

Demant

Annual Report

2022

7 February 2023

Søren Nielsen, President & CEO
René Schneider, CFO
Investor Relations



Agenda

- 01 Financial highlights, sustainability and key events**
- 02 Hearing Healthcare**
- 03 Communications**
- 04 Financial review**
- 05 Outlook**
- 06 Q&A**

Unless otherwise indicated, all commentary in this presentation is based on figures adjusted for one-off items in 2021

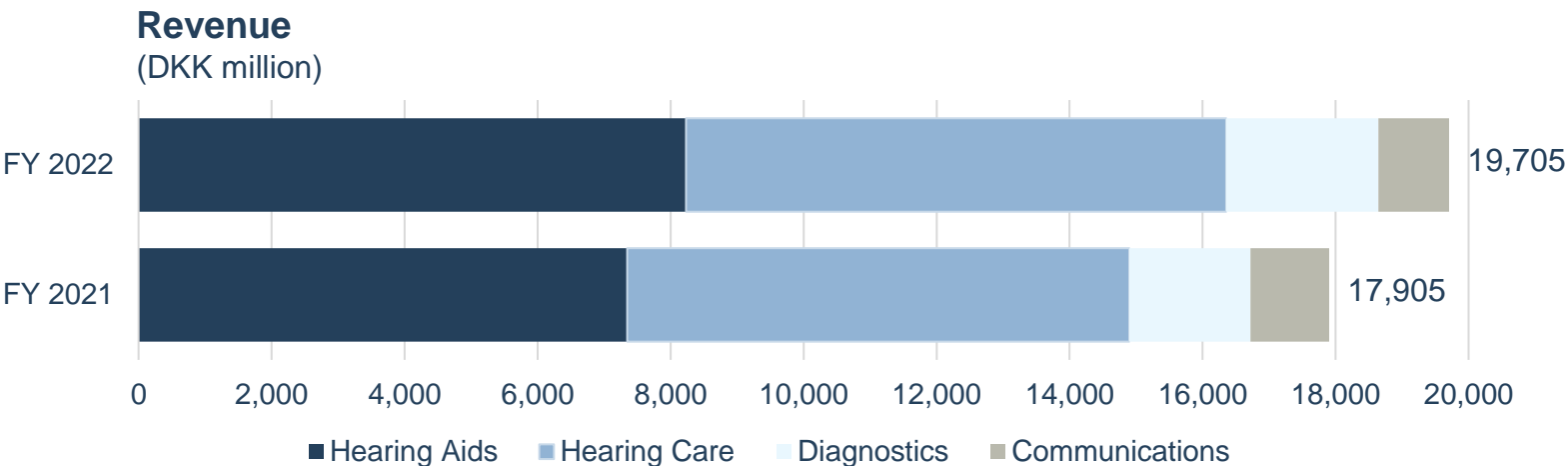
Financial highlights in 2022

Revenue growth

4% organic

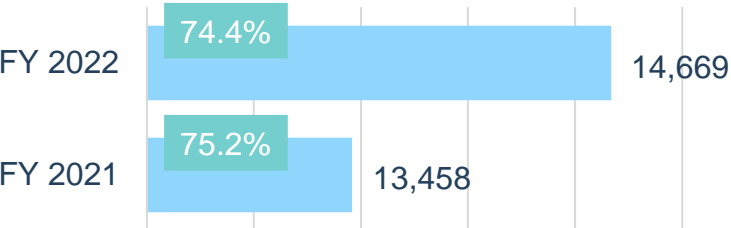
5% local currencies

10% reported



Gross profit

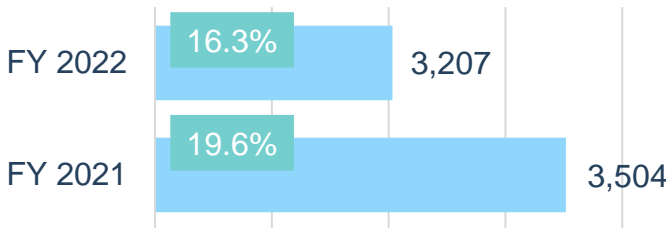
(DKK million)



Decline in gross margin predominantly due to channel and product mix changes in Hearing Healthcare and to exchange rate effects

