Demant

Company announcement no 2021-11

12 August 2021

Interim Report 2021

Excellent Group performance in H1 with 51% organic growth and market share gains in Hearing Healthcare
Recovery in the global hearing healthcare market in H1 at least in line with our expectations
EBIT of DKK 1,638 million in H1, corresponding to an EBIT margin of 18.2%, exceeding our expectations
Positive trends expected to continue in H2 – 2021 organic growth outlook upgraded to 26-30% (prev. 24-28%)
EBIT guidance for 2021 upgraded to DKK 3,150-3,450 million (prev. DKK 3,000-3,300 million)

	Revenue (DKK million)			Growth H1 2021 vs H1 2020			Growth H1 2021 vs H1 2019		
Revenue and growth rates	**H1 2021**	**H1 2020**	**H1 2019**	**Org.**	**Acq.**	**LCY**	**Org.**	**Acq.**	**LCY**
Hearing Aids	4,416	2,937	3,852	55%	0%	55%	17%	1%	17%
Hereof sales to Hearing Care	*-871*	*-465*	*-607*	*90%*	*4%*	*94%*	*42%*	*6%*	*48%*
Hearing Care	3,737	2,154	3,128	72%	5%	78%	15%	7%	23%
Hearing Implants	266	246	304	11%	0%	12%	-9%	1%	-8%
Diagnostics	843	660	673	34%	1%	35%	29%	2%	31%
Hearing Healthcare	**8,391**	**5,532**	**7,350**	**55%**	**2%**	**57%**	**14%**	**3%**	**17%**
Communications	**621**	**546**	**-**	**16%**	**0%**	**16%**	**n.a.**	**n.a.**	**n.a.**
Group	**9,012**	**6,078**	**7,350**	**51%**	**2%**	**53%**	**15%**	**11%**	**26%**

Please note that there are no comparative figures for Communications in 2019, as EPOS was not consolidated until 2020. Unless otherwise indicated, 2020 figures are adjusted for one-offs related to the consolidation of EPOS with financial effect from 1 January 2020.

- In H1, **Group** revenue amounted to DKK 9,012 million, corresponding to growth of 53% in local currencies compared to H1 2020, with 51% organic growth and 2% acquisitive growth. Exchange rate effects were -5%. Compared to pre-pandemic levels in H1 2019, the Group saw growth of 26% in local currencies, with 15% organic growth and 11% acquisitive growth. The latter can mainly be attributed to the consolidation of EPOS in 2020. Exchange rate effects were -3%.
- Our **Hearing Healthcare** segment saw growth of 57% in local currencies compared to H1 2020, reflecting both strong business performance and the severe negative impact of coronavirus on comparative figures. Hearing Aids and Hearing Care benefitted from the strong recovery of the hearing aid market, particularly in the US where we saw the release of some pent-up demand in Q2. We also saw a significant positive impact of the hearing healthcare reform in France, which we estimate added around DKK 200 million to revenue in H1 that will not recur to the same extent in H2. Furthermore, Hearing Aids gained market share thanks to the highly successful launch of new flagship hearing aids, including Oticon More and Philips HearLink. Diagnostics delivered very strong performance and gained market share and exited H1 with an all-time high number of orders in the order book. Hearing Implants continued to see a significant negative impact of the slow recovery in a number of our key cochlear implants markets. Relative to H1 2019, Hearing Healthcare grew by 17% in local currencies, with 14% organic growth and 3% acquisitive growth, which is significantly above the market growth rate.
- In **Communications**, growth was 16% in local currencies compared to H1 2020, all of which was organic growth. Following the very high double-digit organic growth rate realised in the first months of the year – also aided by extraordinarily low comparative figures – growth decelerated significantly. Besides higher comparative figures, the deceleration was driven by a softening in the number of new orders, particularly for low-priced wired headsets. While we view this as a temporary slowdown, it will also impact growth in H2 negatively.
- The Group realised a **gross margin** of 74.5% in H1, corresponding to growth of 4.5 percentage points compared to H1 2020 and to sequential growth of 2.0 percentage points compared to H2 2020. The improvement was mainly driven by higher production volumes and by strong growth in Hearing Healthcare, which has a structurally higher gross margin than the Communications segment.
- The Group's **OPEX** grew by 18% in local currencies compared to H1 2020, with organic growth of 16% and acquisitive growth of 2%. This reflects both the substantial sales growth and the very significant, temporary cost savings realised in the comparative period, including support from government schemes related to corona-

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virus. We continued to see material temporary savings in OPEX, although these, as expected, gradually diminished during the reporting period. While we will continue to benefit from the structural savings announced in October 2020, we only expect a limited impact of further temporary savings in H2.

- **EBIT** for the Group was better than expected and amounted to DKK 1,638 million in H1, corresponding to an EBIT margin of 18.2%. Hearing Healthcare delivered very strong profitability with an EBIT margin of 20.0% driven by a combination of strong revenue and temporary cost savings. Profitability was strongly supported by the success of the new flagship hearing aids, and we estimate that the reform in France added around DKK 100 million to EBIT in H1 that will not recur to the same extent in H2. Conversely, the slowdown in Communications resulted in an EBIT of DKK -44 million, as we continued to invest in R&D and distribution that will support our medium- to long-term growth.
- Reflecting the Group's improved profitability, cash flow was very strong, and both **CFFO** and **FCF** more than doubled to DKK 1,511 million and DKK 1,234 million, respectively. M&A activities have largely found their normal level with cash spent on acquisitions amounting to DKK 406 million, predominantly relating to Hearing Care.
- **Share buy-backs** amounted to DKK 1,813 million, while the Group's **gearing multiple** (NIBD/EBITDA) was 2.1 at the end of H1, which is in line with our medium- to long-term target of 2.0-2.5.

OUTLOOK FOR 2021

Based on expectations that our strong business momentum and market share gains in Hearing Healthcare will continue in H2 – despite tailwind from the French reform not recurring to the same extent as in H1 – we upgrade our guidance for the Group's organic growth rate for 2021 to 26-30% (previously 24-28%). Due to the slowdown in Communications, we now expect this segment to see negative organic growth in H2. As a result of the upgraded outlook for revenue growth, we also upgrade our guidance for Group EBIT for 2021 to DKK 3,150-3,450 million (previously DKK 3,000-3,300 million). In Communications, we expect to realise a negative EBIT for H2, as we will continue to invest in the business as originally planned to support our future growth and market position. Due to higher expectations in respect of our cash flow in H2, we now expect to buy back shares worth more than DKK 3.0 billion (previously more than DKK 2.5 billion).

