

Demant Interim Report 2023

16 August 2023

Søren Nielsen, President & CEO
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Investor Relations



Agenda

- 01 Key events, financial take-aways and sustainability advancements**
- 02 Hearing Healthcare**
- 03 Communications**
- 04 Financial review**
- 05 Outlook**
- 06 Q&A**

Key events in H1 2023



Very strong growth in Hearing Aids, with broad-based market share gains fuelled by successful new product launches



Strong growth in Hearing Care and Diagnostics, supported by meaningful contributions from acquisitions



Communications saw disappointing performance below our expectations due to a weak market in both gaming headsets and in enterprise solutions



CO2e emission reduction targets validated and approved by the Science Based Targets initiative (SBTi)



As announced on 22 June, the amended transaction with Cochlear includes only the CI business, and is still expected to close in 2023, with the BAHS business remaining with Demant pending a review of our strategic options. The decision to exit Hearing Implants, including the BAHS business, still stands



Key financial take-aways for H1 2023

13%

Group **organic growth** of 13% driven entirely by Hearing Healthcare



Group **gross margin** declined by 1.3 percentage points, which is below our original expectations and due to adverse exchange rate effects



OPEX increased by 7% organically reflecting continued investments in Hearing Healthcare and cost savings in Communications



EBIT for the Group was DKK 2,014 million, an increase of 27%, EBIT margin increased by 1.4 percentage points driven by material operating leverage in Hearing Healthcare



Very strong cash flow with **CFFO** of DKK 1,863 million and **FCF** of DKK 1,490 million driven by the higher profitability and by an improvement in net working capital



Outlook for 2023 adjusted:

Organic revenue growth 11-14% (prev. 6-10%)

EBIT of DKK 4,000-4,400 million (prev. DKK 3,800-4,200 million)

(DKK million)	H1 2023	H1 2022	Growth
Hearing Healthcare			
Revenue	10,694	8,945	20%
Organic growth	15%		
Operating profit (EBIT)	2,162	1,695	28%
EBIT margin	20.2%	18.9%	
Communications			
Revenue	461	552	-16%
Organic growth	-15%		
Operating profit (EBIT)	-148	-107	n.a.
EBIT margin	-32.1%	-19.4%	
Group			
Revenue	11,155	9,497	17%
Organic growth	13%		
Operating profit (EBIT)	2,014	1,588	27%
EBIT margin	18.1%	16.7%	

Sustainability advancements in H1 2023



Emission reduction targets **approved** by the Science Based Targets initiative



Commitment to reduce aggregate scope 1 and 2 CO2e emissions by 46% as well as to reduce scope 3 emissions by 46% by 2030*. Demant also commits to reach **net zero emissions across the value chain by 2050**

Increased disclosure of key performance data

Key performance areas	H1 23	H1 22
Scope 1 & 2 CO2 emissions (tonnes CO2e)	14,923	16,760
Renewable electricity share	22%	n.a.
	H1 23	FY 22
Gender diversity, Board of Directors (women/men)**	40/60%	40/60%
Gender diversity, all managers (women/men)	47/53%	44/56%
Gender diversity, top level management (women/men)	25/75%	23/77%
Gender diversity, top level management teams (on/off target)	70/30%	71/29%

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Hearing Healthcare



Hearing Healthcare in H1 2023

15%

Hearing Healthcare generated organic growth of 15%, driven primarily by very strong performance in Hearing Aids, although Hearing Care and Diagnostics also saw good growth



Gross margin declined by 1.4 percentage points, mostly due to increasing unit costs as a result of adverse exchange rate effects, as well as an increasing share of rechargeable hearing aids sold and business mix



OPEX grew 9% organically, reflecting continued investments in future growth. Acquisitive growth was 5% and driven primarily by Hearing Care



EBIT of DKK 2,162 million, an increase of 28% versus H1 of last year. EBIT margin of 20.2% which is an increase of 1.3 percentage points compared to H1 2022, reflecting material operating leverage