EBIT

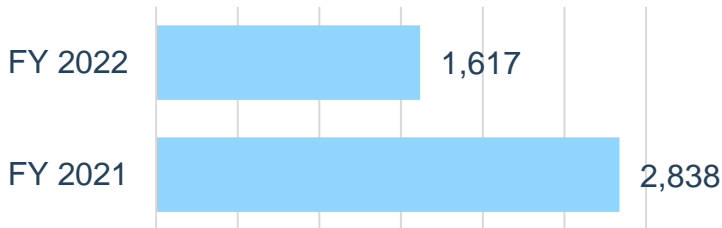
(DKK million)



Lower profitability driven by weaker-than-expected market growth and by lower sales at a relatively fixed cost base

Free cash flow

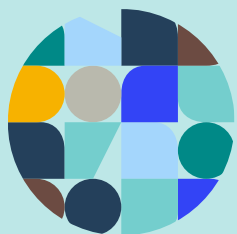
(DKK million)



Free cash flow development impacted by lower earnings and normalisation of net working capital

Sustainability advancements in 2022

Sharpening our strategy and delivering on key focus areas



New Diversity, equity and inclusion policy and targets



Increase in women and gender balance in top-level management teams



Submission of climate targets to the Science Based Targets initiative



Roadmap for renewable electricity to reach 50% by 2025 and 100% by 2030. Strategic initiatives ensured sequential improvement in emissions from H1 to H2 2022

Increased disclosure of key performance data

Key performance areas

	2022	2021
Scope 1 & 2 CO2 emissions (tonnes CO2e)	31,349	30,813
CEO remuneration ratio	39	38
Gender diversity, Board of Directors (women/men)*	40/60%	40/60%
Gender diversity, all managers (women/men)	44/56%	43/57%
Gender diversity, top level management (women/men)	23/77%	22/78%

* Shareholder elected members.

Key events in H2 2022



Increased macroeconomic uncertainty and low consumer confidence continued to negatively impact our markets in both Hearing Healthcare and Communications



Despite an improving coronavirus situation in many regions during 2022, our activities in China, particularly in Sheng Wang, were negatively impacted in Q4 following the lifting of restrictions



We saw further market share gains in Hearing Aids and Diagnostics, particularly in the US, but weaker-than-expected markets impacted growth in Hearing Care. We saw significant sequential increase in organic growth from Q3 to Q4



Communications saw weak growth, primarily attributable to Gaming, but growth in Enterprise Solutions also slowed down in Q4 as the normal positive seasonal effects did not materialise



Key financial take-aways for H2 2022



Group **organic growth** of 3% in H2 (Q4: 6%) in a weaker-than-expected market for hearing healthcare as well as in Communications



Hearing Healthcare: Organic growth of 5% (Q4: 8%) driven by strong performances by Hearing Aids and Diagnostics, whereas Hearing Care contributed negatively to growth



Communications: Organic growth of -13% (Q4: -23%), primarily attributable to Gaming, but Enterprise Solutions also saw negative growth in Q4



OPEX increased due to acquisitions and to further investments in R&D and to some extent also to high inflation



EBIT for the Group was DKK 1,619 million, a decline of 12% due to negative growth in Hearing Care and Communications



Outlook for 2023:
Organic revenue growth: 3-7%
EBIT of DKK 3,600-4,000 million

(DKK million)	H2 2022	H2 2021	Change
Hearing Healthcare			
Revenue	9,700	8,597	13%
Organic growth	5%	14%	
Operating profit (EBIT)	1,748	1,908	-8%
EBIT margin	18.0%	22.2%	
Communications			
Revenue	508	562	-10%
Organic growth	-13%	-27%	
Operating profit (EBIT)	-129	-78	n.a.
EBIT margin	-25.4%	-13.9%	
Group			
Revenue	10,208	9,159	11%
Organic growth	3%	10%	
Operating profit (EBIT)	1,619	1,830	-12%
EBIT margin	15.9%	20.0%	

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Hearing Healthcare



Hearing Healthcare in H2 2022

5%

Organic growth of 5% (Q4: 8%), driven by strong performance in Hearing Aids and Diagnostics, however partly offset by negative organic growth in Hearing Care



Gross margin declined due to geography and channel mix changes as well as mix effects in Hearing Aids, as an increasing share of rechargeable units had a slightly dilutive effect. Wage inflation and exchange rates also had a slightly negative impact



OPEX grew 17% of which 6% was organic as we had limited short-term flexibility to adjust the cost base to lower revenue in Hearing Care. Acquisitions added 6%, most of which related to Sheng Wang



