Demant

Interim Report 2020

17 August 2020

Søren Nielsen, President & CEO

René Schneider, CFO

Investor Relations

Demant

Agenda

Key take-aways

Key take-aways from H1 2020

-18% growth for the Group in LCY due to severe impact of coronavirus, consisting of -27 pp organic growth and 9 pp acquisitive growth driven by the consolidation of EPOS.

Group gross profit margin decreased by 7.6 pp to 70.0% adjusted for EPOS one-offs. Decrease primarily due to significant revenue drop but also to a dilution from the consolidation of EPOS of slightly more than 2 pp and to increasing sales of rechargeable hearing aids as well as higher freight costs.

14%* organic decrease in Group capacity costs (29%* organic decrease in Q2). Reductions driven by furloughs and savings in distribution and administration functions, particularly in hearing aid retail. R&D commitment deliberately maintained. Total headcount reduced by 600 (excl. EPOS) compared to the beginning of the year, mainly in operations.

Operating profit (EBIT) of DKK -193 million before net positive EPOS one-offs, including a provision for additional bad debt of DKK 150 million. Reported EBIT of DKK 114 million.

Cash flow from operating activities (CFFO) before EPOS one-offs decreased by 27% to DKK 766 million. CFFO was less severely impacted than profits, primarily due to working capital improvements.

*Excluding provision for additional bad debt of DKK 150 million.

Demant

Key take-aways (continued)

Mid-August update: Strong recovery of the hearing healthcare market has continued. Current growth in Group revenue in local currencies (including EPOS) of -5% to 5% compared to last year. Recovery supported by an element of pent-up demand.

Significant uncertainties persist:

- Recovery driven by non-serviced users; new lead generation at retail level remains uncertain
- Exposure to developments in large government systems (NHS and VA)
- Elective nature of CI surgeries
- Reinforced restrictions, not least in the US, and lengthy recovery in emerging markets

Growth in LCY*	H1 2020	Mid-August	H2 Outlook
Group revenue	-18%	-5% to 5%	5% to 15%
Hearing aid wholesale	-25%	-15% to -5%	
Hearing aid retail	-31%	-10% to 0%	
Hearing Implants	-18%	-20% to -10%	
Diagnostics	-2%	-10% to 0%	
Communications (EPOS)	-	-	
Capacity costs	-4%	-5% to 5%	

- Cost side: Significant uncertainties persist about actual sales and marketing expenses as we ramp up activities to drive sales. Uncertainties also persist about freight costs and the pace of new hirings.

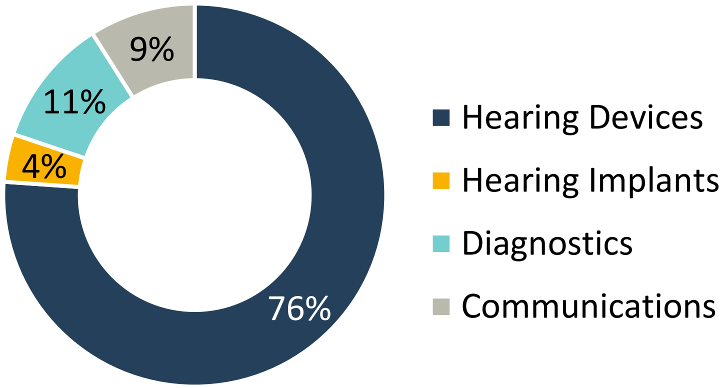
New outlook: Group revenue growth in LCY of 5% to 15% in H2, including revenue generated in EPOS (not consolidated last year). Revenue in 2019 was negatively impacted by the IT incident.

* Please note that we have previously disclosed revenue run rates compared to initial expectations. However, the growth rates shown above compare to the corresponding period last year.

