

Company announcement no 2021-08

Interim Management Statement covering the period year-to-date

4 May 2021

Recovery in the global hearing healthcare market progressing at least in line with assumptions
Better-than-expected revenue growth and EBIT driven mostly by Hearing Care
Roll-out of Oticon More and Philips HearLink driving market share gains in Hearing Aids
Organic revenue growth in 2021 now expected to be 24-28% (previously 23-27%)
EBIT expectations for 2021 increased to DKK 3,000-3,300 million (previously DKK 2,850-3,150 million)

- Year-to-date, the **Group** has generated high double-digit organic revenue growth exceeding our expectations. The high growth rate reflects strong business performance as well as the severe negative impact of coronavirus on comparative figures. Acquisitions have to a minor degree contributed positively to revenue growth, whereas exchange rate effects have had a negative growth impact in the low-to-mid single digits. Compared to the same period in 2019, which serves as a comparative base unaffected by coronavirus, the Group has seen low double-digit organic growth (excluding Communications, which was not consolidated until 2020).
- Our **Hearing Healthcare** segment, consisting of the Hearing Aids, Hearing Care, Hearing Implants and Diagnostics business areas, has seen strong performance year-to-date. Hearing Aids and Hearing Care have benefitted from continued recovery of the hearing aid market, including – particularly for Hearing Care – a positive impact of the hearing healthcare reform in France. In addition, Hearing Aids has been very successful with the roll-out of new flagship hearing aids, including Oticon More and Philips HearLink, which have supported market share gains. Diagnostics has continued to perform very well and to gain market share thanks to broad-based growth, whereas Hearing Implants remains significantly impacted by a low number of surgeries performed. Hearing Healthcare has year-to-date seen high double-digit organic growth. Compared to 2019, organic growth has been in the low double digits.
- Year-to-date, **Communications** has seen very high double-digit organic growth, benefitting from extraordinarily low comparative figures at the beginning of the year. We have seen a softening in the number of new orders compared to the end of 2020.
- Based on the better-than-expected performance year-to-date – particularly by Hearing Care – we increase our expectations for organic revenue growth for the Group to 24-28% (previously 23-27%). We still expect Hearing Healthcare to realise a higher organic growth rate than Communications.
- Year-to-date, the Group's **gross margin** has improved sequentially relative to the gross margin of 72.5% (adjusted for EPOS one-offs) realised in H2 2020. The improvement is driven by Hearing Healthcare and is in line with our expectations.
- Organic growth in **OPEX** has year-to-date been in the low double digits, which reflects the very significant cost savings in the comparative period. Relative to a normal run rate, we have so far this year continued to see material temporary savings in OPEX in addition to the structural savings announced in October 2020. As expected, the temporary savings have gradually diminished and overall, we continue to see a correlation between the pace of normalisation of OPEX and revenue.
- Even though the hearing healthcare market has not yet fully recovered, the Group's **profitability** has been very strong. In addition to material cost savings, the hearing healthcare reform in France has supported profitability more than expected, particularly in Hearing Care, and the uptake of the new flagship hearing aids has also exceeded expectations. As a result of these effects, which predominantly relate to H1, we increase our **EBIT** expectations for 2021 to DKK 3,000-3,300 million (previously DKK 2,850-3,150 million), with EBIT skewing only modestly towards H2 (previously skewing towards H2).
- **Cash flows** have been strong thanks to the profit generated despite the normalisation of some working capital items, including tax payments. We have continued our strategy of making bolt-on acquisitions in Hearing Care, and M&A activities are generally running at a normal level.

- Year-to-date, **share buy-backs** amount to DKK 478 million. As a consequence of our expectations of increased EBIT and expected cash generation, we now guide for share buy-backs of more than DKK 2.5 billion in 2021 (previously more than DKK 2 billion).

Outlook for 2021

Our outlook (summarised below) is still subject to greater uncertainty than usual due to the impact of coronavirus in most markets. However, year-to-date the normalisation of our markets has progressed at least in line with the assumptions that form the basis of our outlook for the year. We still assume that the hearing healthcare market will gradually normalise during H1, as the ongoing vaccination programmes will support the easing of coronavirus-related restrictions in developed markets. We have already seen early signs of tangible effects of vaccination programmes, and we expect that continued progress will pave the way for the release of some pent-up demand for hearing healthcare solutions in H2. However, while we have recently seen positive trends in Veterans Affairs (VA) in the US, we still expect the normalisation to be slower in the other large government channel, NHS in the UK, and particularly in emerging markets where the normalisation is likely to go beyond 2021. We expect that the addressable market for Communications will grow at least in line with its structural trend of 8-10%, despite strong comparative figures in 2020.