EBIT of DKK 1,748 million and an EBIT margin of 18.0%, a decrease of 4.2pp compared to H2 2021 driven by Hearing Care where revenue was lower than originally expected with limited short-term OPEX flexibility

(DKK million)	H2 2022	H2 2021	Growth
Revenue	9,700	8,597	13%
Production costs	-2,338	-1,930	21%
Gross profit	7,362	6,667	10%
<i>Gross margin</i>	75.9%	77.6%	
R&D costs	-549	-476	15%
Distribution cost	-4,617	-3,891	19%
Administrative expenses	-513	-455	13%
Share of profit after tax, associates and JVs	65	63	3%
EBIT	1,748	1,908	-8%
<i>EBIT margin</i>	18.0%	22.2%	

The hearing aid market in 2022

Estimated market unit growth:

- Global growth of 0% in H2 with 1% in Q3 and -1% in Q4
- Full-year growth of 4%, which is at the low end of the structural growth range of 4-6%, despite a rebound in VA and the NHS. The hearing aid market thus grew below our initial expectations, particularly in Q3 and Q4

Unit growth in Q4 by geography:

- **Europe:** Sequential slowdown driven by Germany and France, although the latter remained significantly above the level prior to the hearing healthcare reform
- **North America:** Weakening in Q4 driven by higher comparative figures in VA. In the US, we estimate that managed care continued to grow more than the private pay market, which remained negative
- **Rest of world:** Slightly positive growth, but growth in China was negatively impacted following the lifting of coronavirus restrictions

Unit growth*	2022				
	Q1	Q2	Q3	Q4	FY
Europe	20%	9%	0%	-2%	6%
North America	8%	1%	0%	-3%	1%
US (commercial)	6%	-1%	-3%	-4%	-1%
US (VA)	19%	2%	9%	-1%	6%
Rest of world	4%	4%	4%	2%	1%
Global	12%	5%	1%	-1%	4%
CAGR vs. 2019	4%	6%	4%	3%	4%

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



Hearing Aids

Comments

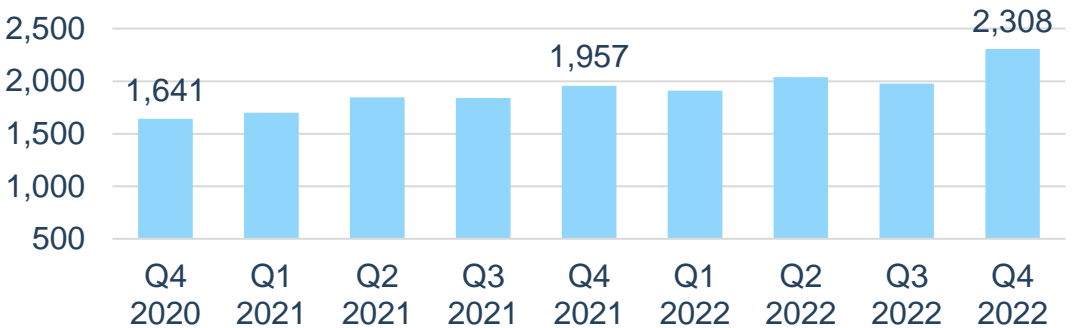
- Significant market share gains in Q4, up by 11% in a declining hearing aid market thanks to continuously strong traction of Oticon More and Philips HearLink and supported by recent product introductions
- Growth was entirely driven by an increase in unit sales, whereas the ASP declined slightly as price increases were offset by geography and channel mix changes
- Launch of new premium products starting in February 2023

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none"> • Good performance in many countries, especially Germany, Poland and Italy • Positive growth and market share gains in France 	<ul style="list-style-type: none"> • Strong momentum and growth in the US supported by positive developments with chains 	<ul style="list-style-type: none"> • Continuously very strong growth in emerging markets and in Japan • China negatively impacted after the lifting of coronavirus restrictions

Revenue and growth

Revenue (DKK million)	Q4 22	Q4 21	Growth				
			Org.	Acq.	LCY	FX	Rep.
Hearing Aids	2,703	2,338	11%	0%	11%	5%	16%
Internal sales to Hearing Care	-395	-381	-6%	7%	1%	3%	4%
Sales to external customers	2,308	1,957	14%	-2%	13%	5%	18%

Quarterly revenue



Launch of new platform: Oticon Real

Oticon Real™ takes our BrainHearing™ technology to the next level – providing hearing aid users with the full, open sound scene, while protecting them from disruptive sounds.