Update on business activities in H1 2020

Revenue by business activity

(DKK million)	H1 2020	H1 2019	Change DKK	Change LCY	Change Organic
- Wholesale			-24%	-25%	-25%
- Retail			-31%	-31%	-35%
Hearing Devices	4,626	6,373	-27%	-28%	-30%
- CI			-35%	-34%	-34%
- BAHS			-4%	-3%	-4%
Hearing Implants	246	304	-19%	-18%	-18%
Diagnostics	660	673	-2%	-2%	-3%
Communications	546	-	-	-	-
Total	**6,078**	**7,350**	**-17%**	**-18%**	**-27%**

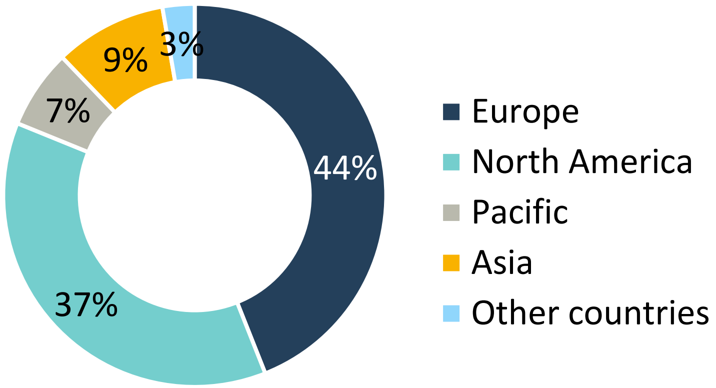


- Reported Group revenue growth of -17%, i.e. -27 pp organic growth, 9 pp acquisitive growth (incl. 7 pp from EPOS) and close to 0 pp exchange rate effects
- Very strong organic growth until mid-March disrupted by the outbreak of coronavirus
- Hearing Devices and Hearing Implants most severely impacted

Demant

Revenue by geography

(DKK million)	H1 2020	H1 2019	Change DKK	Change LCY	Change Organic
Europe	2,674	2,996	-11%	-11%	-23%
North America	2,258	3,063	-26%	-28%	-34%
Pacific	406	459	-12%	-8%	-14%
Asia	575	574	0%	0%	-12%
Other countries	165	258	-36%	-29%	-30%
Total	**6,078**	**7,350**	**-17%**	**-18%**	**-27%**