| Metric | Outlook for 2021 |
|---------------------------|---|
| Organic growth, Group | 24-28% (previously 23-27%), with Hearing Healthcare realising a higher organic growth rate than Communications |
| Acquisitive growth, Group | 1% based on revenue from acquisitions completed as of 3 May 2021 |
| FX growth, Group | -2% based on exchange rates as of 3 May 2021 and including the impact of exchange rate hedging |
| EBIT | DKK 3,000-3,300 million (previously DKK 2,850-3,150 million), skewing modestly towards H2 (previously skewing towards H2) |
| Effective tax rate | Around 23% |
| Gearing | Gearing multiple at the end of 2021 in line with our medium- to long-term target of 2.0-2.5 measured as NIBD relative to EBITDA |
| Share buy-backs | More than DKK 2.5 billion (previously more than DKK 2 billion) |

“Up until now, our assumptions of recovery and growth have at least been confirmed, as we have seen our core market for hearing aids and hearing care improve in many countries, particularly in France and the US. We’re very happy to see that our customers show great interest in our new solutions and that our latest flagship products, Oticon More and Philips HearLink, are performing very well, resulting in market share gains. Furthermore, our Diagnostics business is in very good shape, delivering results above expectations and outperforming the competition. This year, we have so far realised cost savings at the expected level, and our tight cost control combined with increased sales mean that we can now raise our expectations of both revenue and profit for the year. About a year after the worst crisis we’ve ever seen in our industry, I’m very proud of where the Demant Group is today – in very good shape – and of our ability to operate all business areas and perform under very dynamic market conditions. All thanks to dedicated employees and valuable collaboration with customers,” says Søren Nielsen, President & CEO of Demant.

Demant will host a conference call on 4 May 2021 at 14:00 CEST. To attend this call, please use one of the following dial-ins: +45 3544 5577 (DK), +44 3333 000 804 (UK) or +1 6319 131 422 (US). The pin code is 38012667#. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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Hearing Healthcare

Market trends

Overall, the hearing healthcare market, which comprises the market for hearing aids, hearing implants and diagnostic instruments and services, has year-to-date continued to gradually recover at least in line with expectations, albeit with differences between market segments and regions.

Based on available market statistics, covering slightly less than two thirds of the market, and on internal assumptions, we estimate that the global hearing aid market saw unit growth of around 6% in Q1. Growth was partly driven by the severe impact of coronavirus on comparative figures.

Estimated market unit growth by region

| Region | 2020 | | | | | 2021 |
|------------------------|------------|-------------|------------|------------|-------------|-----------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 |
| Europe | -10% | -50% | 1% | 0% | -15% | 10% |
| North America | 0% | -59% | -4% | -7% | -18% | 9% |
| Hereof US (commercial) | 1% | -52% | 0% | -6% | -14% | 12% |
| Hereof US (VA) | 0% | -83% | -34% | -15% | -34% | -7% |
| Rest of world | -5% | -35% | -5% | -5% | -11% | 0% |
| Global | -6% | -48% | -3% | -4% | -15% | 6% |

In Europe, growth in Q1 was first and foremost driven by extraordinary growth in France due to the full implementation of the hearing healthcare reform, which has significantly boosted unit sales of products in the lower-priced categories. In the UK, market growth was negative, which can primarily be attributed to the NHS, whereas the commercial market recovered well towards the end of Q1. Growth in Germany was slightly negative. Excluding the extraordinary growth in France, we estimate that overall unit growth in Europe was negative, but that momentum improved materially during Q1 and in April.

In North America, we saw a strong rebound in unit growth in Q1 compared to the previous quarter, with the US commercial market growing around 12%. In contrast, Veterans Affairs (VA) recorded negative growth, but the channel improved significantly towards the end of Q1.

Looking beyond the US and Europe, we estimate that unit growth in Japan and Australia was slightly negative and that emerging markets remain severely impacted by coronavirus. Meanwhile, we estimate that China saw very strong growth.

Turning to the cochlear implants market, activity levels in our core markets in Europe and in a number of emerging markets have remained low, as we have continued to see elective surgeries being postponed due to coronavirus. We have recently seen early signs of improvements but expect the path towards full normalisation to be longer than for other areas of hearing healthcare. The market for bone anchored hearing solutions has recovered at a faster pace but has yet to fully normalise.

We estimate that growth in the market for diagnostic instruments and services in Q1 was in line with our estimated structural growth rate of 3-5% compared to the same period last year when the market was only modestly impacted by coronavirus.

Hearing Aids

Our Hearing Aids business area has performed strongly year-to-date, benefitting from both market recovery and very positive traction for the new flagship hearing aids launched at the end of 2020. In particular, sales to independent hearing care professionals have seen strong support from the launch of Oticon More, which has contributed to market share gains in many markets. Similarly, the new Philips HearLink product family has enjoyed strong success in the US. Finally, sales to our own Hearing Care business have grown strongly driven by France. In addition to high unit growth, we have seen positive ASP growth driven primarily by changes in geography mix.