360-degree
soundscape

2016
Oticon Opn™

Proactive
feedback
technology

2019
Oticon Opn S™

Onboard
Deep Neural
Network

2020
Oticon More™

2023
Oticon Real™

Further improvements in hearing

- Our new flagship hearing aid, **Oticon Real™** is based on the new **Polaris R** platform and designed to further improve the performance of our ground-breaking Deep Neural Network (DNN) technology
- Building on our **BrainHearing™ philosophy**, Oticon Real™ shows significant improvements in speech clarity and reduced listening efforts in **environments with sudden and disruptive sounds**
- Will be launched in **miniRITE** and **miniBTE** form factors in both rechargeable and non-rechargeable versions
- Initially available in the **three upper price points**
- **Philips, Bernafon and Sonic** will also launch new, innovative products in Q1

Will be available from February 2023



Oticon Real™ miniRITE



Hearing Care

Comments

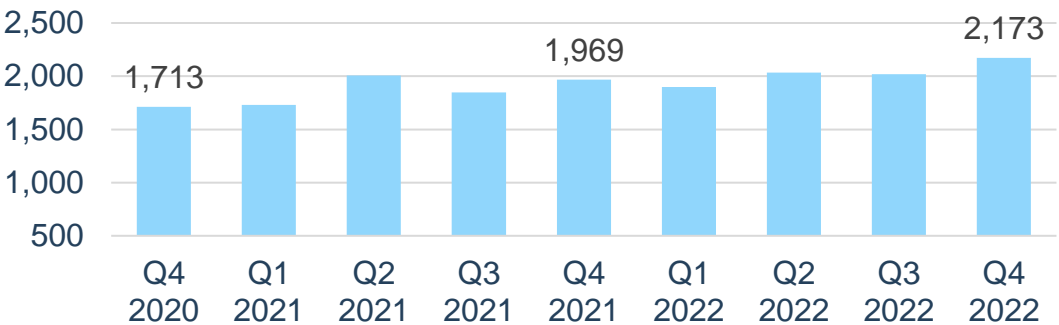
- Continuously negative impact of macroeconomic uncertainty, especially in markets dominated by private pay
- Improved growth rate in Q4 compared to Q3, mainly due to lower comparative figures in the US and France
- Positive revenue contribution from acquisitions in North America, Germany, Japan and China (Sheng Wang)

Europe	North America	Asia/Pacific/Other
<ul style="list-style-type: none">Positive development in several marketsGrowth negatively impacted by high comparative figures in France, albeit lower than in Q3	<ul style="list-style-type: none">Slightly negative organic growth in North AmericaNegative effect of private pay market and decision to exit some managed care contracts in the US	<ul style="list-style-type: none">Solid growth in the Pacific regionSales in China at the end of Q4 significantly impacted by coronavirus situation

Revenue and growth

Revenue <small>(DKK million)</small>	Growth						
	Q4 22	Q4 21	Org.	Acq.	LCY	FX	Rep.
Hearing Care	2,173	1,969	1%	6%	7%	3%	10%

Quarterly revenue





Diagnostics

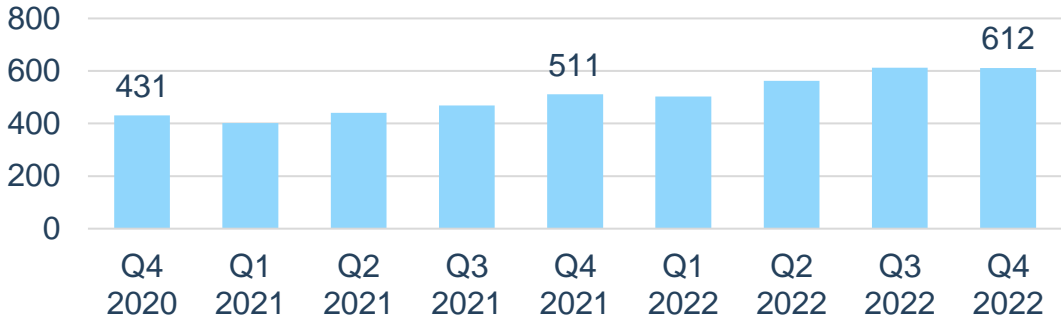
Comments

- Estimated market growth in Q4 above the structural growth rate of 3-5% per year
- Solid growth and market share gains in Q4 in both instrument sales and services in many markets, supported by the acquisition of Inventis Srl in Q2
- Growth was broad-based with Europe as most significant contributor, but other geographies also performed well
- In China, growth was negatively impacted by the coronavirus situation
- Solid order book at the end of 2022 and outlook remains positive