Metric	Outlook for 2021
Organic growth	26-30% (previously 24-28%). For Communications, we expect negative organic growth in H2.
Acquisitive growth	1% based on revenue from acquisitions completed as of 11 August 2021.
FX growth	-1% (previously -2%) based on exchange rates as of 11 August 2021 and including the impact of hedging.
EBIT	DKK 3,150-3,450 million (previously DKK 3,000-3,300 million). For Communications, we expect a negative EBIT in H2.
Effective tax rate	Around 23%.
Gearing	Gearing multiple at the end of 2021 in line with medium- to long-term target of 2.0-2.5 (NIBD relative to EBITDA).
Share buy-backs	More than DKK 3.0 billion (previously more than DKK 2.5 billion).

"Overall, we look at the first half-year with great satisfaction, we perform extremely well and win market share. We have once again been let into many people's lives with our innovative technologies and services, and based on trustful collaboration, we continue to make life-changing differences for our customers and users around the world. With the launch of our flagship hearing aids Oticon More and Philips HearLink standing out, we have generally succeeded with our sales activities, leading to market share gains and sales above our original expectations. Our Hearing Aids, Hearing Care and Diagnostics businesses have performed particularly well, resulting in strong profitability for the period. Based on our expectations of continued strong performance in the second half-year, we now upgrade our guidance for growth and profit for the year," says Søren Nielsen, President & CEO of Demant.

Demant will host a conference call on 12 August 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 65378756#. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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Key figures and financial ratios

	H1 2021	H1 2020	H1 2019	Change vs H1 2020	Change vs H1 2019	Full year 2020
Hearing Healthcare						
Revenue	8,391	5,532	7,350	52%	14%	13,163
Organic growth	55%	-27%	5%			-13%
Gross margin	76.5%	72.3%	77.6%			73.6%
Operating profit (EBIT)	1,682	-214	1,085	n.a.	55%	1,211
EBIT margin	20.0%	-3.9%	14.8%			9.2%
Communications						
Revenue	621	546	-	14%	-	1,306
Organic growth	16%	-	-			-
Gross margin	48.3%	46.7%	-			50.3%
Operating profit (EBIT)*	-44	21	28	-310%	-257%	102
EBIT margin	-7.1%	3.8%	-			7.8%
Group						
Income statement, DKK million						
Revenue	9,012	6,078	7,350	48%	23%	14,469
Adjusted gross margin**	74.5%	70.0%	77.6%			71.5%
Gross margin	74.5%	68.2%	77.6%			70.4%
EBITDA	2,162	629	1,582	244%	37%	2,578
EBITDA margin	24.0%	10.3%	21.5%			17.8%
Adjusted operating profit (EBIT)**	1,638	-193	1,113	n.a.	47%	1,313
Adjusted EBIT margin**	18.2%	-3.2%	15.1%			9.1%
Operating profit (EBIT)	1,638	114	1,113	1,337%	47%	1,530
EBIT margin	18.2%	1.9%	15.1%			10.6%
Net financial items	-103	-88	-119	17%	-13%	-194
Profit for the period	1,183	121	767	878%	54%	1,134
Balance sheet, DKK million						
Total assets	23,579	22,067	20,759	7%	14%	21,927
Net interest-bearing debt (NIBD)	8,573	8,388	7,613	2%	13%	7,135
Equity	7,796	7,449	7,596	5%	3%	8,279
Cash flow statement, DKK million						
Adjusted cash flow from operating activities (CFFO)**	1,511	766	1,047	97%	44%	2,710
Cash flow from operating activities (CFFO)	1,511	729	1,047	107%	44%	2,621
Investment in property, plant and equipment, net	-203	-242	-251	-16%	-19%	-493
Free cash flow	1,234	489	702	152%	76%	2,023
Share buy-backs	-1,813	-197	-264	820%	587%	-197
Other key figures, DKK million						
Return on equity	28.3%	3.2%	21.0%			14.3%
Equity ratio	33.1%	33.8%	36.6%			37.8%
Gearing multiple (NIBD/EBITDA)	2.1	3.9	2.3			2.8
Earnings per share (EPS), DKK***	4.94	0.50	3.12	897%	58%	4.68
Free cash flow per share (FCFPS), DKK***	5.19	2.04	2.87			8.44
Price earnings (P/E) ratio	71.5	348.9	65.4	-80%	9%	51.4
Share price, end of period, DKK***	353.00	174.90	204.10	102%	73%	240.60
Average number of shares outstanding, million	237.66	239.90	244.40	-1%	-3%	239.78
Market capitalisation	82,569	41,917	49,783	97%	66%	57,718
Average number of employees	17,184	16,107	15,044	7%	14%	16,155

** EBIT for Communications in 2019 relates to the Group's share of profit after tax from our former joint venture Sennheiser Communications.*
*** Adjusted for one-offs related to EPOS in H1 2020.*
**** Per share of nominally DKK 0.20.*

Group financial review

The financial review below covers the Group. Unless otherwise stated, figures for 2020 down to and including the EBIT line are shown on an adjusted basis *before* one-offs related to the consolidation of EPOS with financial effect from 1 January 2020. For financial reviews of our Hearing Healthcare and Communications segments, please refer to page 9 and 14, respectively.

INCOME STATEMENT

(DKK million)	Hearing Healthcare H1 2021	Communi-cations H1 2021	Group H1 2021	Group adjusted H1 2020	Change	EPOS one-offs H1 2020	Group reported H1 2020	Change
Revenue	8,391	621	9,012	6,078	48%	-	6,078	48%
Production costs	-1,973	-321	-2,294	-1,823	26%	-109	-1,932	19%
Gross profit	**6,418**	**300**	**6,718**	**4,255**	**58%**	**-109**	**4,146**	**62%**
Gross margin	76.5%	48.3%	74.5%	70.0%		-	68.2%	
R&D costs	-564	-91	-655	-618	6%	-	-618	6%
Distribution costs	-3,807	-233	-4,040	-3,455	17%	-37	-3,492	16%
Administrative expenses	-422	-20	-442	-388	14%	-	-388	14%
Share of profit after tax, associates and joint ventures	57	-	57	13	338%	453	466	-88%
Operating profit (EBIT)	**1,682**	**-44**	**1,638**	**-193**	**n.a.**	**307**	**114**	**1,337%**
EBIT margin	20.0%	-7.1%	18.2%	-3.2%		-	1.9%	

REVENUE

In H1, Group revenue amounted to DKK 9,012 million, corresponding to a growth rate of 53% in local currencies compared to H1 2020. Organic growth was 51%, driven primarily by Hearing Healthcare due to low comparative figures, strong recovery in the hearing healthcare market, including tailwind from the hearing healthcare reform in France, and market share gains fuelled by new product launches. Growth from acquisitions was 2%, whereas exchange rate effects were -5%, driven mainly by depreciation of the US dollar relative to Danish kroner and – to a much lesser extent – of the Brazilian real and Japanese yen.

Compared to H1 2019, the Group delivered growth of 26% in local currencies with 15% organic growth and with 11% acquisitive growth of which the consolidation of EPOS accounted for 8 percentage points. Exchange rate effects were -3%.

