Demant

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Interim Management Statement for Q3 2024

Organic revenue growth of 2% in Q3 driven by very strong performance in Hearing Care
Earlier implemented cost-saving initiatives led to organic OPEX growth at the planned low level
Outlook for 2024 maintained: Organic growth of 2-4% and EBIT before special items of DKK 4,300-4,600 million

"In the third quarter, the Group's organic revenue growth was 2%, thanks to very strong performance in our Hearing Care business area. In Hearing Aids, strong comparative figures and an increased competitive environment weighed on our performance, while we also saw an impact from soft markets in the quarter for both the Hearing Aids and Diagnostics business areas. As we look to the rest of the year, we remain focused on delivering on our expectations and on our ambition to improve the lives of as many people living with hearing loss as possible," says Søren Nielsen, President & CEO of Demant.

	Revenue (DKK million)		**Growth**				
Business area	**Q3 2024**	**Q3 2023**	**Organic**	**Acquisitive**	**LCY**	**FX**	**Reported**
Hearing Aids, total revenue	*3,004*	*2,924*	*2%*	*2%*	*5%*	*-2%*	*3%*
Hearing Aids, internal revenue	*-600*	*-494*	*18%*	*4%*	*22%*	*0%*	*21%*
Hearing Aids, external revenue	2,404	2,430	-1%	2%	1%	-2%	-1%
Hearing Care	2,400	2,152	7%	5%	11%	0%	12%
Diagnostics	597	625	-4%	0%	-4%	-1%	-4%
Group	**5,401**	**5,207**	**2%**	**3%**	**5%**	**-1%**	**4%**

	Revenue (DKK million)		**Growth**				
Business area	**YTD 2024**	**YTD 2023**	**Organic**	**Acquisitive**	**LCY**	**FX**	**Reported**
Hearing Aids, total revenue	*9,234*	*9,012*	*3%*	*1%*	*4%*	*-2%*	*2%*
Hearing Aids, internal revenue	*-1,808*	*-1,594*	*10%*	*4%*	*13%*	*0%*	*13%*
Hearing Aids, external revenue	7,426	7,418	1%	1%	2%	-2%	0%
Hearing Care	7,234	6,660	4%	4%	9%	0%	9%
Diagnostics	1,828	1,823	1%	0%	1%	-1%	0%
Group	**16,488**	**15,901**	**2%**	**2%**	**5%**	**-1%**	**4%**

Unless otherwise indicated, the commentary below relates to Q3 2024.

- The **Group** saw organic growth of 2%, driven entirely by very strong performance in Hearing Care, with additional growth of 3% related to acquisitions in both Hearing Care and Hearing Aids. Exchange rate effects were -1%, leading to total reported revenue growth of 4%.
  - **Hearing Aids** saw organic growth in revenue from external customers of -1%, which is slightly below expectations in a soft hearing aid market. This growth was impacted by a strong comparative base, as organic growth was 25% in the same period last year, but an increased competitive environment also impacted growth. The development in the average selling price (ASP) continued to be very positive due to a strong product and channel mix. However, this was more than offset by negative unit growth due to lower sales to more price-focused channels and segments.

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- **Hearing Care** delivered very strong performance and significantly outgrew the market, leading to organic growth of 7%. This was driven by strong development in North America, but several of our medium-sized markets also performed very well. In France, growth was flat and in line with market developments, while China continues to be impacted by weak market dynamics. Acquisitions in several markets also contributed to growth in the period, with Germany as the primary contributor.
- In **Diagnostics**, organic growth was -4%, which is lower than originally expected. The business area was impacted by negative growth in the market for diagnostic instruments, particularly in China due to the ongoing Made in China initiatives. In addition to the generally negative market development, growth continued to be negative for our portfolio of balance products. Despite the current headwinds experienced by Diagnostics, we estimate that we gained market share in the period.