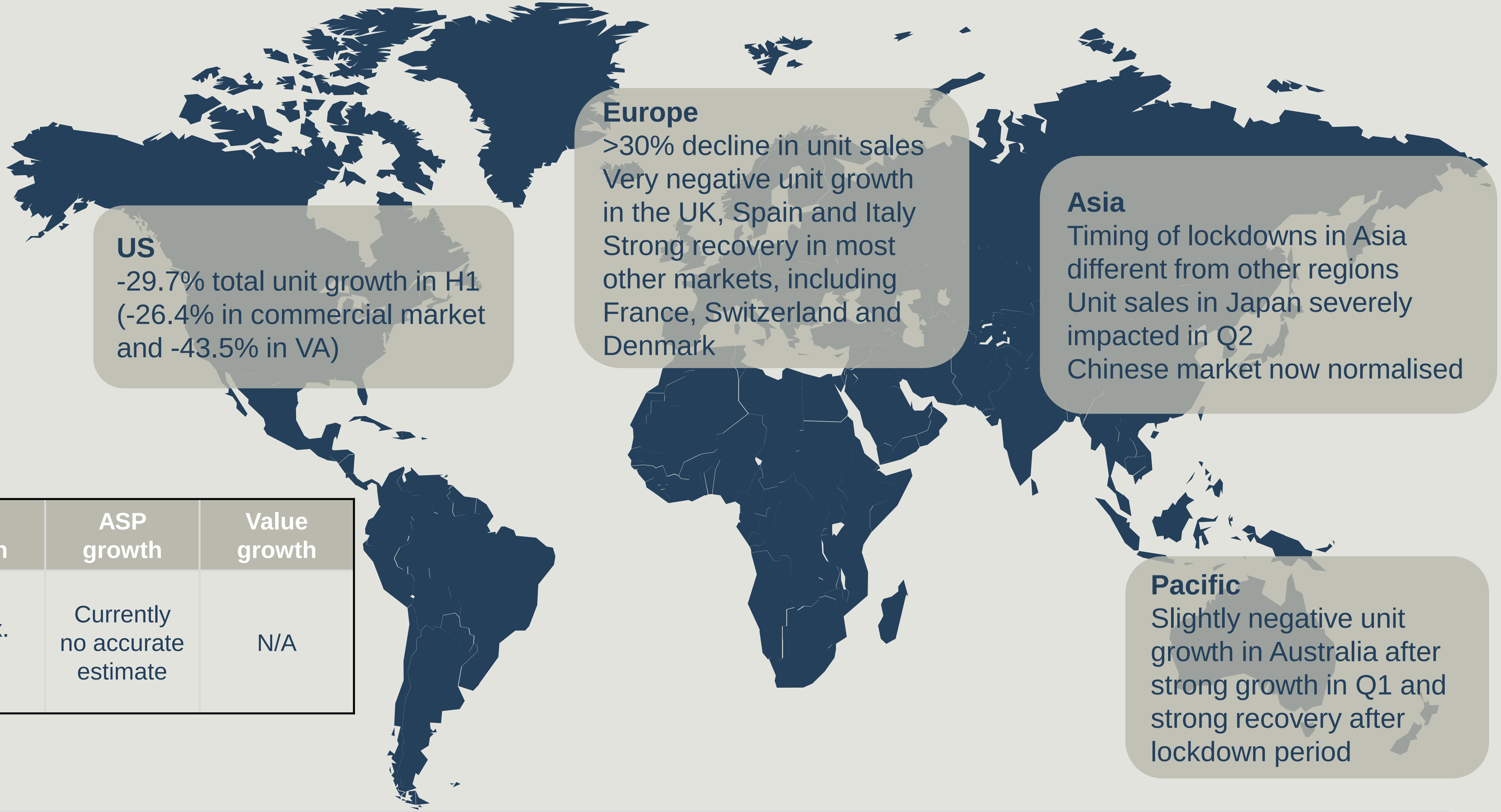


- Significant negative organic growth in all regions
- Main part of acquisitive growth is attributable to strong sales in EPOS, especially in Europe and Asia
- Organic growth particularly negative in North America and the UK due to relatively slower recovery

Demant

Global hearing aid market

We estimate that the global hearing aid market declined by approx. 30% in H1 2020



US
-29.7% total unit growth in H1 (-26.4% in commercial market and -43.5% in VA)

Europe
>30% decline in unit sales
Very negative unit growth in the UK, Spain and Italy
Strong recovery in most other markets, including France, Switzerland and Denmark

Asia
Timing of lockdowns in Asia different from other regions
Unit sales in Japan severely impacted in Q2
Chinese market now normalised

Pacific
Slightly negative unit growth in Australia after strong growth in Q1 and strong recovery after lockdown period

Market in H1 2020	Unit growth	ASP growth	Value growth
Hearing aid wholesale	Approx. -30%	Currently no accurate estimate	N/A
Hearing aid retail			

Strong recovery in hearing aid wholesale driven by sales in the independent channel

- Strong double-digit organic growth until mid-March thanks to our broad and highly competitive product portfolio:
  - Oticon Opn S delivers superior audiology and is highly competitive within rechargeability and connectivity
  - Continued roll-out of Philips hearing aids into more markets and channels
- -25% organic growth in H1 (-30% unit growth and 5% ASP growth)
  - Significant revenue decline since mid-March due to lockdowns in virtually all markets
- Strong improvement since low point in early May driven by sales to the independent channel (smaller private businesses) and followed by improvements in larger chains
- Sales to the NHS and VA remained severely impacted