In terms of geography, North America was the key driver of organic growth compared to H1 2020 due to a relatively extended lockdown period last year in that region. Compared to H1 2019, we saw double-digit organic growth in all regions except in the Other countries region, which covers a number of emerging markets where sales are still impacted by coronavirus. Asia saw the highest organic growth rate, but also Europe saw very strong growth aided by the hearing healthcare reform in France.

Growth rates in H1 2021 by business segment

		vs 2020	vs 2019
Hearing Healthcare	Organic	55%	14%
	Acquisitions	2%	3%
	LCY	57%	17%
	FX	-5%	-3%
	Total	**52%**	**14%**
Communications	Organic	16%	n.a.
	Acquisitions	0%	n.a.
	LCY	16%	n.a.
	FX	-2%	n.a.
	Total	**14%**	**n.a.**
Group	Organic	51%	15%
	Acquisitions	2%	11%
	LCY	53%	26%
	FX	-5%	-3%
	Total	**48%**	**23%**

Group financial review

Revenue by geographic region

(DKK million)	H1 2021	H1 2020	Change DKK	Change LCY	Change Org.
Europe	3,990	2,674	49%	50%	48%
North America	3,485	2,258	54%	66%	63%
Pacific	571	406	41%	33%	33%
Asia	752	575	30%	37%	37%
Other countries	214	165	30%	45%	45%
Total	**9,012**	**6,078**	**48%**	**53%**	**51%**

(DKK million)	H1 2021	H1 2019	Change DKK	Change LCY	Change Org.
Europe	3,990	2,996	33%	34%	19%
North America	3,485	3,063	14%	19%	10%
Pacific	571	459	24%	23%	17%
Asia	752	574	31%	36%	23%
Other countries	214	258	-17%	-2%	-2%
Total	**9,012**	**7,350**	**23%**	**26%**	**15%**

Gross profit

The Group's gross profit was DKK 6,718 million in H1, an increase of 58% compared to H1 2020 and 18% above the same period in 2019. Driven mainly by higher production volumes and by strong growth in Hearing Healthcare, which has a structurally higher gross margin than Communications, the gross margin increased by 4.5 percentage points to 74.5%. The decline of 3.1 percentage points compared to H1 2019 is attributable to the consolidation of EPOS, which had a dilutive effect of about 2 percentage points, and to an increasing share of sales of rechargeable hearing aids and higher freight charges.

Operating expenses (OPEX)

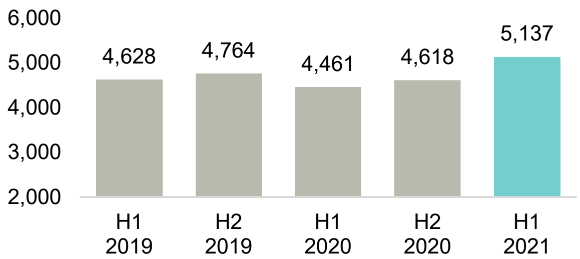
In H1, total OPEX amounted to DKK 5,137 million, corresponding to 18% growth in local currencies compared to H1 2020. In organic terms, OPEX increased by 16% driven by higher distribution costs and administrative expenses, which reflects both the much higher activity levels and the very significant, temporary, coronavirus-related cost savings realised last year. The savings in H1 last year included around DKK 350 million in government support schemes, which were, however, partly offset by a provision for bad debt of DKK 150 million. Growth in R&D costs was more modest, as we maintained our innovation efforts last year despite the impact of coronavirus. Acquisitions added 2% to the Group's OPEX, whereas exchange rate effects were -3%.

Compared to H1 2019, OPEX grew by 14% in local currencies, which was mainly driven by acquisitive growth of 8%, including growth from the consolidation of EPOS. Organic growth was only 6% due to the realisation of both structural savings and further temporary savings in H1. As expected, temporary savings gradually diminished in the reporting period, and we only expect a limited impact in H2, but we will continue to benefit from the structural savings announced back in October 2020. These relate to headcount reductions made in H1 2020, changes to the marketing model in parts of our US Hearing Care network and structurally less travelling.

OPEX by function

(DKK million)	H1 2021	H1 2020	Change DKK	Change LCY	Change Org.
R&D costs	655	618	6%	7%	6%
Distribution costs	4,040	3,455	17%	20%	18%
Adm. expenses	442	388	14%	17%	16%
Total	**5,137**	**4,461**	**15%**	**18%**	**16%**

OPEX by half-year (DKK million)

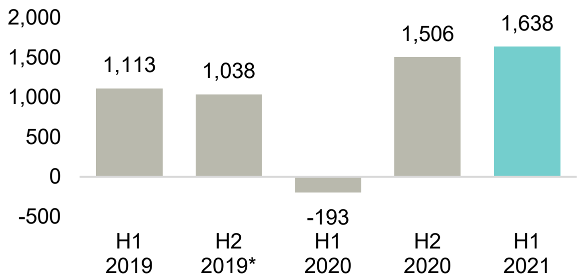


Operating profit (EBIT)

The Group's operating profit (EBIT) was better than expected and amounted to DKK 1,638 million in H1 to which Hearing Healthcare contributed with DKK 1,682 million, whereas Communications realised an EBIT of DKK -44 million. The Group's EBIT thus rebounded from the loss of DKK 193 million realised in H1 2020, and compared to H1 2019, EBIT grew by 47%, which is more than double the reported revenue growth of 23% since H1 2019.

The resulting EBIT margin in H1 was 18.2%, which is an increase of 3.1 percentage points compared to H1 2019, despite the negative impact of the consolidation of EPOS in 2020. The increasing EBIT margin thus reflects a significant improvement in the profitability of Hearing Healthcare.

EBIT by half-year (DKK million)



** EBIT in H2 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.*

Group financial review

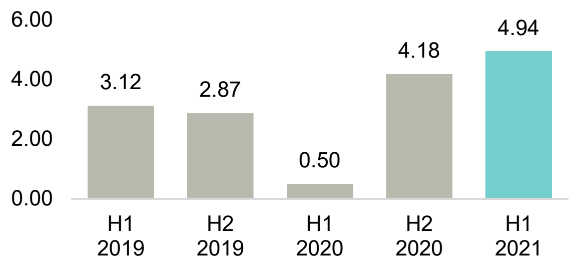
Financial items

Reported net financial items amounted to expenses of DKK 102 million in H1, which is an increase of DKK 14 million compared to last year. The increase is mainly caused by higher credit card fees due to higher revenue.

Profit for the period

Reported profit before tax amounted to DKK 1,536 million in H1, a significant increase compared to both 2020 and 2019. Tax for the period amounted to DKK 353 million, corresponding to an effective tax rate of 23.0%. This resulted in profit after tax of DKK 1,183 million, corresponding to reported earnings per share (EPS) of DKK 4.94. Earnings per share thus increased by 58% compared to H1 2019.