The strong commercial traction of Oticon More is underpinned by new research that shows how it outperforms two high-end competitor hearing aids in a test based on real-life, complex sound scenes. Specifically, Oticon More delivers better access to speech coming from around the user, access to more of the relevant sounds in the sound scene and more rapid adjustment to changes in the sound scene – and it does so with more contrast and details than the competitors' products. The findings are available in a whitepaper on [Oticon's website](#).

From a regional perspective, North America has been our key growth driver thanks to market recovery and success in the commercial part of the US where Oticon More was rolled out in January. The new product family has only just been released in VA on 1 May, and our revenue in that channel has year-to-date recovered at a slower pace than in the broader US market. In Canada, our revenue has recovered at a slower pace than in the US.

In Europe, revenue has generally been resilient despite new lockdowns in many markets. France has seen tailwinds from a positive impact of the hearing healthcare reform, and revenue has also been solid in Spain and Denmark. In the UK, the commercial market has recovered materially from the slow start to the year, but sales to the NHS remain at a low level. Revenue in Germany has not yet recovered due to new coronavirus-related restrictions.

Year-to-date, we have seen strong performances in both our Asia and Pacific region driven by China and Australia, whereas revenue in Other countries, which mainly comprises emerging markets, remains significantly below normal levels.

Hearing Care

Year-to-date, Hearing Care has seen strong performance thanks to broadly based recovery in the markets where we are present and thanks to extraordinary growth in France due to the hearing healthcare reform. Growth in revenue is mostly a result of unit growth due to low comparative figures, but ASP growth has also been positive.

In terms of market recovery, we have recently seen particular progress in the markets where vaccination programmes have progressed the most, including the US and the UK. In these markets, data from our own consumer surveys have also pointed to reduced fear levels among prospective users in recent months, which suggests that clinic traffic may continue to increase. Even in markets where new lockdowns have been imposed in recent months, we are seeing a fair degree of resilience similar to the situation in H2 2020.

In North America, revenue has year-to-date remained below normal levels, but we have seen significant improvements in recent months in both the US and Canada. In Canada, acquisitions have contributed to growth.

Revenue in Europe has been very strong year-to-date driven primarily by extraordinary growth in France due to the full implementation of the French hearing healthcare reform from January, which allows users to choose between fully reimbursed hearing aids (class 1) and partially reimbursed hearing aids (class 2). We have also seen broadly based recovery with solid revenue levels in most other markets, with the exception of Sweden and Portugal where we have continued to see an impact of coronavirus.

In Australia, revenue has recovered strongly since the beginning of the year and is close to normalisation.

Hearing Implants

Our Hearing Implants business area has continued to be severely impacted by coronavirus and the resulting widespread postponement of elective surgeries. As was the situation in 2020, the negative impact has been most pronounced for our cochlear implants business, whereas our bone anchored hearing systems business has been supported by sales of sound processors, including upgrades for existing users.

We remain on track with our application process to obtain FDA premarket approval of the Neuro system in the US in H2 2021.

Diagnostics

Performance in our Diagnostics business has been strong year-to-date thanks to a combination of resilient markets and further market share gains. After having been impacted by coronavirus in 2020, instrument sales in particular have recovered well, and service and disposables sales have remained at a healthy level and are by nature more recurring than instrument sales.

Geographically, all regions have contributed to the strong performance, including our largest market, the US, where revenue has recovered significantly from the level at the beginning of the year.

Communications

Market trends

After an extremely strong 2020, global demand for enterprise and gaming headsets continued at a high level at the beginning of the year, and until around mid-March, the market saw very high growth due to the fact that comparative figures had not yet been boosted by coronavirus. However, we estimate that market growth has since then decelerated as a natural consequence of a higher comparative base, which will last throughout the remainder of the year. As restrictions are being lifted, we have also seen some softening of the extraordinary demand for low-priced wired headsets.

Communications (EPOS)

As expected, our Communications business, which operates under the EPOS brand, has year-to-date delivered very high double-digit growth, benefitting from extraordinarily low comparative figures at the beginning of the year, particularly in our Gaming business. Compared to the end of 2020, we have seen a softening in the number of new orders, mostly attributable to temporary inventory effects, and we have gradually reduced backorders to a more normal level. We expect revenue in H1 2021 to decrease sequentially compared to H2 2020.

The very strong growth year-to-date has been broadly based in Europe, which accounts for most of the revenue generated by Communications, whereas growth has been slower in the US.

We have previously announced our intention to enter the attractive and growing market for video solutions, which is becoming an integral part of state-of-the-art unified collaboration and communication solutions for professionals, and we recently launched our first product in this space. Delivered with a fully integrated premium speakerphone, the EPOS EXPAND Vision 3T is a premium all-in-one video conferencing solution for small meeting rooms. In the early phases of our expansion into this area, we only expect to see minor contributions to revenue, but we are confident that EPOS can build a strong position in video solutions in the coming years.