- The Group's **gross margin** developed in line with expectations and was flat when compared to the same period last year. Changes in the business mix and the improved product mix in Hearing Aids supported the gross margin. A strong improvement in the gross margin in Diagnostics was also a contributing factor. However, lower operating leverage in Hearing Aids offset these positive drivers.
- **OPEX** saw organic growth in line with our assumptions of growth in the low-to-mid single digits, reflecting our focused efforts to reduce organic OPEX growth. Acquisitions contributed further to OPEX growth in line with our acquisition strategy.
- The Group's **EBIT before special items** was slightly below expectations due to unfavourable changes in the foreign exchange rates in Q3. When excluding exchange rate movements, lower-than-expected revenue growth in Hearing Aids and Diagnostics resulted in lower operating leverage for the Group, but the very strong performance in Hearing Care and positive impact on costs of the earlier announced cost-saving initiatives offset this impact.
- The Group's cash flow generation continued to be very solid, but primarily due to higher financial expenses, **CFFO** and **FCF** were lower than last year. The Group maintained a high level of acquisition activities and share buy-backs in the period, resulting in a roughly flat net interest-bearing debt for the Group compared to the end of Q2, with the gearing multiple remaining within the medium- to long-term target range of 2.0-2.5.
- As expected, our **discontinued operations**, comprising Hearing Implants and Communications, saw a loss after tax.
  - The net profit after tax in our bone anchored hearing systems (BAHS) business was positive. In the period under review, we launched the new active transcutaneous bone conduction hearing system, Sentio™, which is seeing a very positive initial reception.
  - The EPOS business saw one-off charges related to the restructuring of the business, leading to a loss after tax for the period. Following the restructuring process, which was completed in Q3, we are now on track to deliver profitability at EBIT level in Q4.
- As at 30 September, the Group had bought back shares totalling DKK 1,746 million year-to-date.

Outlook for 2024

Our outlook for 2024 remains unchanged and is summarised in the table below:

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

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

- **Following lower-than-assumed market growth in the first nine months of the year, we expect the unit growth rate for the global hearing aid market in 2024 to be at the low end of 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. This follows a higher operating loss than expected in H1 as well as one-off costs of DKK 400 million related to the restructuring of EPOS.
- Following the divestment of our cochlear implants (CI) 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 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 at 4 November 2024:

Metric	Assumption for 2024
Acquisitive growth	2% based on revenue from acquisitions completed as at 4 November 2024
FX growth	-1% based on exchange rates as at 4 November 2024 and including the impact of hedging
Effective tax rate	Around 24%
Loss after tax from discontinued operations	Around DKK 550 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 5 November 2024 at 14:00 CET. 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.

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Management commentary

Market trends

Overall, the hearing healthcare market we address, which comprises the markets for hearing aids and diagnostic instruments and services, saw positive, but lower-than-normal, growth in Q3.

Hearing aid market

Based on available market statistics, covering around 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 3% in Q3 compared to the same period in 2023. The market saw low unit growth across most regions, and we estimate that geography and channel mix changes resulted in a slightly positive ASP development. Consequently, value growth in the hearing aid market in Q3 was slightly below the lower end of the normal 4-6% growth range.

Estimated hearing aid market unit growth by region

	2024			
Region	**Q1**	**Q2**	**Q3**	**YTD**
Europe	1%	8%	1%	3%
North America	10%	6%	4%	6%
Hereof US (commercial)	*13%*	*6%*	*5%*	*8%*
Hereof US (VA)	*-1%*	*1%*	*-1%*	*-1%*
Rest of world	1%	2%	4%	2%
Global	**3%**	**5%**	**3%**	**3%**

We estimate that market unit growth in Europe was 1% in Q3 compared to the same period in 2023. Growth was primarily driven by a number of smaller markets, whereas larger geographies showed lower growth. In France, growth was flat, as the hearing aid market continued to normalise following the hearing healthcare reform in 2021. In Germany, growth decelerated slightly after a solid H1 and ended flat. Growth in the UK was adversely impacted by negative growth in the NHS due to strong comparative figures, whereas growth in the commercial market was solid.