Revenue and growth

Revenue <small>(DKK million)</small>			Growth				
	Q4 22	Q4 21	Org.	Acq.	LCY	FX	Rep.
Diagnostics	612	511	7%	5%	13%	7%	20%

Quarterly revenue



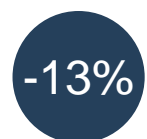
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Communications

EPOS



Communications in H2 2022



Organic growth of -13% which is below our most recent expectations due to both Gaming and Enterprise Solutions



Decline in **gross margin** mainly due to exchange rate effects and higher-than-normal freight charges



OPEX grew by 1% in H2, as we continued to invest in R&D, whereas distribution costs decreased



As a result of the decline in revenue and gross margin headwinds, **EBIT** amounted to DKK -129 million, which is below our expectations

(DKK million)	H2 2022	H2 2021	Growth
Revenue	508	562	-10%
Production costs	-284	-291	-2%
Gross profit	224	271	-17%
<i>Gross margin</i>	<i>44.1%</i>	<i>48.2%</i>	
R&D costs	-114	-106	8%
Distribution costs	-221	-231	-4%
Administrative expenses	-18	-12	50%
EBIT	-129	-78	n.a.
<i>EBIT margin</i>	<i>-25.4%</i>	<i>-13.9%</i>	



Communications

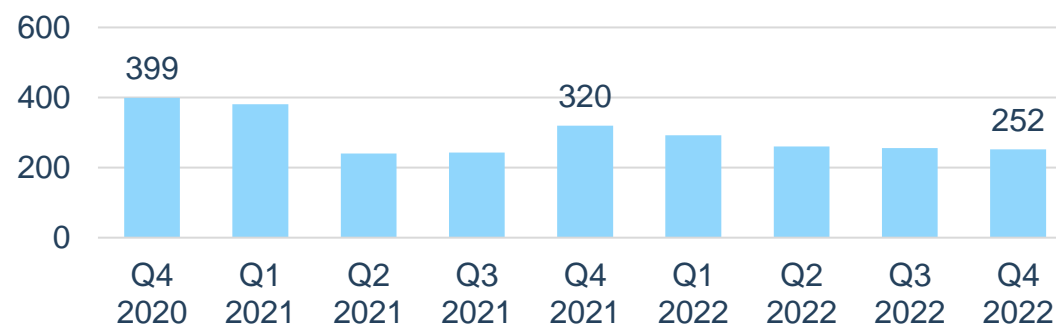
Comments

- Estimated negative growth in Q4 in the markets for gaming and enterprise solutions
- Our growth in Q4 was below expectations, as negative market developments continued to impact **Gaming**
- In **Enterprise Solutions**, we saw some buyer hesitation towards the end of Q4 and a slight delay in the sale of new video solutions
- We recently launched EPOS' new video solutions, EPOS EXPAND Vision 1 and 5, and we expect these products to contribute to growth in 2023

Revenue and growth

Revenue (DKK million)			Growth				
	Q4 22	Q4 21	Org.	Acq.	LCY	FX	Rep.
Communications	252	320	-23%	0%	-23%	2%	-21%