EPS by half-year (DKK)



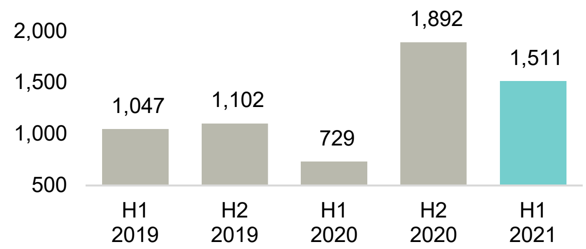
Cash flow statement

As was also the case for H2 2020, the Group's cash flow from operating activities (CFFO) was very strong in H1, amounting to DKK 1,511 million, which is a 107% increase compared to reported CFFO in the same period last year. The increase can be attributed to a significantly higher EBIT, which was offset by an increase in working capital, primarily trade receivables, driven by strong revenue growth.

Cash flow by main items

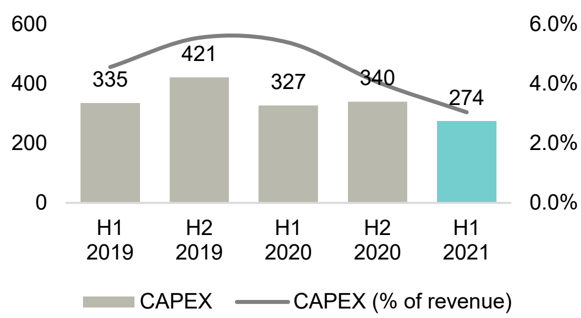
(DKK million)	H1 2021	H1 2020	Change	Change
Reported EBIT	1,638	114	1,524	1,337%
Non-cash items etc.	509	364	145	40%
Change in working capital	-385	323	-708	-219%
Dividends received	42	20	22	110%
Financial items etc. paid/received	-109	-99	-10	10%
Income tax paid/ received	-184	7	-191	n.a.
CFFO	**1,511**	**729**	**782**	**107%**
Net investments	-277	-240	-37	15%
Free cash flow	**1,234**	**489**	**745**	**152%**
Acquisition of enterprises etc.	-406	-293	-113	39%
Share buy-backs	-1,813	-197	-1,616	820%
Other financing activities	1,242	143	1,099	769%
Cash flow for the period	**257**	**142**	**115**	**81%**

CFFO by half-year (DKK million)



Net investments resulted in a cash flow of DKK -277 million in H1 of which DKK -274 million, or 3% of Group revenue, related to net investments in property, plant and equipment and in intangible assets (CAPEX). This is a decrease of 16% compared to H1 2020.

CAPEX by half-year (DKK million)



Group financial review

Net investments in other non-current assets, which mostly comprise customer loans, amounted to DKK -3 million compared to DKK 87 million in H1 2020. Free cash flow before acquisitions and divestments thus increased significantly by 152% from DKK 489 million in H1 2020 to DKK 1,234 million in H1 2021.

Predominantly relating to acquisitions made by Hearing Care, cash spent on acquisitions totalled DKK 406 million. This is an increase compared to H1 last year where transactions were temporarily suspended. In general, we consider our M&A activities to be back to their normal level.

Share buy-backs in the reporting period amounted to DKK 1,813 million, as the Group bought back 5,985,632 shares at an average price of DKK 302.91.

After other financing activities of DKK 1,242 million, which primarily relate to an increase in short-term debt facilities, net cash flow in H1 amounted to DKK 257 million.

Balance sheet

As of 30 June 2021, total assets amounted to DKK 23,579 million, which is an increase of 8% compared to the end of 2020. This is driven by organic growth of 4%, with acquisitions and exchange rate effects accounting for 2% each. The development is mainly driven by an increase in other non-current assets, primarily related to goodwill in connection with acquisitions, and an increase in trade receivables.

Balance sheet by main items

(DKK million)	H1 2021	FY 2020	Change	Change
Lease assets	2,024	1,847	177	10%
Other non-current assets	14,064	13,393	671	5%
Inventories	2,088	1,968	120	6%
Trade receivables	3,140	2,808	332	12%
Cash	1,221	952	269	28%
Other current assets	1,042	959	83	9%
Assets	**23,579**	**21,927**	**1,652**	**8%**
Equity	7,796	8,279	-483	-6%
Lease liabilities	2,077	1,893	184	10%
Other non-current liabilities	4,728	4,837	-109	-2%
Trade payables	753	802	-49	-6%
Other current liabilities	8,225	6,116	2,109	34%
Equity and liabilities	**23,579**	**21,927**	**1,652**	**8%**

The increase in trade receivables of 12% was a natural consequence of the higher revenue, which was partly offset by strong collection efforts. Inventories increased by 6%, whereas trade payables decreased by 6%. In aggregate, the Group's net working capital as at 30 June 2021 increased by 17% to DKK 2,871 million.

Net interest-bearing debt (NIBD) amounted to DKK 8,573 million as of 30 June 2021, corresponding to a gearing multiple of 2.1 measured as NIBD relative to a 12-month rolling EBITDA. This is within our medium- to long-term target of 2.0-2.5. The gearing multiple was 2.8 at 31 December 2020.

Group equity decreased by DKK 483 million, or 6%, in H1 to DKK 7,796 million at 30 June 2021, primarily due to share buy-backs. The decline was offset by foreign currency translation adjustments in subsidiaries and the Group's profit for the period.

Employees

At the end of H1, Demant had 17,556 employees compared to 16,591 at the beginning of the year and 15,678 at the end of H1 2020. The insourcing of employees at our new production site in Mexico accounted for around half of the increase, while acquisitions made by our Hearing Care business accounted for close to the rest.

Hedging activities

The material forward exchange contracts in place as at 30 June 2021 to hedge against the Group's exposure to movements in exchange rates are shown in the table below.

Exchange rate hedging

Currency	Hedging period	Average hedging rate
USD	10 months	627
JPY	10 months	5.82
AUD	10 months	460
GBP	10 months	837
CAD	12 months	486
PLN	9 months	164

Events after the balance sheet date

There have been no events that materially change the assessment of this Interim Report 2021 from the balance sheet date and up to today.

Outlook for 2021

ASSUMPTIONS

Due to coronavirus, our outlook (summarised below) is still subject to greater uncertainty than usual. However, in H1, the global hearing healthcare market recovered strongly and at least in line with expectations, and we still expect to see further gradual recovery in H2. Specifically, we consider the hearing aid market largely normalised in developed markets, except in the large government channels, Veterans Affairs (VA) and the NHS. Supported by the release of some pent-up demand in H2, we expect growth for 2021 as a whole to be close to normal levels in these markets. We believe that we have already seen some tailwind from such release of pent-up demand in Q2 in the US, with more markets likely to follow. We still believe that the normalisation in emerging markets is likely to go beyond 2021.

We assume 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.

While we have seen pressure in some parts of our global supply chain in H1, this has so far not had a material impact on the Group's financial performance. In line with this, our outlook for 2021 assumes no material impact of potential supply chain constraints.

