

Company announcement no 2023-09

Interim Management Statement for Q1 2023

3 May 2023

Very strong performance in Q1 with reported growth of 20% and organic growth of 14% for the Group
Hearing Aids organic growth of 26% due to broad-based momentum and fuelled by product launches
Outlook for 2023 (as updated on 17 April 2023): Organic growth of 6-10% and EBIT of DKK 3,800-4,200 million

“Demant started the year in a strong way, and we are pleased with our success in gaining market share in our Hearing Healthcare segment, particularly in Hearing Aids that delivered exceptional organic growth of 26% in the first quarter, fuelled by the highly successful launch of Oticon’s new flagship product, Oticon Real. Despite negative growth in Communications, we recently increased the Group’s outlook for 2023, and we remain focused on keeping our commercial momentum and on continuing to deliver life-changing hearing health for the benefit of the individual with a hearing loss and society at large,” says Søren Nielsen, President & CEO of Demant.

Business area	Revenue (DKK million)		Growth				
	Q1 2023	Q1 2022	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids, total revenue	3,048	2,351	26%	0%	26%	4%	30%
Hearing Aids, internal revenue	-570	-441	23%	5%	29%	1%	29%
Hearing Aids, external revenue	2,478	1,910	26%	-1%	25%	4%	30%
Hearing Care	2,218	1,898	9%	8%	17%	0%	17%
Diagnostics	566	503	4%	7%	11%	2%	13%
Hearing Healthcare	5,262	4,311	16%	4%	20%	2%	22%
Communications	246	292	-15%	0%	-15%	-1%	-16%
Group	5,508	4,603	14%	4%	18%	2%	20%

- As announced on 17 April 2023, the **Group** realised organic growth of 14% in Q1, which is significantly above our initial expectations. Acquisitive growth was 4%, and we saw a tailwind from exchange rate effects of 2%. Our reported revenue growth reached 20%.
- **Hearing Healthcare** saw organic growth of 16%, driven by Hearing Aids but with additional growth of 4% from acquisitions in Hearing Care and Diagnostics.
 - Growth in **Hearing Aids** was exceptional and driven by very strong performance in the US, however the commercial momentum was broad-based with double-digit growth in all regions. Growth was fuelled by very successful launches of new premium hearing aids, including our new flagship product, Oticon Real. Overall, growth was driven mostly by unit growth but also by positive ASP development due to geography and product mix changes as well as price increases implemented last year.
 - **Hearing Care** also delivered strong performance in Q1 thanks to solid organic growth in most major markets outside the US and France, which both saw lower – but still positive – growth. Organic growth was supported by slightly positive ASP growth. In China, growth from Sheng Wang was higher than expected due to strong recovery following significant negative impacts of coronavirus at the beginning of the year.
 - In **Diagnostics**, organic growth in Q1 was negatively impacted by some shipment delays in connection with the ramp-up of a new production site in Poland. However, the order book remained strong, and the production run rate had normalised at the end of Q1.
- As expected, organic growth in **Communications** was negative in Q1 as the markets for both enterprise solutions and gaming headsets remained weak.
- The Group’s **gross margin** was slightly lower than expected in Q1 and below the level in Q1 2022 due to a material decline in the gross margin in Communications, resulting from promotional activities, and also due to adverse exchange rate effects, affecting both our segments.

- **OPEX** in Q1 was in line with expectations with low double-digit growth in local currencies of which roughly half was organic, reflecting a combination of continued investments in Hearing Healthcare and further cost savings in Communications to improve profitability.
- The Group's **EBIT** was significantly above our initial expectations, as the strong revenue growth drove operating leverage in Hearing Healthcare and resulted in improved profitability.
- The Group's **CFFO** and **FCF** were strong in Q1 driven by the higher profitability.
- As announced on 20 April 2023, we no longer expect the contemplated **divestment of Hearing Implants** to close in Q2 2023, but we are currently not able to provide an updated timeline. Further announcements on the transaction will be made in due course. Hearing Implants continues to be recognised separately as a discontinued operation, and in Q1, profit after tax from discontinued operations was slightly less negative than initially expected.