Growth in North America was 4% in Q3. Compared to H1, the US commercial market decelerated but continued to see solid growth, driven equally by the private pay market and managed care. In VA, growth was negative and continues to lag behind growth for the commercial market, which is a continuation of the developments seen in H1. Canada saw growth, although it decelerated from H1 following several periods of strong growth.

Looking beyond Europe and North America, we estimate that growth in our Rest of world region was 4%. Growth in Japan was slightly negative, whereas China was impacted by easy comparative figures, leading to growth, even though overall market dynamics remain challenging. Australia saw good growth, and we estimate that several emerging markets also saw solid growth in Q3.

Diagnostics market

We estimate that, compared to the same period last year, the market growth rate in Q3 was negative. This is due to very soft demand for diagnostic instruments and headwinds in the Chinese market from the ongoing Made in China initiatives, which more than offset growth in the markets for services and consumables in the period.

Hearing Aids

Organic growth in sales to external customers was -1% in Q3, which is slightly below expectations in a soft hearing aid market. Growth in the period under review was impacted by a strong comparative base, as organic growth was 25% in the same period last year, but an increased competitive environment also continued to impact growth. As expected, our performance was also impacted by negative growth in managed care in the US. The development in the ASP continued to be very positive due to a strong product and channel mix. However, this was more than offset by the negative unit growth following lower sales to more price-focused channels and segments. On a sequential basis, we estimate that we have maintained our market share in Q3.

In Europe, organic growth was flat, driven by good performance in several medium-sized markets. In France and Germany, flat market developments and competitive dynamics led to negative growth. In the UK, growth was also negative.

In North America, we saw negative organic growth, which was impacted by a strong comparative base and an increased competitive environment. Growth in the US also continued to be impacted by negative growth in managed care, although we estimate that our market share in this channel has stabilised sequentially. Beyond negative growth in managed care, we saw growth in VA driven by market share gains. In Canada, growth was slightly positive.

In Asia, organic growth was positive, despite continuously weak market dynamics in China. In Japan, growth was slightly positive. In the Pacific region, we saw negative organic growth, whereas organic growth was positive in our Rest of world region, which mostly comprises emerging markets.

Hearing Care

Hearing Care delivered very strong performance and significantly outgrew the market in Q3 with organic growth of 7%. Acquisitive growth was 5%, driven by Germany and Belgium, in particular, but also by a number of acquisitions in other markets. Organic growth was fuelled by strong development in North America, but growth was broad-based, with several of our medium-sized markets also performing very well. Growth was mainly driven by units, but we also saw slight tailwind from an increase in the ASP due to positive product and geography mix changes.

Europe saw strong organic growth thanks to very positive developments in several of our medium-sized markets, particularly Poland. France, which is our largest market in Europe, delivered flat growth in line with market developments in the country.

In North America, organic growth was very strong, driven by the US where we saw an acceleration of growth in Q3, despite a continuously negative impact of lower traffic generated by customers covered by managed care. In Canada, we saw continuously strong momentum, which was further supported by minor acquisitions.

In our other geographies, Australia saw very strong organic growth supported by positive market developments, but in China, growth continued to be negatively impacted by weak market dynamics.

Diagnostics

Organic growth in Diagnostics was -4%, which is lower than our original expectations. Following several years of strong growth, a soft market for diagnostic instruments, particularly in China due to ongoing Made in China initiatives, led to negative market growth in Q3. Performance was further impacted by continuously negative growth in our balance products category. When looking at our global performance across product categories, we nonetheless estimate that we continued to gain market share in Q3 compared to the same period last year. In our services and consumables business, we saw growth.

In terms of geographies, organic growth was positive in Europe where we saw good growth in several markets, particularly in Germany and France. In North America, growth was slightly negative due to negative growth in the US, while growth was particularly negative in Asia.