OUTLOOK FOR 2021

In H1, we delivered better-than-expected EBIT thanks to strong business momentum and market share gains in Hearing Healthcare. Based on expectations that this development will continue in H2 – despite tailwind from the French reform not recurring to the same extent as in H1 – we upgrade our guidance for the Group's organic revenue growth rate for 2021 to 26-30% (previously 24-28%). Due to the slowdown in Communications, we now expect this segment to see negative organic growth in H2.

As a result of the upgraded outlook for organic revenue growth, we also upgrade our guidance for Group EBIT for 2021 to DKK 3,150-3,450 million (previously DKK 3,000-3,300 million). In Communications, we expect to realise a negative EBIT for H2, as we will continue to invest in the business as originally planned to support our future growth and market position.

Due to higher expectations in respect of the Group's cash flow in H2, we now expect to buy back shares worth more than DKK 3.0 billion (previously more than DKK 2.5 billion).

Metric	Outlook for 2021
Organic growth	26-30% (previously 24-28%). For Communications, we expect negative organic growth in H2.
Acquisitive growth	1% based on revenue from acquisitions completed as of 11 August 2021.
FX growth	-1% (previously -2%) based on exchange rates as of 11 August 2021 and including the impact of hedging.
EBIT	DKK 3,150-3,450 million (previously DKK 3,000-3,300 million). For Communications, we expect a negative EBIT in H2.
Effective tax rate	Around 23%.
Gearing	Gearing multiple at the end of 2021 in line with medium- to long-term target of 2.0-2.5 (NIBD relative to EBITDA).
Share buy-backs	More than DKK 3.0 billion (previously more than DKK 2.5 billion).

Hearing Healthcare

FINANCIAL REVIEW

Income statement

(DKK million)	H1 2021	H1 2020	H1 2019	Change vs H1 2020	Change vs H1 2019
Revenue	8,391	5,532	7,350	52%	14%
Production costs	-1,973	-1,532	-1,649	29%	20%
Gross profit	**6,418**	**4,000**	**5,701**	**60%**	**13%**
Gross margin	76.5%	72.3%	77.6%		
R&D costs	-564	-540	-552	4%	2%
Distribution costs	-3,807	-3,311	-3,661	15%	4%
Administrative expenses	-422	-376	-415	12%	2%
Share of profit after tax, associates and joint ventures	57	13	12	338%	375%
Operating profit (EBIT)	**1,682**	**-214**	**1,085**	**n.a.**	**55%**
EBIT margin	20.0%	-3.9%	14.8%		

Revenue by business area

(DKK million)	H1 2021	H1 2020	H1 2019	Change vs H1 2020	Change vs H1 2019
Hearing Aids	4,416	2,937	3,852	50%	15%
Hereof sales to Hearing Care	-871	-465	-607	87%	43%
Hearing Care	3,737	2,154	3,128	73%	19%
Hearing implants	266	246	304	8%	-13%
Diagnostics	843	660	673	28%	25%
Hearing Healthcare	**8,391**	**5,532**	**7,350**	**52%**	**14%**

REVENUE

Revenue in our Hearing Healthcare segment amounted to DKK 8,391 million in H1, corresponding to a growth rate of 57% in local currencies with organic growth of 55% and acquisitive growth of 2%. Exchange rate effects were -5%. Compared to 2019, growth in H1 was 17% in local currencies with organic growth of 14% and acquisitive growth of 3%, while the exchange rate effect was -3%.

The very strong performance in H1 was first and foremost driven by the gradual recovery of the hearing healthcare market, particularly the market for hearing aids. Hearing Aids and Hearing Care benefitted from this but also from successful product launches and from the positive impact of the French hearing healthcare reform. Specifically, we estimate that Hearing Healthcare saw a positive impact on revenue of the French reform of around DKK 200 million in H1, which will not recur to the same extent in H2, even if the reform will still support growth compared to previous years.

Diagnostics delivered very strong performance with market share gains and exited H1 with an all-time high number of orders in the order book. Hearing Implants continued to be impacted by coronavirus and the postponement of cochlear implant surgeries.

Growth rates in H1 2021 by business area

		vs 2020	vs 2019
Hearing Aids	Organic	55%	17%
	Acquisitions	0%	1%
	LCY	55%	17%
	FX	-5%	-3%
	Total	**50%**	**15%**
Hearing Care	Organic	72%	15%
	Acquisitions	5%	7%
	LCY	78%	23%
	FX	-4%	-3%
	Total	**74%**	**20%**
Hearing Implants	Organic	11%	-9%
	Acquisitions	0%	1%
	LCY	12%	-8%
	FX	-3%	-4%
	Total	**8%**	**-13%**
Diagnostics	Organic	34%	29%
	Acquisitions	1%	2%
	LCY	35%	31%
	FX	-7%	-6%
	Total	**28%**	**25%**
Hearing Healthcare	Organic	55%	14%
	Acquisitions	2%	3%
	LCY	57%	17%
	FX	-5%	-3%
	Total	**52%**	**14%**

Hearing Healthcare

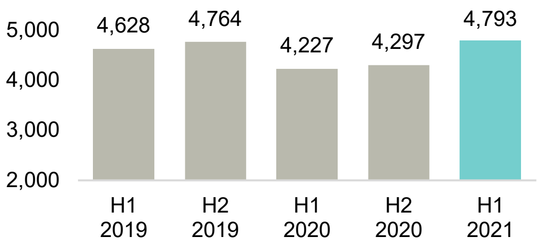
Gross profit

Gross profit increased by 60% on H1 2020 to DKK 6,418 million, resulting in a gross margin of 76.5%. The gross margin was 6.2 percentage points above the margin in H1 2020, due to higher production volumes and a higher share of revenue generated in Hearing Care, which has a structurally higher gross margin than our other business areas. Relative to H1 2019, the gross margin decreased by 1.1 percentage points, driven primarily by dilution due to a higher share of rechargeable devices.

Operating expenses (OPEX)

OPEX totalled DKK 4,793 million in H1, which is an increase of 17% in local currencies compared to H1 last year. The increase in OPEX can be attributed to increased activity levels and to cost savings in the comparative period, including support from government schemes related to coronavirus. The increase was driven mostly by Hearing Care where strong revenue growth resulted in increased sales commissions and salaries to new employees. Also acquisitions drove the higher OPEX.

OPEX by half-year

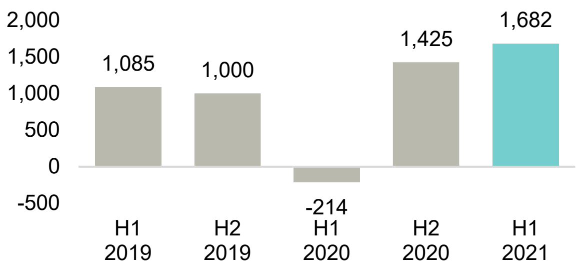


Operating profit (EBIT)

EBIT in H1 amounted to DKK 1,682 million, which compares to an EBIT of DKK -214 million in H1 2020 and corresponds to 55% growth compared to H1 2019. The resulting EBIT margin was 20.0%, which is an increase of 5.2 percentage points compared to H1 2019, partly driven by low comparative figures. Besides revenue growth, the improvement in profitability was driven by material temporary cost savings in H1, which will, however, only have limited impact in H2. Profitability was also supported by the French hearing healthcare reform, which we estimate had a positive impact on EBIT in Hearing Healthcare of around DKK 100 million in H1 that will not recur to the same extent in H2.