Complete product portfolio and multi-brand strategy are key to addressing all markets and channels

oticon
life-changing technology

bernafon
Your hearing • Our passion

SONIC
Everyday Sounds Better

PHILIPS

Competitive product portfolio driving strong recovery after lockdown period

	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	RECHARGEABLE	Ruby	**Feb 2020**			
Basic		Geno	**Jan 2019**			
Remote Mic		EduMic	**Nov 2019**			
Fitting software		Genie 2 incl. RemoteCare				
Apps		On App with new features				
Connectivity		ConnectClip				

oticon

Demant

Strong recovery in hearing aid retail after severe impact of temporary clinic closures

- Strong organic growth until mid-March:
  - Strong organic growth in Europe
  - Solid organic growth in Pacific despite expected spill-over from IT incident last year
  - Improved productivity in the US due to growing managed care sales
- Organic growth in H1 of -35% due to significant negative impact of coronavirus since mid-March
- Strong recovery towards end of H1 in many markets in Europe and the Pacific region
- Recovery in North America has been relatively slower than in the rest of the world

Important product launches executed in cochlear implants despite coronavirus

- Organic growth of -34% in H1 due to significant negative impact of coronavirus:
  - Postponement of elective surgeries as hospitals prioritised coronavirus treatment
  - Slow recovery from low point in early May despite support from tender sales
- New connectivity solution for the Neuro 2 sound processor launched in H1:
  - Streaming from a variety of communication and entertainment devices
- CE approval received for Neuro 2 Swim Kit in August:
  - Fully waterproof solution allowing immersion into water

Exceptionally strong organic growth in BAHS interrupted by coronavirus

- Modest organic sales decline in BAHS of 4% in H1
- Momentum from H2 of 2019 carried over into 2020 with exceptionally strong growth until mid-March
- Continued success of Ponto 4 sound processor:
  - Very positive feedback from users
  - Velox S platform powering strong combination of connectivity and audiology
- Encouraging recovery since low point in early May driven by strong upgrade sales
- Positive organic growth rates in H1 in a number of markets, including Australia, Denmark, Germany France and Sweden

Less severe impact of coronavirus in Diagnostics due to pipeline support

- Organic growth of -3% in H1
- Strong, broad-based growth until mid-March across product segments, brands and geographies – US being the main driver
- Some sales support from our existing order pipeline during outbreak of coronavirus
- Revenue from new orders in main markets started to increase towards the end of H1
- Sales to a number of emerging markets remained muted
- Strong market share gains in H1

Surge in demand for headsets driving strong sales in EPOS

- EPOS is our premium audio and video solutions business for enterprises and gamers
- Fully consolidated into the Group with financial effect from 1 January 2020
- Revenue in H1 of DKK 546 million, corresponding to a significant double-digit growth rate
- Soft start to the year due to supply chain constraints
- Coronavirus led to a surge in the demand for headsets and virtual collaboration tools
- Some level of back orders at the end of the reporting period

H1 2020 financials

Demant

Income statement

(DKK million)	Reported H1 2020	EPOS one-offs	Adjusted H1 2020	H1 2019	Growth
Revenue	6,078		6,078	7,350	-17%
Production costs	-1,932	-109	-1,823	-1,649	11%
Gross profit	**4,146**	**-109**	**4,255**	**5,701**	**-25%**
Gross profit margin	*68.2%*		*70.0%*	*77.6%*	
R&D costs	-618		-618	-552	12%
Distribution costs	-3,492	-37	-3,455	-3,661	-6%
Administrative expenses	-388		-388	-415	-7%
Share of profit after tax, associates and JVs	466	453	13	40	-68%
Operating profit (EBIT)	**114**	**307**	**-193**	**1,113**	**-117%**
Operating profit margin (EBIT margin)	*1.9%*		*-3.2%*	*15.1%*	

