

Company announcement no 2024-12

Interim Report 2024

14 August 2024

Organic growth of 3% in H1 below expectations due to Hearing Aids and Diagnostics

EBIT before special items of DKK 2,068 million and very solid cash flow generation with CFFO of DKK 1,491 million

Outlook for 2024 maintained (as updated on 16 July 2024): Organic growth of 2-4% and EBIT before special items of DKK 4,300-4,600 million

Initiation of restructuring plan for EPOS to obtain profitability and continuous commitment to divest the business

“Overall, the Demant Group continued to increase revenue in the first half of the year with 5% growth in local currencies and good momentum in our Hearing Care business. Both our Diagnostics and Hearing Aids business areas have grown at a slower pace than expected, with Hearing Aids being impacted by our chosen brand strategy in the US. Despite seeing temporarily lower growth, we remain dedicated to our strategy to ensure strong growth and profitability through our market-leading innovation and hearing healthcare services with a view to improving the lives of as many people with a hearing loss as possible this year and beyond,” says Søren Nielsen, President & CEO of Demant.

Business area	Revenue (DKK million)		Growth				
	Q2 2024	Q2 2023	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids, total revenue	3,123	3,040	3%	1%	4%	-2%	3%
Hearing Aids, internal revenue	-609	-530	12%	3%	14%	0%	15%
Hearing Aids, external revenue	2,514	2,510	1%	1%	2%	-2%	0%
Hearing Care	2,516	2,290	5%	4%	9%	0%	10%
Diagnostics	634	632	0%	0%	0%	0%	0%
Group	5,664	5,432	3%	2%	5%	-1%	4%

Business area	Revenue (DKK million)		Growth				
	H1 2024	H1 2023	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids, total revenue	6,230	6,088	3%	1%	4%	-1%	2%
Hearing Aids, internal revenue	-1,208	-1,100	6%	3%	10%	0%	10%
Hearing Aids, external revenue	5,022	4,988	2%	0%	2%	-2%	1%
Hearing Care	4,834	4,508	3%	4%	7%	0%	7%
Diagnostics	1,231	1,198	3%	0%	3%	0%	3%
Group	11,087	10,694	3%	2%	5%	-1%	4%

Unless otherwise indicated, the commentary below relates to H1 2024.

- The **Group** generated organic growth of 3% (Q2: 3%), which was relatively evenly split between business areas. Acquisitive growth was 2% (Q2: 2%) and exchange rate effects were -1% (Q2: -1%). Reported revenue growth was 4% (Q2: 4%).
 - **Hearing Aids** saw organic growth in revenue from external customers of 2%, which was below expectations, even if we take very strong comparative figures into account. Following organic growth of 4% in Q1, growth decelerated to 1% in Q2, primarily due to a significant loss of market share with managed care in the US, which has not been fully compensated by additional sales to independents in the US, as well as to a generally intense competitive environment in more price-focused channels and segments. When we look at our total hearing aid sales, these adverse developments have resulted in unit growth of -6%, which has, however, been more than offset by a positive development in the average selling price (ASP) of 11% due to positive product and channel mix changes. The development in the ASP was also supported by the fact that we launched new premium hearing aids in H1, including our new flagship product, Oticon Intent, which has, as expected, been well received by the independent channel.