Quarterly revenue



Group financial review

Income statement H2 2022

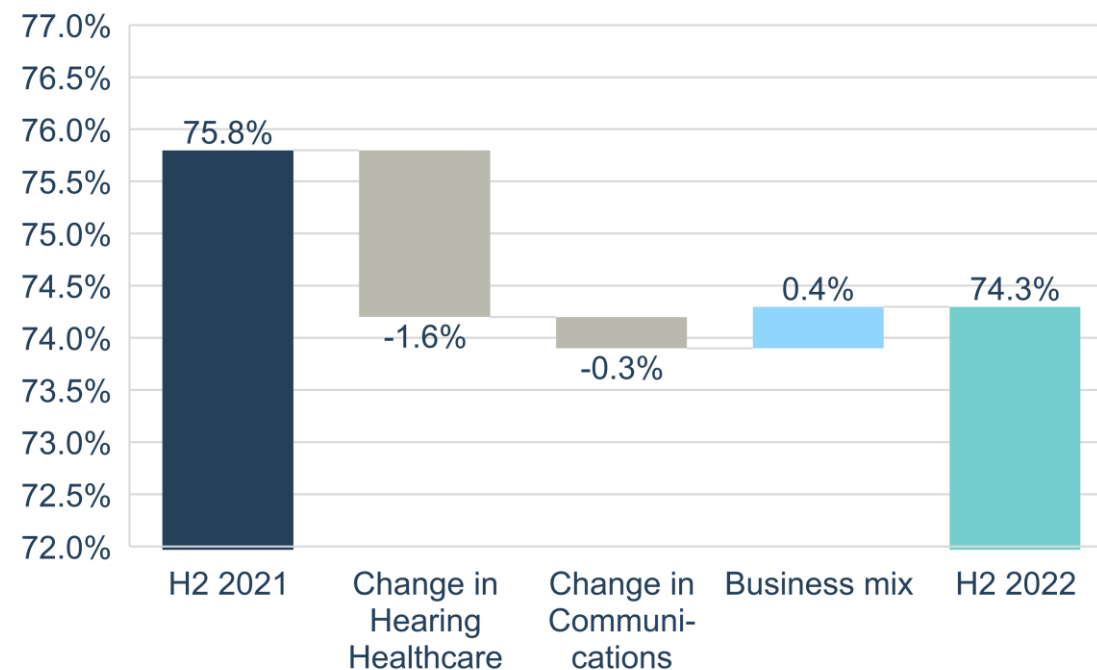
(DKK million)	Hearing Healthcare H2 2022	Communications H2 2022	Group H2 2022	Group adjusted H2 2021	Group adjusted growth
Revenue	9,700	508	10,208	9,159	11%
Production costs	-2,338	-284	-2,622	-2,221	18%
Gross profit	7,362	224	7,586	6,938	9%
<i>Gross margin</i>	75.9%	44.1%	74.3%	75.8%	
R&D costs	-549	-114	-663	-582	14%
Distribution costs	-4,617	-221	-4,838	-4,122	17%
Administrative expenses	-513	-18	-531	-467	14%
Share of profit after tax, associates & JVs	65	-	65	63	3%
EBIT	1,748	-129	1,619	1,830	-12%
<i>EBIT margin</i>	18.0%	-25.4%	15.9%	20.0%	

Gross profit

Comments

- Gross profit increased by 9% to DKK 7,586 million
- Gross margin decreased by 1.5 percentage points, driven by both Hearing Healthcare and Communications due to mix changes and negative exchange rate effects
- Some impact of dynamic supply chain situation, mostly relating to higher freight charges, but the impact became less pronounced
- Some impact of higher-than-normal wage inflation