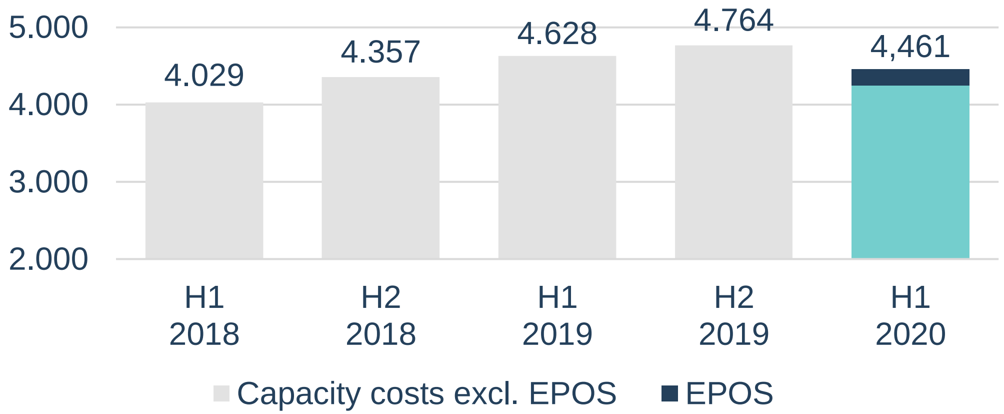
Strong execution of cost-reduction actions

- Numerous cost-reduction actions taken in response to coronavirus:
  - Material savings realised through government compensation schemes
  - Substantial number of employees furloughed during lockdown period
  - Significant reduction in sales and marketing activities and in travelling expenses
  - 14% organic decline in capacity costs in H1 (29% in Q2), excluding the provision for bad debt of DKK 150 million
- Deliberate decision to continue R&D activities in line with the plans made

Capacity costs – DKK million

(DKK million)	H1 2020	H1 2019	Change DKK	Change LCY	Change Org.
R&D costs	618	552	12%	12%	-3%
Distribution costs	3,455	3,661	-6%	-7%	-12%
Admin. expenses	388	415	-7%	-6%	-10%
Total capacity costs	**4,461**	**4,628**	**-4%**	**-4%**	**-11%**