(DKK million)	H1 2023	H1 2022	Growth
Revenue	10,694	8,945	20%
Production costs	-2,677	-2,115	27%
Gross profit	8,017	6,830	17%
<i>Gross margin</i>	<i>75.0%</i>	<i>76.4%</i>	
R&D costs	-607	-534	14%
Distribution costs	-4,726	-4,170	13%
Administrative expenses	-562	-488	15%
Share of profit after tax, associates and JVs	40	57	-30%
EBIT	2,162	1,695	28%
<i>EBIT margin</i>	<i>20.2%</i>	<i>18.9%</i>	

The hearing aid market in H1 2023

Unit growth in H1 2023 vs H1 2022

- We estimate that overall unit growth was 5% in H1 2023. Growth in Q1 was 7% which decreased to 3% in Q2
- Deceleration from Q1 to Q2 primarily driven by comparative figures. When comparing to pre-pandemic levels, we estimate that the global market growth was in-line with the structural growth rate of 4-6% in both quarters

Geographical unit growth:

- Growth in **Europe** was flat, as positive growth in the NHS as well as in some smaller markets was offset by negative growth in Germany and France
- Growth in **North America** was solid, reflecting good underlying momentum. The US commercial market continues to be driven by managed care
- **Rest of world** growth was strong, primarily driven by recovery in China from lockdowns and coronavirus-related restrictions in H1 2022. We estimate that growth has been strong in several other emerging markets

Unit growth*	2023		
	Q1	Q2	H1
Europe	4%	-4%	0%
North America	9%	5%	7%
US (commercial)	9%	5%	7%
US (VA)	9%	4%	6%
Rest of world	9%	10%	10%
Global	7%	3%	5%
CAGR vs. 2019	5%	5%	5%

We estimate flattish ASP development due to geography and channel mix changes



Hearing Aids

Comments

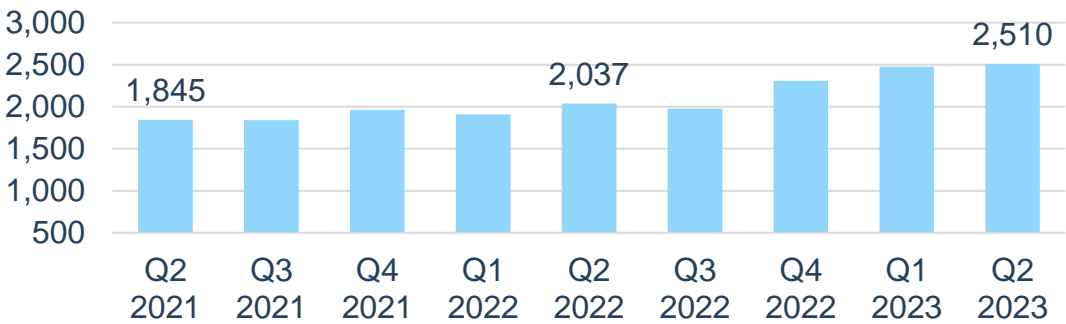
- Very strong performance due to significant market share gains
- Commercial momentum fuelled by successful launches of new premium hearing aids in Q1, including Oticon Real
- Growth in H1 was primarily unit driven (18%), with positive ASP contribution (4%) reflecting geography and channel mix changes, as well as price increases implemented last July

Europe	North America	Asia/Pacific/RoW
<ul style="list-style-type: none">• Good performances by many countries, especially Germany and the UK• Slightly negative growth in France	<ul style="list-style-type: none">• Strong growth and market share gains across channels in the both the US and Canada• Continued positive traction with chains	<ul style="list-style-type: none">• Strong growth in Asia driven by China and Japan• Modest growth in the Pacific region• Strong growth in many RoW countries

Revenue and growth

Revenue (DKK million)	Q2 23	Q2 22	Growth				
			Org.	Acq.	LCY	FX	Rep.
Hearing Aids	3,040	2,491	20%	0%	20%	2%	22%
Internal sales to Hearing Care	-530	-454	12%	7%	19%	-2%	17%
Sales to external customers	2,510	2,037	22%	-1%	21%	3%	23%