- As expected, **Hearing Care** saw performance improve in Q2, leading to 5% organic growth, but despite the slow start to the year with flat organic growth in Q1, organic growth reached 3% in H1. This improvement was supported by strong growth in many of our medium-sized markets as well as positive momentum in France, and it was achieved despite negative developments in the Chinese market, which continued to be a drag on organic growth. In H1, growth in local currencies was driven equally by unit growth and a positive ASP development. Acquisitions continued to contribute to growth, with contributions from primarily Germany and Belgium.
- **Diagnostics** saw organic growth of 3% (Q2: 0%) despite a soft market for diagnostic equipment and headwinds in China from the ongoing Made in China initiatives. Organic growth decelerated from 7% in Q1 to 0% in Q2, primarily due to these current market headwinds and to balance products, which are seeing negative growth.
- The Group's **gross margin** was 76.8%, which is better than expected and an increase of 1.8 percentage points compared to H1 2023. This margin expansion was driven by our continued focus on improving our product mix to lift the ASP in Hearing Aids and by a meaningful gross margin improvement in Diagnostics. Moreover, the gross margin development was positively impacted by changes in the business mix, and exchange rate effects also had a slightly positive impact on the gross margin in H1.
- **OPEX** grew organically by 7%, but from Q1 to Q2, our organic OPEX growth declined sequentially. Acquisitions added additional growth of 3%, while we only saw a limited impact of changes in foreign exchange rates. The OPEX growth was mainly due to increased spending in H2 2023, reflecting our continuous commitment to invest in R&D and distribution. After having annualised the increased spending from H2 2023 and due to us having generated lower-than-expected revenue in H1, we have taken certain cost-saving initiatives across the Group to achieve a better balance between revenue and OPEX growth in H2.
- **EBIT before special items** amounted to DKK 2,068 million, corresponding to an EBIT margin before special items of 18.7%. The margin contracted by 1.5 percentage points compared to H1 2023 due to lower operating leverage following the weaker-than-expected revenue growth and to strong comparative figures. In H1, **special items** amounted to DKK 124 million, leading to a **reported EBIT** of DKK 2,192 million.
- Despite lower profitability, the Group delivered very solid **cash flow** with CFFO of DKK 1,491 million and FCF of DKK 1,157 million. The cash flow was lower than last year, primarily due to higher tax payments and higher net financial expenses. The cash spent on acquisitions amounted to DKK 763 million, which is in line with expectations.
- As of 30 June, the Group had bought back shares worth DKK 1,137 million. Supported by the very solid cash flow generation and despite a continuously high level of acquisitions, the Group's **gearing multiple** was 2.3 at the end of June 2024.
- Loss after tax from **discontinued operations**, which comprise Communications and Hearing Implants, amounted to DKK 154 million, which is more negative than expected. This is mainly attributable to the operating loss in Communications and in our cochlear implants (CI) business where the latter also saw certain one-off charges related to the divestment of our CI business to Cochlear in May 2024. The operating activities of our bone anchored hearing systems (BAHS) business were positive in H1, and the business will remain with Demant for now, pending a review of our strategic options.
- The Group continued to see a slight improvement in **gender diversity**, with the share of women in top-level management increasing to 30% in H1 2024, an improvement of 1 percentage point compared to FY 2023. We have thus achieved our goal of 30% women in top-level management slightly earlier than in 2025, which was our target timeline.
- Total scope 1 and 2 **CO2e emissions** amounted to 16,219 tonnes (market-based emissions), which is a 3% increase compared to H1 2023. The increase can mainly be attributed to acquisitions in our Hearing Care business.
- We have concluded on the **review of strategic options for Communications**. Despite the EPOS business having good exposure in the market by offering leading technology, a robust go-to-market set-up and a strong brand, the current loss-making financial condition has been a barrier for reaching an agreement with a potential buyer. Consequently, we have decided to initiate a significant restructuring of the EPOS business, which entails an intention to rightsize the organisation and create a more focused business. Following the restructuring, we intend to carry on with the divestment of EPOS.

Outlook for 2024

Our outlook for 2024, which is summarised in the table below, is updated to reflect higher expectations of share buy-backs:

Metric	Outlook for 2024
Organic growth	2-4%
EBIT before special items	DKK 4,300-4,600 million
Share buy-backs	Around DKK 2,300 million (previously more than DKK 2,000 million)

The outlook is based on a number of key assumptions as described below (changes marked in bold):

- We expect the unit growth rate in the global hearing aid market in 2024 to be in line with the structural growth rate of 4-6% and the hearing aid market to see flattish ASP development for the year.
- We expect the cash allocated to bolt-on acquisitions in 2024 to be higher than normal due to acquisitions already made in 2024 and a continuously good pipeline of attractive opportunities.
- In Hearing Aids, the loss of market share in managed care and the lack of ability to fully compensate through additional sales to independents in the US are assumed to continue at the current low level for the remainder of 2024.
- In order to achieve a better balance between revenue and OPEX growth, we have taken certain cost-saving initiatives across the Group. When including the effect of these initiatives, we expect OPEX to grow organically in the low-to-mid single digits in H2 compared to the same period last year.
- **We expect the loss after tax related to Communications to be DKK 500 million (previously loss after tax of DKK 100-150 million). This follows a higher operating loss than expected in H1 as well as one-off costs of DKK 400 million related to the intended restructuring of EPOS.**
- **Following the divestment of our cochlear implants business in May 2024, our bone anchored hearing systems business will remain with the Group for now, pending a review of our strategic options. For the full year 2024, we expect the loss after tax related to Hearing Implants to be around DKK 50 million (previously DKK 0 million) due to a slightly higher operating loss in Cochlear Implants in H1 and certain one-off costs related to the divestment of our CI business to Cochlear.**

For modelling purposes, we provide further assumptions for 2024 below, which are updated as of 14 August 2024:

Metric	Assumption for 2024
Acquisitive growth	2% based on revenue from acquisitions completed as of 13 August 2024
FX growth	-1% based on exchange rates as of 13 August 2024 and including the impact of hedging
Effective tax rate	Around 24%
Loss after tax from discontinued operations	Around DKK 550 million (previously DKK 100-150 million), of which around DKK 500 million relates to Communications and DKK 50 million to Hearing Implants
Special Items	Positive by around DKK 125 million

Conference call details

Demant will host a conference call on 15 August 2024 at 14:00 CEST. A live webcast of the call will be available on our website www.demant.com. If you would like to access the conference call to ask questions, please pre-register [here](#) to receive the dial-in numbers and access codes. A presentation for the call will be uploaded on our website shortly before the call.

Further information:

Søren Nielsen, President & CEO
Phone +45 3917 7300
www.demant.com

Other contacts:

René Schneider, CFO
Peter Pudseylykke, Head of Investor Relations
Henrik Axel Lynge Buchter, Manager of External Communication