Capacity costs – DKK million

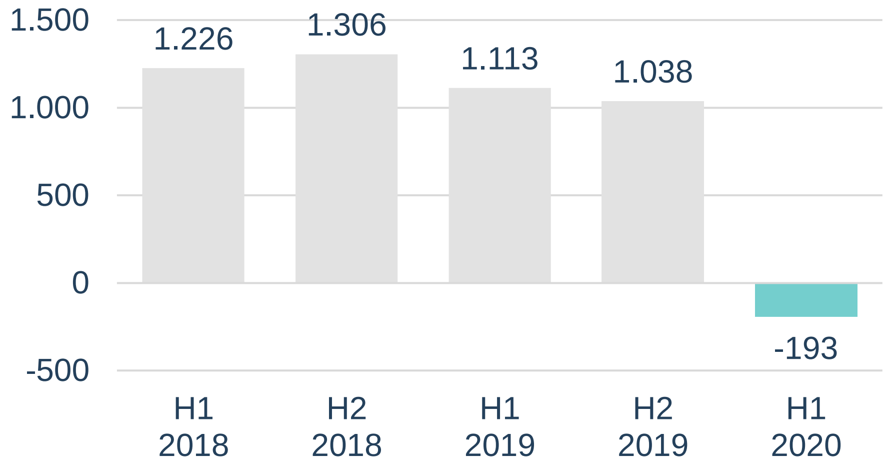


Demant

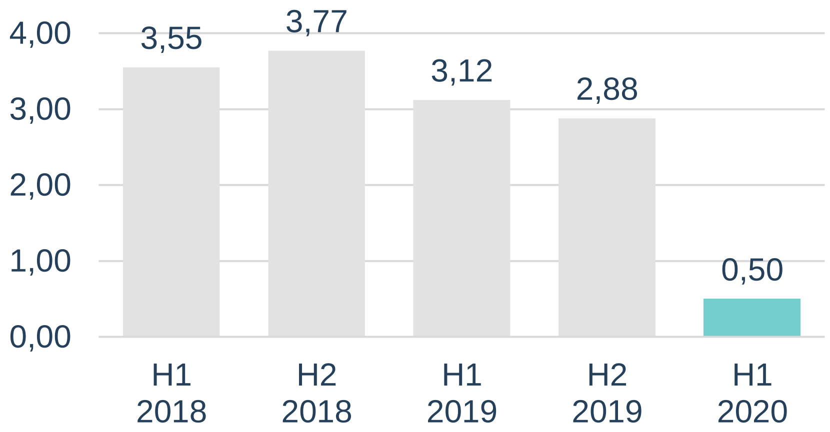
Profits severely impacted by coronavirus

- EBIT of DKK -193 million before EPOS one-offs:
  - Stark contrast to strong momentum and increasing profitability until mid-March
  - Rapid profit decline in all hearing healthcare businesses due to widespread market lockdowns
  - Profits in EPOS only slightly ahead of plans due to a less favourable product mix and significant increase in freight costs
- The operating loss includes a provision for additional bad debt of DKK 150 million
- Reported EBIT of DKK 114 million (after net positive EPOS one-offs of DKK 307 million)

EBIT before EPOS one-offs – DKK million



Earnings per share (EPS) – DKK



Underlying development in revenue and EBIT

(DKK million)	Reported H1 2019	Reported H1 2020	Reported %	EPOS one-offs H1 2019	EPOS one-offs H1 2020	Adjusted H1 2019	Adjusted H1 2020	Adjusted %	Transaction H1 2019	Transaction H1 2020	Translation H1 2019	Translation H1 2020	Underlying/LCY H1 2019	Underlying/LCY H1 2020	Underlying/LCY %
Revenue	7,350	6,078	*-17%*	0	0	7,350	6,078	*-17%*	-45	-22	-25	6	7,420	6,094	*-18%*
EBIT	1,113	114	*-90%*	0	-307	1,113	-193	*-117%*	-51	-87	-2	0	1,166	-106	*-109%*
EBIT margin	*15.1%*	*1.9%*				*15.1%*	*-3.2%*						*15.7%*	*-1.7%*	

- Revenue and EBIT for H1 2019 restated to reflect exchange rates in 2020
- -18% growth in underlying revenue and significant decline in underlying EBIT

Demant

Cash flow from operating activities protected by working capital improvements

(DKK million)	H1 2020	H1 2019	Change
EBIT before one-offs	**-193**	**1,113**	**-117%**
CFFO before one-offs	**766**	**1,047**	**-27%**
Cash flow from one-offs	-37	-	-
CFFO	**729**	**1,047**	**-30%**
Net investments	-240	-345	-30%
Free cash flow	**489**	**702**	**-30%**
Acquisitions etc.	-293	-318	-8%
Share buy-backs	-197	-264	-25%
Other financing activities	143	254	-44%
Cash flow for the period	**142**	**-374**	**-62%**

- CFFO less severely impacted than profits due to working capital improvements, including strong cash collection efforts
- CFFO expected to be impacted in the coming months by the low revenue generation in Q2
- Cash flow from acquisitions mainly related to the acquisition of a retail network in France at the beginning of the year
- Share buy-backs have been suspended since 15 March

Demant

Balance sheet by main items

(DKK million)	H1 2019	FY 2019	Change
Lease assets	1,785	1,937	-8%
Other non-current assets	13,871	12,947	7%
Inventories	1,936	1,852	5%
Trade receivables	2,518	3,209	-22%
Cash	919	792	16%
Other current assets	1,038	1,061	-2%
Total assets	**22,067**	**21,798**	**1%**
Equity	7,449	7,645	-3%
Lease liabilities	1,831	1,964	-7%
Other non-current liabilities	3,697	3,763	-2%
Trade payables	643	652	-1%
Other current liabilities	8,447	7,774	9%
Total equity and liabilities	**22,067**	**21,798**	**1%**