Revenue by quarter





Hearing Care

Comments

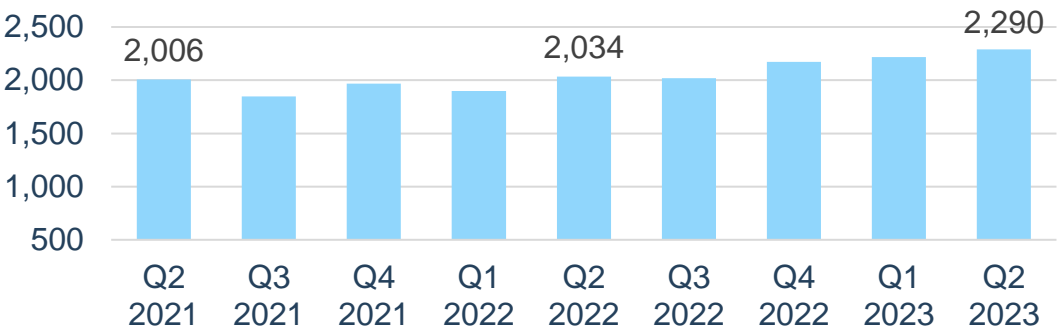
- Positive momentum driven by solid organic growth in most major markets outside of the US and France
- While organic growth was primarily driven by unit growth, there was also a slight ASP contribution due to price increases implemented last year
- Organic growth in France slightly negative due to negative market growth, as it continues to normalise post-reform
- Positive contribution from acquisitions, primarily from Sheng Wang in China as well as in Germany

Europe	North America	Asia/Pacific/RoW
<ul style="list-style-type: none">• Positive development in several markets, particularly Poland and the UK• Market share gains in declining French market	<ul style="list-style-type: none">• Slightly positive growth driven by Canada• Headwind in the US from the decision to exit selected managed care contracts	<ul style="list-style-type: none">• Stronger than expected recovery in China• Strong performance in Australia, due to soft comparison base

Revenue and growth

Revenue (DKK million)	Growth						
	Q2 23	Q2 22	Org.	Acq.	LCY	FX	Rep.
Hearing Care	2,290	2,034	7%	8%	15%	-3%	13%

Revenue by quarter





Diagnostics

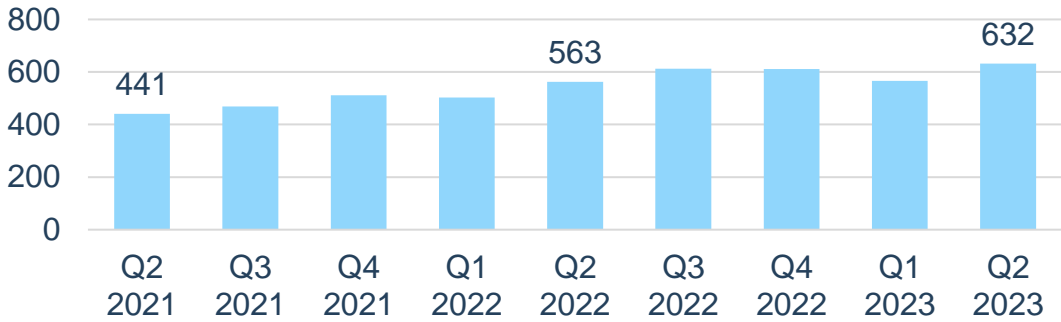
Comments

- We estimate that in Q2, the market growth rate was within the estimated structural growth rate of 3-5% per year
- After a relatively slow start in Q1, which was negatively impacted by the ramp up of our new Diagnostics production facility, growth accelerated in Q2
- Broad based growth geographically, with organic growth driven by Asia region, particularly China
- Acquisitive growth mainly from our acquisition of Inventis Srl., which was completed in June 2022

Revenue and growth

Revenue <small>(DKK million)</small>			Growth				
	Q2 23	Q2 22	Org.	Acq.	LCY	FX	Rep.
Diagnostics	632	563	9%	6%	15%	-3%	12%

Revenue by quarter




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Communications


EPOS





Communications in H1 2023

 **Communications** organic growth of -15%, reflecting negative market growth

 Substantial decline in **gross margin** driven in particular by high levels of promotional activities in Gaming

 **OPEX** decreased by 16% in H1, reflecting cost saving measures implemented both in H2 2022 and in H1 2023

 As a result of lower operating leverage and material decline in gross margin, **EBIT** amounted to DKK -148 million, which is below expectations