Outlook for 2023

Our outlook for 2023, which was raised on 17 April 2023, is summarised in the table below:

Metric	Outlook for 2023
Organic growth	6-10%
Acquisitive growth	3% based on revenue from acquisitions completed as of 2 May 2023
FX growth	-1% based on exchange rates as of 2 May 2023 and including the impact of hedging
EBIT	DKK 3,800-4,200 million
Net financials	Negative by around DKK 600 million
Effective tax rate	25-26%
Gearing multiple	Gearing multiple (NIBD/EBITDA) at the end of 2023 within our medium- to long-term target of 2.0-2.5
Share buy-backs	None
Profit after tax from discontinued operations	Negative by DKK 100-200 million

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

- **Despite continued macroeconomic headwinds, we expect the unit growth rate in the global hearing aid market in 2023 to be within the structural growth rate of 4-6%.** We expect a negative contribution from ASP declines around the normal level of 1-2% due to mix effects.
- We see material uncertainty about the growth trajectory in 2023 in the markets for enterprise and gaming headsets and for video solutions due to low consumer confidence and caution by enterprises when it comes to investment decisions. In our Communications segment, we expect modest positive organic growth in 2023. Supported by cost savings, we expect an EBIT that is less negative than in 2022.
- Due to a high level of attractive opportunities, we expect the level of bolt-on acquisitions in 2023 to be higher than normal.
- Despite higher-than-normal cost inflation, we plan to grow OPEX less than revenue through focused cost control in order to support margin improvement.
- **The outlook for profit after tax from discontinued operations is based on a scenario where the divestment of Hearing Implants is not closed in 2023, but we are currently unable to provide an updated timeline.**

Demant will host a conference call on 3 May 2023 at 14:00 CEST. To attend this call, please use one of the following dial-ins: +45 7877 4197 (DK), +44 0 808 101 1183 (UK) or +1 785 424 1102 (US). The pin code is 42714#. A presentation for the call will be uploaded on www.demant.com shortly before the call.

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Hearing Healthcare

Market trends

Overall, the hearing healthcare market that we address, which comprises the markets for hearing aids and diagnostic instruments and services, saw positive growth in Q1.

Hearing aid market

Based on available market statistics, covering slightly less than two-thirds of the hearing aid market, and on our own assumptions, we estimate that the global hearing aid market saw unit growth of around 7% in Q1 compared to the same period in 2022. Growth was positive across regions, and we estimate that geography and channel mix changes resulted in a flattish development in the ASP. Consequently, value growth in the hearing aid market in Q1 was above our initial expectations.

Estimated hearing aid market unit growth by region

Region	2022					2023
	Q1	Q2	Q3	Q4	Total	Q1
Europe	20%	9%	0%	-2%	6%	4%
North America	8%	1%	0%	-3%	1%	9%
Hereof US (commercial*)	6%	-1%	-3%	-4%	-1%	9%
Hereof US (VA)	19%	2%	9%	-1%	6%	9%
Rest of World	4%	4%	4%	2%	3%	9%
Global	12%	5%	1%	-1%	4%	7%
CAGR vs 2019	4%	6%	4%	3%	4%	5%

Compared to the same period in 2022, we estimate that in Q1, market unit growth in Europe was 4%. Growth was primarily driven by double-digit unit growth in the UK. The NHS saw very strong growth, whereas growth in the private market was lower but still positive. In Germany, growth was slightly negative, and in France, which saw a significant positive effect of the hearing healthcare reform implemented in 2021, growth was also negative in Q1.

Driven by positive developments in both the US commercial market and VA, growth in North America was 9% in Q1. In the US, unit growth was positive, but the market continued to see negative mix effects with managed care and large chains growing more than the independent part of the market. Following the introduction of over-the-counter (OTC) hearing aids, which took effect in October 2022, we have so far only seen a limited impact on the prescription hearing aid market. In Canada, growth was strong in the period.

Looking beyond Europe and North America, we estimate that market unit growth in Rest of World was 9%. Growth was driven by China despite negative impacts from coronavirus at the beginning of the year and by Japan that saw double-digit growth in the period. In addition, we estimate that several emerging markets also delivered strong growth. In Australia, growth was positive, in part due to coronavirus-related restrictions, which limited growth in the comparative period.

Diagnostics market

The market for diagnostic instruments and services started the year at a slightly lower growth rate than in 2022. We estimate that, compared to the same period last year, the market growth rate in Q1 was in line with the estimated structural annual growth rate of 3-5%.

Hearing Aids

Our Hearing Aids business delivered exceptional organic growth of 26% in Q1, which was significantly above our initial expectations and the estimated market growth rate, and we saw a tailwind from exchange rate effects of 4%.