- Growth in total assets of 1%
- Increase in other non-current assets (including goodwill) of 7% due to the consolidation of EPOS and acquisitions
- Decrease in net working capital of 23% to DKK 2.5 billion due to declining trade receivables:
  - Level of new invoicing dropped significantly after coronavirus outbreak
  - Continued strong cash collection
- Gearing multiple of 3.9

EPOS one-offs related to the consolidation

We expect to spend DKK 75-125 million on EPOS branding in H2 20

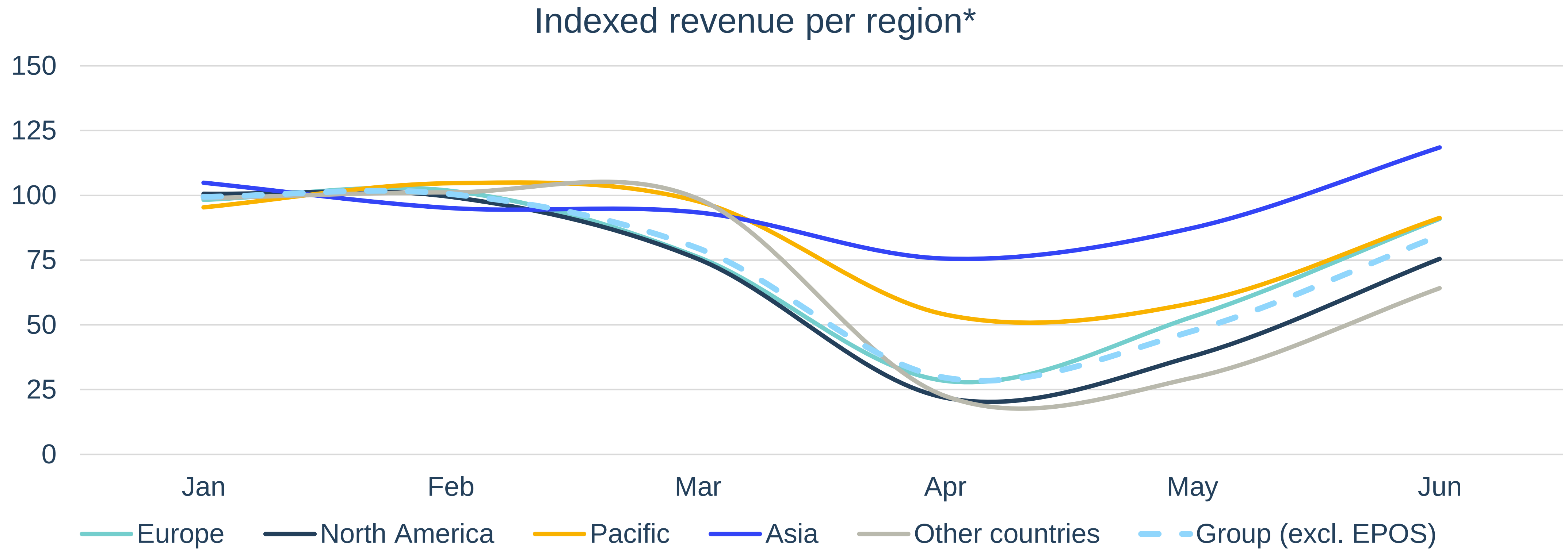
EPOS one-offs (DKK million)	H1 20	H2 20	FY 20	Nature
Revenue	-	-	-	
Production costs	-109	0	-109	Revaluation of inventory (no cash flow effect)
Gross profit	**-109**	**0**	**-109**	
R&D costs	-	-	-	
Distribution costs	-37	-75 to -125	-112 to -162	Extraordinary spending on branding (cash flow effect)
Administrative expenses	-	-	-	
Share of profit after tax, associates and JVs	453	0	453	Fair value adjustment, primarily of goodwill (no cash flow effect)
Operating profit (EBIT)	**307**	**-75 to -125**	**182 to 232**	