 We continue to consider further actions with a view to aligning the business with current activity levels

(DKK million)	H1 2023	H1 2022	Growth
Revenue	461	552	-16%
Production costs	-305	-299	2%
Gross profit	156	253	-38%
<i>Gross margin</i>	33.8%	45.8%	
R&D costs	-99	-117	-15%
Distribution costs	-188	-224	-16%
Administrative expenses	-17	-19	-11%
EBIT	-148	-107	n.a.
<i>EBIT margin</i>	-32.1%	-19.4%	



Communications

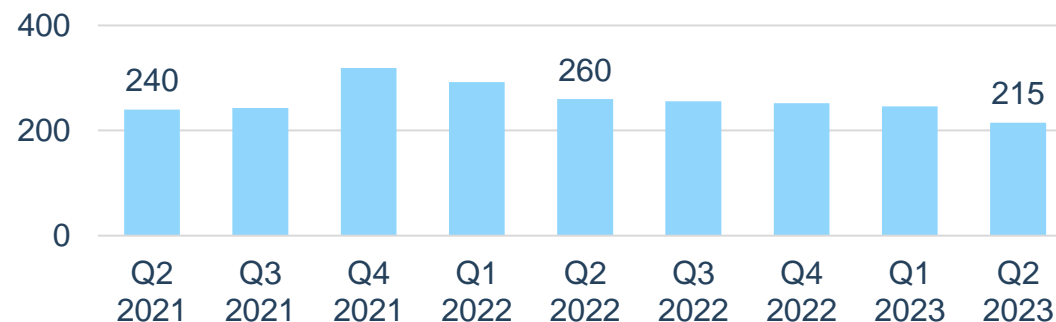
Comments

- We estimate that the market for gaming and enterprise solutions saw negative growth in Q2
- Growth in Q2 was disappointing, and well below expectations. In our Gaming segment, markets remained soft with high inventories in sales channels along with fierce price competition and high promotional activities
- Enterprise Solutions continues to be affected by market hesitation towards investments, and a soft start to video
- In June, we launched the IMPACT 1000, our new top-of-the-line enterprise headset, which was very positively received in the market and is expected to support growth in H2

Revenue and growth

Revenue (DKK million)	Q2 23	Q2 22	Growth				
			Org.	Acq.	LCY	FX	Rep.
Communications	215	260	-16%	0%	-16%	-2%	-17%

