separation of joint venture from 1 January 2020 progressing according to plan

Other matters

Year-to-date gross profit margin has been slightly lower than last year

- Material negative impact of the IT incident – lost sales were not matched by a lower cost base due to largely fixed cost structure

- As expected, capacity costs have increased significantly year-over-year
  - Increased R&D efforts in 2018
  - Higher distribution costs, mainly driven by retail acquisitions made in H1 2018

- Sequential development in capacity costs from H1 to H2 is much more modest
  - Low single-digit growth expected driven by further acquisitions and costs directly related to IT incident
  - Underlying flat sequential development

Level of acquisitions expected to be slightly below the level seen in 2018

- We continue to see attractive acquisition opportunities for all parts of our business
- Based on the transactions that we expect to close in 2019, we now expect the level of acquisitions to be slightly below the level seen in 2018 (previously slightly above)
- There is some inherent uncertainty about the completion of such acquisitions
- For some of the expected acquisitions in 2019, we expect to take full ownership of assets in which we have previously held a non-controlling interest.

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Share buy-backs resumed as of today

- Total share buy-backs for the year expected to amount to around DKK 1.0 billion (prev. more than DKK 1.2 billion) including the shares bought back year-to-date

- Unchanged aim for a gearing multiple of 1.7-2.2 measured as net interest-bearing debt (NIBD), excluding lease liabilities, relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16)

- We expect that at the end of the year, our gearing multiple will temporarily exceed the target range as a direct consequence of the IT incident

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Impact of IFRS 16 in line with expectations

- IFRS 16 implemented with effect from 2019
- Modified transition method applied – comparative figures have not been restated
- Year-to-date, the financial impact of IFRS 16 has been in line with expectations as communicated

(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*

Outlook 2019

Outlook 2019

- As a result of the negative impact of the IT incident, we now expect to generate organic sales growth in line with the market growth rate in 2019 (prev. above market level)
- We still expect a positive exchange rate effect of 1% on revenue in 2019
- **We continue to guide for a reported EBIT of DKK 2,000-2,300 million,** corresponding to an EBIT of DKK 2,650-2,850 million before the IT incident
- When excluding the positive impact of IFRS 16, we now expect growth in our cash flow from operating activities (CFFO) to be negative (prev. substantial growth)
- As of today, we have resumed buying back shares and we expect total share buy-backs for the year to amount to around DKK 1.0 billion (prev. more than DKK 1.2 billion)
- As a direct consequence of the IT incident, we expect that our gearing multiple at the end of the year will temporarily exceed our target range of 1.7-2.2

Q&A

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Roadshows and conferences:

19 Nov	**Copenhagen** (ABG)
19 Nov	**Edinburgh** (JP Morgan)
20 Nov	**Dublin** (JP Morgan)
20 Nov	**Frankfurt** (Nordea)
20 Nov	**Paris** (SEB)
21 Nov	**London** (Jefferies conference)
26 Nov	**Geneva** (Carnegie)
28 Nov	**Milan** (Exane)
3 Dec	**Copenhagen** (Danske Bank seminar)
10 Dec	**New York** (Carnegie)
12 Dec	**Chicago** (Commerzbank)