Share of profit after tax in associates and joint ventures increased by DKK 44 million and amounted to DKK 57 million in H1, reflecting strong performance by associates in our Hearing Care business.

EBIT by half-year



Management commentary

Market trends

Overall, the hearing healthcare market, which comprises the markets for hearing aids, hearing implants and diagnostic instruments and services, recovered well in H1 2021 and at least in line with expectations, albeit with differences between market segments and regions.

Hearing aid market

Based on available market statistics, covering slightly less than two-thirds of the market, and on our own assumptions, we estimate that the global hearing aid market saw unit growth of around 6% in Q1 and 116% in Q2 compared to the same periods in 2020. In Q2, growth was to a large extent driven by the severe impact of coronavirus on comparative figures. Compared to Q1 and Q2 in 2019, we estimate that unit growth in 2021 was 0% and 12% in Q1 and Q2, respectively, indicating a strong market recovery.

We estimate that compared to 2019 and if measured in units and on a run rate basis, growth in the commercial channels in developed markets was at least in line with the structural level of 4-6% per year at the end of the reporting period, even when excluding France, which has seen extraordinary growth due to the hearing healthcare reform. However, as expected, growth in government channels and emerging markets remained below the normal level.

Estimated hearing aid market unit growth by region

	2021 vs 2020		
Region	**Q1**	**Q2**	**H1**
Europe	10%	130%	52%
North America	9%	182%	61%
Hereof US (commercial)	12%	156%	59%
Hereof US (VA)	-7%	522%	74%
Rest of world	0%	64%	25%
Global	**6%**	**116%**	**45%**

Hearing Healthcare

	2021 vs 2019		
Region	**Q1**	**Q2**	**H1**
Europe	-1%	15%	7%
North America	9%	16%	12%
Hereof US (commercial)	12%	22%	17%
Hereof US (VA)	-7%	3%	-2%
Rest of world	-6%	7%	0%
Global	**0%**	**12%**	**6%**

Relative to the same period in 2019, growth in Europe in H1 2021 was first and foremost driven by extraordinary growth in France due to the full implementation of the hearing healthcare reform. The reform significantly boosted unit sales of products in the lower-priced categories. In the UK, market growth was negative due to the slow recovery of sales to the NHS, whereas the commercial market recovered well towards the end of Q1 and in Q2. Growth in Germany was slightly negative, albeit less negative in Q2 than in Q1, and excluding the extraordinary growth in France, we estimate that overall unit growth in Europe was -15% in Q1 and 1% in Q2 compared to 2019.

In North America, unit growth relative to 2019 saw strong sequential improvement driven by both the US commercial market and Veterans Affairs (VA), as some pent-up demand was released. The growth rate in Canada remained somewhat below the normal level in H1 due to continued restrictions, particularly in Q2.

Looking beyond the US and Europe, we estimate that unit growth in Australia was slightly positive in H1 compared to 2019 and that Japan saw negative growth. We estimate that growth rates in China and South Korea were very strong, whereas emerging markets remained severely impacted by coronavirus.

Hearing implants market

In the cochlear implants (CI) market, activity levels in our core markets in Europe and in a number of emerging markets remained low throughout H1, as elective surgeries were postponed due to coronavirus. However, we began to see signs of improvements in the latter part of the reporting period but expect the path towards full normalisation to be longer than for other areas of hearing healthcare. The market for bone anchored hearing solutions (BAHS) has recovered at a faster pace than the CI market but has yet to fully normalise.

Diagnostics market

Compared with our other markets, the market for diagnostic instruments and services proved relatively resilient in 2020, a trend that continued in H1 this year. We estimate that compared to the same period in 2019, growth in H1 was slightly above the estimated structural growth rate of 3-5% per year, particularly in Q2.

Hearing Aids

In H1 2021, total revenue in Hearing Aids grew by 55% in local currencies, which was entirely attributable to organic growth. Compared to H1 2019, total revenue grew organically by 17%, which was significantly above the market growth rate.

Revenue

	H1 2021	**H1 2020**	**H1 2019**
(DKK million)	4,416	2,937	3,852
Growth		**vs H1 2020**	**vs H1 2019**
Organic		55%	17%
Acquisitions		0%	1%
Local currencies		**55%**	**17%**
FX		-5%	-3%
Total		**50%**	**15%**

Internal revenue from sales to our Hearing Care business area accounted for 20% of total revenue and external sales for the remaining 80%. Our commentary below focuses on total revenue, including revenue from sales through our own retail clinics, and thus pertains to our total wholesale activities.

Revenue and growth in local currencies

				Growth	
(DKK million)	**H1 2021**	**H1 2020**	**H1 2019**	**vs H1 2020**	**vs H1 2019**
Hearing Aids	4,416	2,937	3,852	55%	17%
Hereof sales to external customers	3,545	2,472	3,245	48%	12%
Hereof sales to Hearing Care*	871	465	607	94%	48%

** Revenue from internal sales to Hearing Care is eliminated from the reported revenue for Hearing Healthcare and for the Group, i.e. we only include revenue from external customers. The pricing used in internal transactions is determined on an arm's length basis and thus reflects normal commercial terms.*

Our Hearing Aids business area performed strongly in H1, benefitting from both the market recovery and very positive traction created by our new flagship hearing aids launched at the end of 2020 in all our brands: Oticon, Philips HearLink, Bernafon and Sonic. Sales to independent hearing care professionals, not least in the US, benefitted strongly from the launch of Oticon More, resulting in market share gains in many markets. Driven especially by France, growth was supported by strong sales to our own Hearing Care business area.

Hearing Healthcare

Unit growth and ASP growth in H1 were 50% and 4%, respectively, compared to the same period last year, which was heavily impacted by coronavirus. Compared to H1 2019, revenue growth was driven by ASP growth of 14% due to differences in the pace of recovery between regions with different ASP dynamics. This drove large geography mix effects. Unit growth was more modest at 3%.

Unit and ASP growth in H1 2021

(local currencies)	vs H1 2020	vs H1 2019
Units	50%	3%
ASP	4%	14%
Total	**55%**	**17%**

Compared to H1 2019, North America was the main growth driver in H1 due to a combination of strong market recovery and success in the commercial part of the US where Oticon More was rolled out in January. In addition, Oticon More was launched successfully in VA in May, resulting in market share gains in this important sales channel. In Canada, revenue recovered at a significantly slower pace due to the continued impact of coronavirus-related restrictions in certain regions.