Revenue by quarter





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Group financial review

Income statement H1 2023

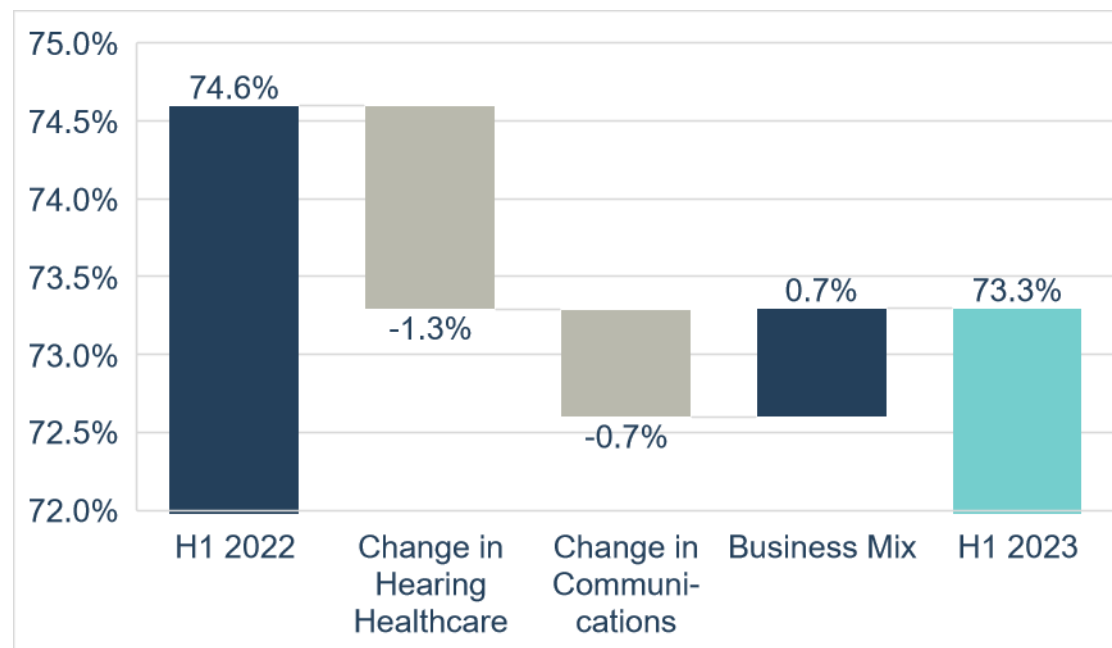
(DKK million)	Hearing Healthcare H1 2023	Communi- cations H1 2023	Group H1 2023	Group H1 2022	Group Growth
Revenue	10,694	461	11,155	9,497	17%
Production costs	-2,677	-305	-2,982	-2,414	24%
Gross profit	8,017	156	8,173	7,083	15%
<i>Gross margin</i>	<i>75.0%</i>	<i>33.8%</i>	<i>73.3%</i>	<i>74.6%</i>	
R&D costs	-607	-99	-706	-651	8%
Distribution costs	-4,726	-188	-4,914	-4,394	12%
Administrative expenses	-562	-17	-579	-507	14%
Share of profit after tax, ass. & JVs	40	-	40	57	-30%
EBIT	2,162	-148	2,014	1,588	27%
<i>EBIT margin</i>	<i>20.2%</i>	<i>-32.1%</i>	<i>18.1%</i>	<i>16.7%</i>	

Gross profit

Comments

- Gross profit increased by 15% to DKK 8,173 million,
- Gross margin declined by 1.3 percentage points, below our original expectations
 - Adverse exchange rate effects affected both business segments
 - Development in Hearing Healthcare related to materials purchased in H2 2022 at higher foreign exchange rates, as well as growing unit costs as a result of increased share of rechargeable hearing aids sold
 - Development in Communications related to high levels of promotional activities in Gaming
 - Positive business mix contribution a result of increasing share of Hearing Healthcare