Gross margin development in H2

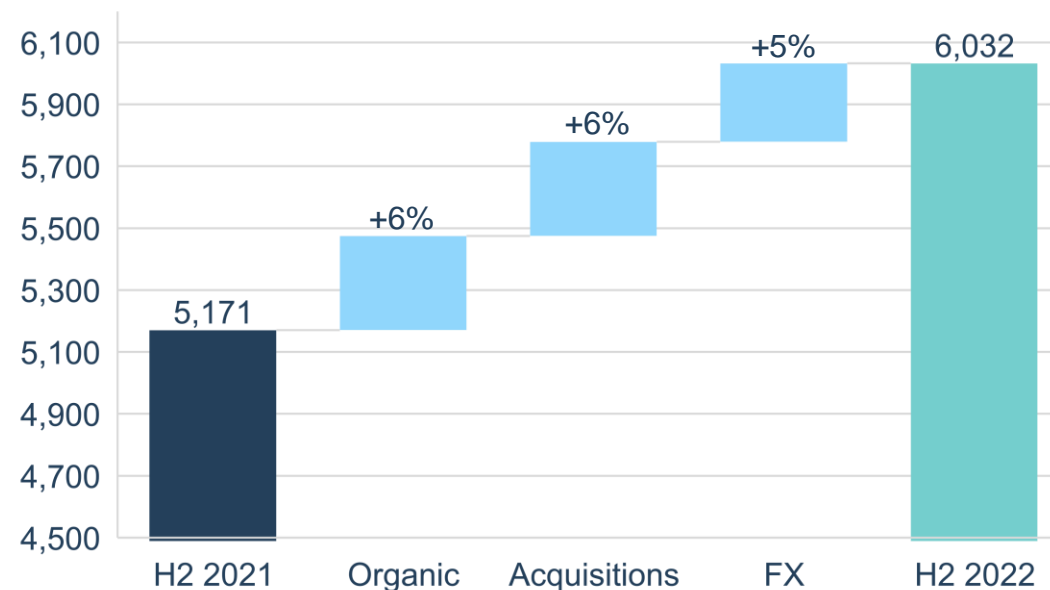


OPEX

Comments

- OPEX saw growth in local currencies of 12% of which half related to acquisitions, mostly Sheng Wang and Inventis Srl.
- In organic terms, OPEX increased by 6%
 - Limited ability in the short term to align costs with the lower revenue level in Hearing Care and Communications
 - Continued focus on and investments in R&D to ensure continued technological leadership
 - Some impact of higher-than-normal inflation
- We took cost reduction measures in Hearing Aids, Hearing Care and Communications
 - Approx. DKK 100 million in annual cost savings
 - Minimal effect in 2022, but full effect in 2023

OPEX development in H2

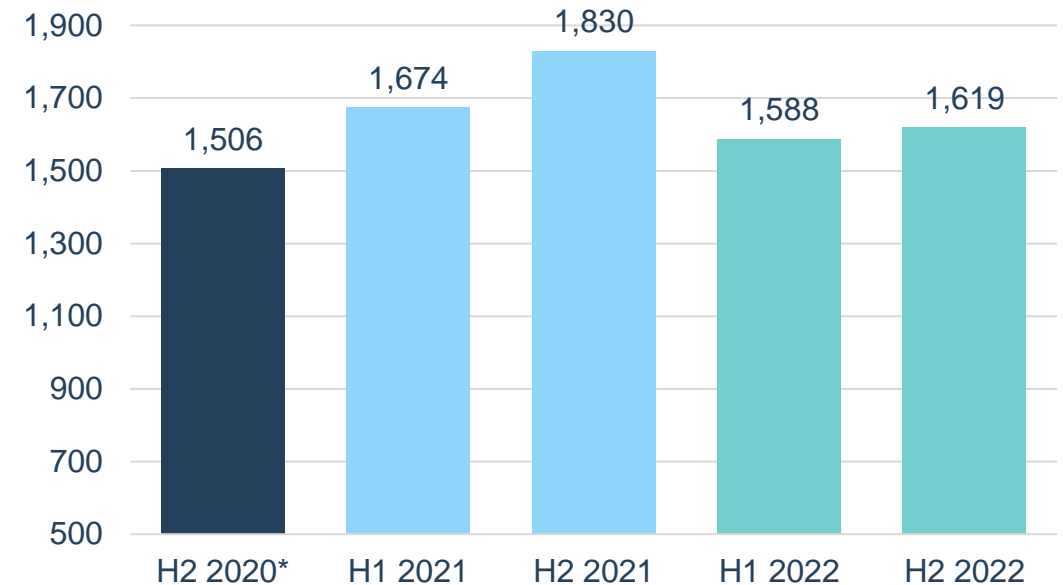


EBIT

Comments

- Tough comparative figures in 2021 due to strong performance, temporary savings and tailwind from the French hearing healthcare reform
- EBIT was DKK 1,619 million in H2, a decline of 12%
 - Hearing Healthcare: DKK 1,748 million
 - Communications: DKK -129 million
- EBIT margin of 15.9%, a decline of 4.1 percentage points compared to H2 2022
 - Lower profitability in Hearing Care and Communications, which both saw revenue below expectations and with limited short-term ability to adjust the cost base
 - China also had an impact on profitability, as revenue was materially impacted in Q4, but with limited flexibility to adjust OPEX

Half-year EBIT development



Cash flow statement

- CFFO declined by 15% in H2 due to lower EBIT
- CAPEX was approx. 5% of sales, which is slightly above our medium- to long-term expectations due to investments in production facilities in Poland and Mexico
- Net cash in respect of acquisitions and divestments was DKK 1,810 million in H2, mainly reflecting the acquisition of the remaining 80% of Sheng Wang
- Share buy-backs amounted to DKK 533 million in H2