Compared to H1 2019, growth in Europe was solid, albeit lower than in North America. France was the primary positive driver on the back of the hearing healthcare reform, but we also saw strong growth in a number of other markets, including Spain and Scandinavia. In the UK, we saw strong recovery in the private market, but the slow recovery in the NHS was a drag on overall growth. In the large German market, recovery lagged behind recovery in most other European markets.

In Asia, we saw strong growth compared to H1 2019, driven by China, South Korea and a number of smaller markets, whereas continued restrictions in Japan were a drag on revenue growth. Similarly, growth in the Pacific region was strong, driven by both Australia and New Zealand, despite temporary, local restrictions in certain areas in the reporting period. Our *Other countries* region, which mostly comprises emerging markets, remained heavily impacted by coronavirus and as expected, recovery in this region has been slow.

Looking ahead, we are now ready to expand the product line-up of the flagship hearing aid families offered by all our brands, including the Oticon More family, by introducing a new non-rechargeable miniRITE style, which will be available at the three upper price points. All hearing aid brands will also introduce a new CROS solution in a rechargeable miniRITE style. In addition to these new hearing aids, we will introduce a new, portable SmartCharger that fits our latest generation of rechargeable hearing aids.

Hearing Care

In H1 2021, revenue in Hearing Care grew by 78% in local currencies with more than 72% organic growth and slightly more than 5% acquisitive growth. Compared to H1 2019, organic growth was 15% and acquisitive growth 7%.

Revenue

	H1 2021	H1 2020	H1 2019
(DKK million)	3,737	2,154	3,128
Growth		**vs H1 2020**	**vs H1 2019**
Organic		72%	15%
Acquisitions		5%	7%
Local currencies		78%	23%
FX		-4%	-3%
Total		**74%**	**20%**

We saw strong performance in our Hearing Care business area in H1, as markets recovered from coronavirus and as restrictions were gradually eased in most places. Growth was first and foremost driven by France where our strong position enabled us to leverage the strong demand created by the reform. While revenue growth in Hearing Care was mostly driven by unit growth due to low comparative figures for H1 2020, we also saw growth in the ASP driven by the launch of Oticon More.

Generally speaking, increasing vaccination rates supported market recovery in H1. Initially, the US and UK markets recovered at the fastest pace, but a range of other markets saw similar progress in the latter part of the reporting period. Throughout the period, we saw a higher-than-normal share of existing users than new users, but we expect the share of new users to increase gradually in the coming months.

Revenue in North America was below the normal level in H1 on the back of a slow start to the year due to restrictions across the region. In the latter part of the reporting period, we saw significant improvements in the US, whereas renewed restrictions impacted revenue in Canada. Growth in the region was supported by acquisitions, primarily in Canada.

Revenue in Europe was very strong in H1 and above the normal level, driven primarily by extraordinary growth in France. As expected, the extraordinary effect of the French reform gradually faded towards the end of the reporting period, as demand began to trend lower towards a "new normal". However, this level is still well above the demand in previous years. Aside from France, we also saw strong recovery in most other European markets, not least in Ireland and Denmark. However, we continued to see an impact of coronavirus in Sweden and Portugal.

In Australia, revenue recovered strongly at the beginning of H1 and neared normalisation, but temporary, local lockdowns had a negative impact on growth in the latter part of the reporting period.

Hearing Implants

Revenue in Hearing Implants increased by 12% in local currencies in H1, which was attributable to organic growth. Compared to H1 2019, total revenue decreased organically by 9%.

Revenue

	H1 2021	H1 2020	H1 2019
(DKK million)	266	246	304
Growth		**vs H1 2020**	**vs H1 2019**
Organic		11%	-9%
Acquisitions		0%	1%
Local currencies		**12%**	**-8%**
FX		-3%	-4%
Total		**8%**	**-13%**

In H1, our Hearing Implants business area continued to be severely impacted by coronavirus and the resulting widespread postponement of elective surgeries, particularly of cochlear implants (CI). Our CI sales were also hampered by the general prioritisation of paediatric patients, an area where our relative exposure is smaller than in the adult segment. Several of our key CI markets continued to be highly affected by coronavirus, and we also experienced relatively low activity levels in our export markets. However, we saw signs of recovery in most markets towards the end of H1.

Our bone anchored hearing systems (BAHS) business saw positive development, and sales remained less impacted by coronavirus than CI sales and were supported by sales of sound processors, including upgrades for existing users. We saw solid performance in many European markets, but our main markets, the UK and the US, have still not reached pre-coronavirus activity levels.

In spite of the severe impact of coronavirus, we have maintained our commitment to drive innovation. Later this year, we will launch the new Neuro Zti 3T CI, which is approved for 3 Tesla MRI scanning and does not require removal of the magnet in the implant. Furthermore, we have recently obtained FDA pre-market approval of the Neuro system in the US, and we plan to launch it towards the end of the year, which is in line with our previous expectations. In our BAHS business, we expect to launch a new sound processor, the Ponto 5 Mini, later this year, which will take the open sound experience to a whole new level by eliminating audible feedback. The Ponto 5 Mini also allows the use of RemoteCare for convenient online appointments. We will also introduce MONO, the next-generation surgical procedures, which will further enhance clinical efficiency.

Diagnostics

In Diagnostics, revenue increased by 35% in local currencies in H1 driven by 34% organic growth. Compared to H1 2019, total revenue grew organically by 29%.

Revenue

	H1 2021	H1 2020	H1 2019
(DKK million)	843	660	673
Growth		**vs H1 2020**	**vs H1 2019**
Organic		34%	29%
Acquisitions		1%	2%
Local currencies		**35%**	**31%**
FX		-7%	-6%
Total		**28%**	**25%**

The strong growth rate once again underlines the strong momentum in our business thanks to a combination of resilient markets and our continued ability to gain market share. Our order book was at an all-time high at the end of the reporting period.

In terms of geographies, we saw strong performances in most markets, and in the latter part of the reporting period, we saw a positive impact of the release of some of the pent-up demand in many of our markets. The US market was the most significant driver of the strong performance, despite some headwinds in the market for newborn hearing screening services where reimbursements have been reduced compared to previous years.

Growth was broadly based in terms of product categories, with particularly strong performance in the balance category and in newborn hearing screening products, such as devices that measure otoacoustic emissions (OAE) and auditory brainstem response (ABR). We also saw strong growth in the fitting category in Audioscan, in MedRx and in our Affinity Compact line of products from Interacoustics.

Communications

Financial review

Income statement

(DKK million)	H1 2021	H1 2020	H1 2019*	Change vs H1 2020	Change vs H1 2019
Revenue	621	546	-	14%	-
Production costs	-321	-291	-	10%	-
Gross profit	**300**	**255**	**-**	**18%**	**-**
Gross margin	48.3%	46.7%	-		
R&D costs	-91	-78	-	17%	-
Distribution costs	-233	-144	-	62%	-
Administrative expenses	-20	-12	-	67%	-
Share of profit after tax, associates and joint ventures	-	-	28	-	-100%
Operating profit (EBIT)	**-44**	**21**	**28**	**-310%**	**-257%**
EBIT margin	-7.1%	3.8%	n.a.		