Gross margin development in H1

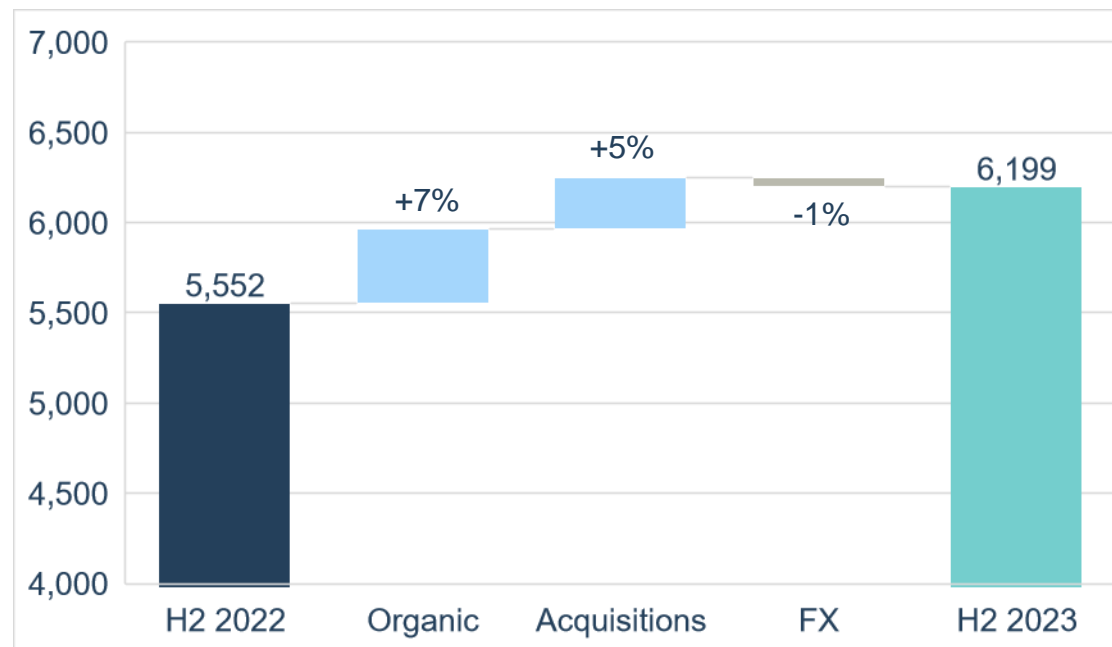


OPEX

Comments

- OPEX grew 7% organically, reflecting continued investments into our Hearing Healthcare business
- Acquisitive growth, primarily in Hearing Care, contributed 5%
- OPEX in Communications materially reduced versus last year, in response to the negative revenue growth

OPEX development in H1

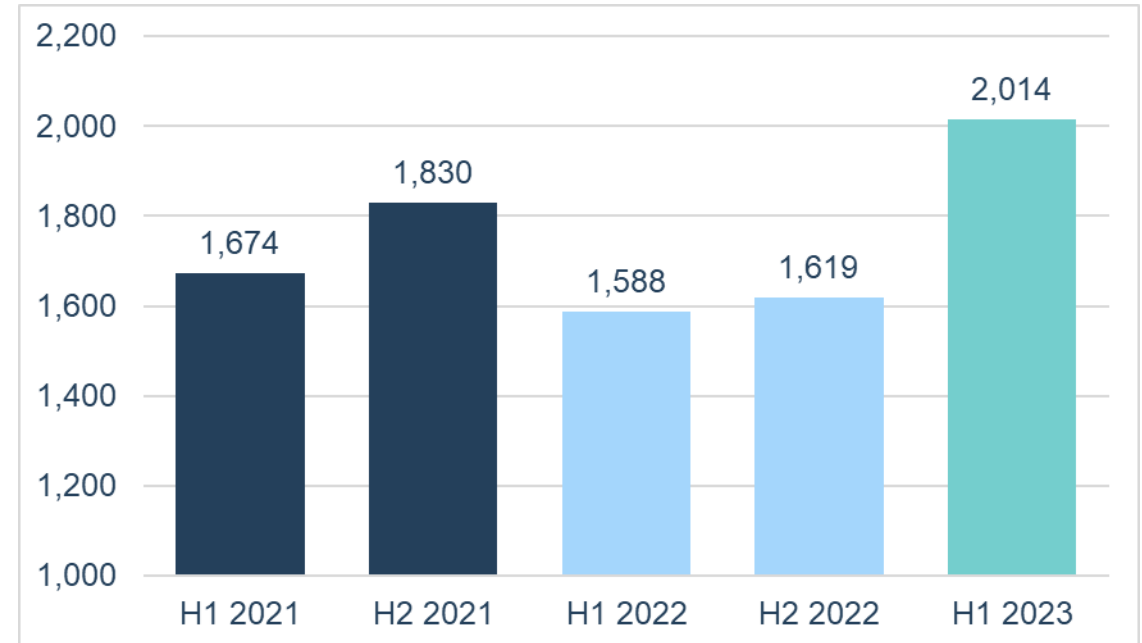


EBIT

Comments

- EBIT was DKK 2,014 million in H1, a growth of 27%
 - Hearing Healthcare: DKK 2,162 million
 - Communications: DKK -148 million
- Group EBIT margin of 18.1%, an expansion of 1.4 percentage points driven by material operating leverage in Hearing Healthcare
- Exchange rates had a negative impact of slightly more than DKK 50 million
- Net positive fair value adjustments amounted to DKK 29 million

Half-year EBIT development



Cash flow statement

- CFFO was DKK 1,863 million in H1, an increase of 104%, driven by strong EBIT growth, as well as improvements in working capital, primarily in terms of inventory reductions
- CAPEX was approx. 4% of sales which is line with our medium- to long-term expectations
- Net cash to acquisitions and divestments was DKK 313 million in H1, primarily related to acquisitions made by Hearing Care in Germany, as well as minor acquisitions made by our Diagnostics business. Cash on acquisitions was lower than originally expected due to the timing of transactions
- Share buy-backs of DKK 17 million in H1 relates to employee share salary arrangements