	FY		H2		Change	
	2022	2021	2022	2021	FY	H2
(DKK million)						
CFFO	2,622	3,593	1,707	2,000	-27%	-15%
Net investments	-1,005	-755	-488	-478	33%	2%
Free cash flow before acquisitions and divestments	1,617	2,838	1,219	1,522	-43%	-20%
Acquisitions and divestments	-2,323	-547	-1,810	-141	>100%	>100%
Share buy-backs	-1,840	-3,200	-533	-1,387	-43%	-62%
Other financing activities	2,774	1,422	1,153	180	95%	>100%
Cash flow for the period	228	513	29	174	-56%	-83%

Balance sheet

- 9% increase in total assets in H2 driven by higher inventories and an increase in other non-current assets
- Of the total assets, DKK 964 million relates to assets held for sale following the announcement to discontinue Hearing Implants
- Net working capital declined by 11% in H2 to DKK 3,648 million, which is mainly due to a decrease in prepaid expenses following the full acquisition of Sheng Wang
- NIBD amounted to DKK 12,711 million, corresponding to a gearing multiple (NIBD/EBITDA) of 2.9, which is above our medium- to long-term expectations

(DKK million)	FY 2022	H1 2022	FY 2021	Change	
				H2 2022	FY 2022
Lease assets	2,304	2,104	2,079	10%	11%
Other non-current assets	17,531	15,305	14,895	15%	18%
Inventories	2,904	2,445	2,366	19%	23%
Trade receivables	3,626	3,609	3,203	0%	13%
Cash	1,130	1,245	1,172	-9%	-4%
Other current assets	1,398	1,621	1,145	-14%	22%
Assets held for sale	964	1,006	-	-4%	n.a.
Total assets	29,857	27,335	24,860	9%	20%
Equity	8,562	8,184	7,981	5%	7%
Lease liabilities	2,380	2,171	2,121	10%	12%
Other non-current liabilities	7,960	4,784	4,296	66%	85%
Trade payables	865	810	808	7%	7%
Other current liabilities	9,915	11,165	9,654	-11%	3%
Liabilities related to assets held for sale	175	221	-	-21%	n.a.
Total equity and liabilities	29,857	27,335	24,860	9%	20%

Outlook for 2023

Outlook assumptions

The outlook is based on key assumptions as described below

Market

- Due to continued macroeconomic headwinds, we expect the unit growth rate in the global hearing aid market in 2023 to be slightly below the structural growth rate of 4-6% with 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

Demant Group

- In our Communications segment, we expect modest positive organic growth in 2023, albeit negative in Q1. 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, and our gearing multiple at the end of the year is thus expected to be around the high end of our medium- to long-term target
- Despite higher-than-normal cost inflation, we plan to grow the Group's OPEX less than revenue through focused cost control in order to support margin improvement

Discontinued Operations

- We expect the divestment of Hearing Implants to close in Q2 2023, resulting in payment of DKK 700 million of the total DKK 850 million consideration

Outlook for 2023

Metric	Outlook
Organic	3-7%
Acquisitive	3% based on revenue from acquisitions completed as of 6 February 2023
FX growth	-1% based on foreign exchange rates as of 6 February 2023 and including the impact of hedging
EBIT	DKK 3,600-4,000 million
Net financials	Negative by around DKK 600 million
Effective tax rate	25-26%
Gearing	Gearing multiple (NIBD/EBITDA) at the end of 2023 around the high end of our medium- to long-term target of 2.0-2.5
Share buy-backs	None
Profit after tax from discontinued operations	Negative by around DKK 100 million

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Q&A

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Roadshows and conferences:

8-9 Feb	London (Jefferies)
9 Feb	Paris (SEB)
10 Feb	Copenhagen (Carnegie)
14 Feb	Lugano (Credit Suisse)
14 Feb	Frankfurt (ODDO BHF)
15 Feb	Milan (Credit Suisse)
15 Feb	Munich (ODDO BHF)
21 Feb	Geneva (Kepler Cheuvreux)
22 Feb	Zurich (Kepler Cheuvreux)
28 Feb	London (Morgan Stanley MedTech Conference)
29 Feb	London (Credit Suisse Healthcare Conference)
14 Mar	Miami (Barclays Global Healthcare Conference)
15 Mar	Toronto (J.P. Morgan)
15-16 Mar	New York (Bank of America)
16 Mar	Chicago (J.P. Morgan)
17 Mar	Boston (Bank of America)
21 Mar	Stockholm (Handelsbanken)
22 Mar	Oslo (ABG Sundal Collier)