Update on the effects of coronavirus (mid-August) and new outlook

Demant

Strong recovery in hearing healthcare markets towards end of H1

Significant differences persist across regions and channels



*Group revenue in LCY excl. EPOS, indexed to pre-coronavirus level, i.e. January/February average.

Demant

Group revenue growth now -5% to 5% compared to last year

- Recovery supported by an element of pent-up demand, i.e. users not serviced during lockdown period
- The Group is profitable at this level
- Significant uncertainties persist:
  - Recovery driven by non-serviced users; new lead generation at retail level remains uncertain
  - Exposure to developments in large government systems (NHS and VA)
  - Elective nature of CI surgeries
  - Reinforced restrictions, not least in the US, and lengthy recovery in emerging markets

Growth in LCY*	H1 2020	Mid-August	H2 Outlook
Group revenue	-18%	-5% to 5%	5% to 15%
Hearing aid wholesale	-25%	-15% to -5%	
Hearing aid retail	-31%	-10% to 0%	
Hearing Implants	-18%	-20% to -10%	
Diagnostics	-2%	-10% to 0%	
Communications (EPOS)	-	-	
Capacity costs	-4%	-5% to 5%	

- Cost side: Significant uncertainties persist about actual sales and marketing expenses as we ramp up activities to drive sales. Uncertainties also persist about freight costs and the pace of new hirings

* Please note that we have previously disclosed revenue run rates compared to initial expectations. However, the growth rates shown above compare to the corresponding period last year.

Demant

New outlook: Revenue growth in local currencies of 5-15% in H2 2020

- The Group's initial outlook for 2020 was withdrawn on 15 March as a direct consequence of coronavirus
- We now expect to generate revenue growth in local currencies of 5-15% in H2 2020:
  - Including revenue generated in EPOS*
  - Revenue in H2 2019 was negatively impacted by IT incident (estimated to be DKK 575 million)
- The Group's EBIT before EPOS one-offs is expected to improve in H2 vs. H1 as a reflection of improvement in revenue
- Negative EPOS one-offs of DKK 75-125 million solely related to branding (impact on cash flow and income statement)
- We maintain the suspension of our share buy-backs

New outlook assumptions	
#1	No further widespread lockdowns occurring before the end of the year
#2	Sales in the hearing healthcare market will approach normalisation in Q4

*Not consolidated into the Group last year

Demant

Q&A

Demant

IR contacts

Mathias Holten Møller
Director, Head of Investor Relations
Email: msmo@demant.com
Tel: +45 3913 8827
Mob: +45 2924 9407

Christian Lange
Investor Relations Officer
Email: chln@demant.com
Tel: +45 3913 8827
Mob: +45 2194 1206

Virtual roadshows and conferences:

18 Aug	**Copenhagen** (Danske Bank)
19 Aug	**London** (Berenberg)
20 Aug	**The Netherlands** (SEB)
26 Aug	**Stockholm** (SEB conference)
27 Aug	**Oslo** (DNB Markets)
01 Sep	**Frankfurt** (Commerzbank conference)
02 Sep	**Geneva** (Credit Suisse)
03 Sep	**Zurich** (Credit Suisse)
09 Sep	**Brussels** (SEB)
09-10 Sep	**London** (Goldman Sachs conference)
10 Sep	**Paris** (Kepler Cheuvreux conference)
14 Sep	**Frankfurt** (Handelsbanken)
15 Sep	**New York** (Morgan Stanley conference)
24 Sep	**London** (Bernstein conference)