(DKK million)	H1 2023	H1 2022	Change
CFFO	1,863	915	104%
Net investments	-373	-517	-28%
Free cash flow before acquisitions and divestments	1,490	398	274%
Acquisitions and divestments	-313	-513	-39%
Share buy-backs	-17	-1,307	-99%
Other financing activities	-1,091	1,621	-167%
Cash flow for the period	69	199	-65%

Balance sheet

- Total assets vs FY 2022 roughly unchanged, including exchange rate effects of -1%
- Flat development a result of increase in non-current assets, primarily related to goodwill in respect of acquisitions, being offset by a write-down of assets held for sale related to the CI business
- Of the total assets, DKK 304 million relates to assets held for sale following the discontinuation of Hearing Implants
- Net working capital increased by 5% to DKK 3,832 as lower inventories were more than offset by increased trade receivables and prepaid expenses
- NIBD amounted to DKK 12,197 million, corresponding to a gearing multiple of slightly below 2.5 (NIBD/EBITDA), within our medium- to long-term range
- The Group may resume share buy-backs in H2 subject to cash generation and the level of acquisitions completed

(DKK million)	H1 2023	FY 2022	Change
Lease assets	2,391	2,304	4%
Other non-current assets	17,915	17,531	2%
Inventories	2,739	2,904	-6%
Trade receivables	3,826	3,626	6%
Cash	1,158	1,130	2%
Other current assets	1,500	1,398	7%
Assets held for sale	304	964	-68%
Total assets	29,833	29,857	0%
Equity	8,990	8,562	5%
Lease liabilities	2,474	2,380	4%
Other non-current liabilities	9,834	7,960	22%
Trade payables	825	865	-5%
Other current liabilities	7,753	9,915	-22%
Liabilities related to assets held for sale	57	175	-67%
Total equity and liabilities	29,833	29,857	0%



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Outlook for 2023

Outlook for 2023 upgraded

Hearing aid market now expected to grow at a faster rate, with strong commercial momentum and sustained market share gains in Hearing Healthcare

*Key outlook assumptions below**

Market

- Unit growth rate in the global hearing aid market slightly above the structural growth rate of 4-6%
- Negative contribution from ASP declines around the normal level of 1-2% due to mix effects
- **We expect the weak momentum in the markets for enterprise solutions and gaming headsets to continue throughout 2023**

Demant Group

- **Communications: Negative organic growth and EBIT more negative than level in 2022, as lower revenue and gross margin are only partly offset by cost savings already implemented. We continue to assess further actions to align the business with current activity levels**
- Higher than normal level of bolt-on acquisitions
- Grow the Group's OPEX less than revenue through focused cost control in order to support margin improvement

Discontinued Operations

- **Divestment of our cochlear implants business assumed to close at end of 2023 – bone anchored hearing systems business will remain with the Group, pending a review of our strategic options**

Outlook for 2023

Metric	Current outlook
Organic	11-14% (previously 6-10%)
Acquisitive	3% based on revenue from acquisitions completed as of 15 August 2023
FX	-2% based on FX rates as of 15 August 2023 and including the impact of hedging (previously -1%)
EBIT	DKK 4,000-4,400 million (previously DKK 3,800-4,200 million)
Net financials	Negative by around DKK 700 million (previously negative by around DKK 600 million)
Effective tax rate	24-25% (previously 25-26%)
Gearing	Gearing (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 700-850 million (previously negative by DKK 700-1,000 million)

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 scene is dimly lit, creating a focused and serious atmosphere.

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Q&A

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Roadshows and conferences:

17 Aug	Copenhagen (SEB)
18 Aug	London (Barclays)
30 Aug	Stockholm (SEB)
5 Sep	Frankfurt (ODDO BHF conference)
6 Sep	Netherlands (DNB)
6-7 Sep	London (Goldman Sachs conference)
12 Sep	New York (Morgan Stanley conference)
13 Sep	Chicago (Exane)
13 Sep	Zurich (Crédit Suisse)
14 Sep	Paris (Kepler Cheuvreux conference)
19 Sep	Geneva (Crédit Suisse)
20 Sep	Milan (Handelsbanken)