Overall, the strong organic growth was the result of broad-based commercial momentum, particularly in the US, and growth was further fuelled by very successful launches of new premium hearing aids. These new hearing aids, which include our new flagship product, Oticon Real, were launched in both rechargeable and non-rechargeable miniRITE and miniBTE styles in the three upper price points.

Growth in Q1 was mostly driven by unit growth, but ASP developments were also positive in the period due to geography and product mix changes as well as price increases implemented last year.

In Europe, we saw double-digit organic growth driven by Germany and the UK, but most markets delivered good performances that exceeded our initial expectations. The halt of sales to Russia, Belarus and the provinces of Donetsk and Luhansk only had a slightly negative impact on growth, as the effect annualised in Q1. In France, we saw positive growth across channels despite negative market growth in the period.

North America delivered strong double-digit growth in Q1 driven by both the US and Canada, which both succeeded in gaining market share in most major channels in the period. Sales to independents accelerated following the launch of Oticon Real, and our sales momentum with chains continued at a very strong level, accelerating slightly compared to Q4 2022. In the US, sales to VA also grew thanks to further incremental market share gains ahead of the introduction of Oticon Real at the beginning of May.

In Asia, we also saw strong, double-digit organic growth thanks to Japan and China where markets saw post-coronavirus recovery. In both our Pacific and our *Other countries* regions, the latter mostly comprising emerging markets, we saw good growth in Q1.

Hearing Care

Revenue in Hearing Care saw strong momentum in Q1, and organic growth was 9%. Acquisitive growth was 8%, which is mainly attributable to the acquisition of Sheng Wang in China in Q3 2022 but also to acquisitions in North America, France, Germany and Japan. Exchange rate effects were 0%. Organic growth in the period was predominantly driven by units, but we also saw a slight tailwind from price increases, the majority of which were implemented in H2 2022.

Europe saw double-digit growth, and we saw positive developments in most markets. In Poland, growth was particularly strong, and we also saw very good growth in the UK and in several of our other medium-sized markets. France saw positive organic growth despite soft market development. In line with our plans to increase our presence in the German market, we continued to expand our network through acquisitions in that market.

North America delivered positive growth driven by Canada where we saw double-digit organic growth in the period. In the US, organic growth was slightly positive, but our performance continued to be impacted by our strategic decision to reduce the share of sales related to managed care, and we also saw a slightly negative impact on growth of the store closures announced in November 2022.

In our remaining geographies, Australia saw a good start to the year with solid organic growth, partly due to soft comparative figures due to coronavirus-related restrictions and floodings in 2022, and in China, Sheng Wang saw very strong momentum following the stronger-than-expected recovery from coronavirus impacts at the beginning of the year.

Diagnostics

Following an impressive performance in 2022, growth in Diagnostics slowed down in Q1, and organic growth was 4%, which is in line with the estimated market growth rate. In addition, the business area saw acquisitive growth of 7%, primarily relating to the acquisition of Inventis Srl. in Q2 2022. Exchange rate effects were 2%. Growth in Q1 was negatively impacted by some shipment delays in connection with the ramp-up of a new production site in Poland, but the production run rate had normalised at the end of the period. Despite shipment delays, our order intake continued to be strong, and we expect to catch up on the delays in the coming quarters.

In terms of geographies, organic growth in Q1 was predominantly driven by Asia where China saw good growth following negative coronavirus impacts at the beginning of the year. In Europe, we saw solid organic growth and strong contributions from acquisitions, whereas North America only saw slightly positive organic growth. In terms of product categories, Diagnostics mainly generated growth in balance equipment and in the service business, the latter performing strongly in Q1.

Communications

Market trends

We estimate that the market growth rate for enterprise solutions and gaming headsets was negative with tough market conditions in both these businesses in Q1.

Communications (EPOS)

The Communications business area, which operates under the EPOS brand, saw organic growth of -15% in Q1. Exchange rate effects were -1%, predominantly due to developments in the British pound. Compared to last year, we saw negative organic growth in all regions.

Revenue in Gaming saw significant negative growth in Q1, as the significant weakening that we saw last year was not annualised until the end of the period. Following limited seasonality in H2 2022, we continued to be impacted by high inventories in the sales channels, which remained a drag on growth. In Enterprise Solutions, growth was slightly negative in the period. For both areas, our realised sales prices were negatively impacted by sales of legacy, co-branded products, and we expect this effect to continue throughout most of 2023.