** The EBIT in 2019 relates to the Group's share of profit after tax in our former joint venture, Sennheiser Communications, which was demerged and consolidated as Communications (EPOS) with financial effect from 1 January 2020.*

Revenue

In H1, revenue in Communications amounted to DKK 621 million, corresponding to 16% growth in local currencies, all of which was organic growth. Exchange rate effects were -2%. Growth was primarily driven by the Gaming business and was extremely mixed in the reporting period with very high double-digit organic growth in the first months of the year, which slowed significantly from around the middle of the reporting period. Please refer to the management commentary on page 15 for more details.

Growth rates in H1 2021

		vs 2020	vs 2019
Communications	Organic	16%	n.a.
	Acquisitions	0%	n.a.
	LCY	16%	n.a.
	FX	-2%	n.a.
	Total	**14%**	**n.a.**

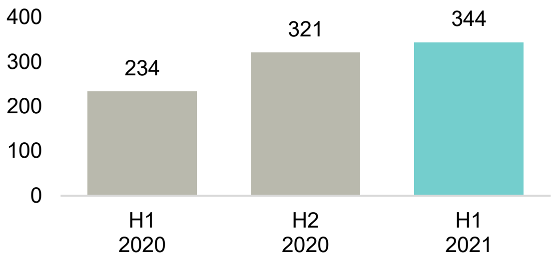
Gross profit

Gross profit was DKK 300 million in H1, resulting in a gross margin of 48.3%. This is an improvement of 1.6 percentage points compared to H1 2020 where the high demand for USB headsets, which have a relatively lower gross margin, had a dilutive effect on the gross margin. On a sequential basis, the gross margin in H1 2021 was lower than in H2 last year, primarily due to lower revenue.

Operating expenses (OPEX)

OPEX amounted to DKK 344 million in H1, corresponding to a growth rate of 47% compared to H1 2020. The significant OPEX growth reflects our continuous investments in the business in order to further establish the EPOS brand as a leading premium provider among customers and end-users. The main driver of the OPEX increase are distribution costs, which include sales and marketing activities. R&D costs have also increased, as we continue to innovate and expand our product portfolio.

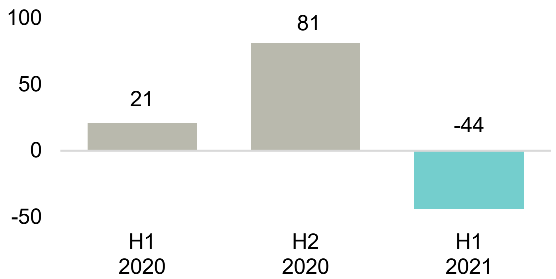
OPEX by half-year (DKK million)



Operating profit (EBIT)

The combination of a slowdown in revenue and continuous investments in R&D, branding and distribution resulted in an EBIT for H1 of DKK -44 million, corresponding to an EBIT margin of -7.1%. With the slowdown that we have seen in revenue – which we consider temporary – we also expect to see a negative EBIT in Communications in H2.

EBIT by half-year (DKK million)



Communications

Management commentary

Market trends

Growth in the market for gaming and enterprise solutions was very mixed in H1. From the beginning of the year and until around mid-March, the market saw very high growth due to a combination of continued strong momentum and low comparative figures for 2020, which had not yet been boosted by coronavirus. However, as previously communicated, we estimate that market growth decelerated from around mid-March driven by both a significantly higher comparative base and a softening of the extraordinary demand seen in the wake of the working-from-home trend – particularly when it comes to low-priced wired headsets.

The softening seems partly driven by uncertainties as to when and how staff will return to corporate offices, which has caused hesitation among some customers. We estimate that the deceleration was more pronounced in Europe than in the US and Asia.

While the high comparative base will last for the remainder of the year, we expect the softening demand to be temporary, as we consider the fundamental growth drivers of the market to be fully intact.

Communications (EPOS)

As outlined above, revenue in Communications grew by 16% in local currencies in H1, which is entirely attributable to organic growth. At the beginning of the reporting period, growth was extraordinarily high due to a combination of strong market momentum, a strong order backlog and – particularly in our Gaming business – low comparative figures. However, we then began to see a softening in the number of new orders, which continued throughout the reporting period. This softening is partly explained by adjustment of inventories in our sales channels, and even though we consider it a temporary slowdown, it will also have a negative impact on growth in H2.

In terms of geographies, revenue growth in H1 was driven by Europe, which continues to account for most of the revenue generated by Communications, and by Asia, whereas we experienced slower momentum in the US. We continue to invest in building brand awareness for the EPOS brand among our customers and end-users. This includes a large number of online activities as well as our recent partnership with the Aston Martin F1 team, which is helping us further establish the EPOS brand in the premium segment.

We follow an ambitious product roadmap with several large product launches to come within both Gaming and Enterprise Solutions. Furthermore, we recently entered the attractive and growing market for video solutions by launching our video conferencing solution, EPOS EXPAND Vision 3T. The growth contribution of this product has been marginal in the reporting period, but the launch is an important milestone in our journey towards becoming a full-suite supplier of state-of-the-art unified collaboration and communication solutions for professionals.

Management statement

We have today discussed and approved this Interim Report 2021 for Demant A/S.

Interim Report 2021 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. Interim Report 2021 has not been audited or reviewed by our auditors.

In our opinion, Interim Report 2021 gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2021 as well as of the results of our activities and cash flows for the first six months of 2021.

We also believe that the financial review and management commentary contain a fair review of the development in the Group's business and financial position, the results for the period and the Group's financial position as a whole as well as a description of the principal risks and uncertainties facing Demant A/S.

Smørum, 12 August 2021

Executive Board:

Søren Nielsen
President & CEO

René Schneider
CFO

Board of Directors:

Niels B. Christiansen
Chairman

Niels Jacobsen
Deputy Chairman

Thomas Duer

Casper Jensen

Anja Madsen

Jørgen Møller Nielsen

Sisse Fjelsted Rasmussen

Kristian Villumsen

Consolidated income statement

(DKK million)	H1 2021	H1 2020	Full year 2020
Revenue	9,012	6,078	14,469
Production costs	-2,294	-1,932	-4,276
Gross profit	**6,718**	**4,146**	**10,193**
R&D costs	-655	-618	-1,261
Distribution costs	-4,040	-3,492	-7,067
Administrative expenses	-442	-388	-840
Share of profit after tax, associates and joint ventures	57	466	505
Operating profit (EBIT)	**1,638**	**114**	**1,530**
Financial income	20	18	38
Financial expenses	-122	-106	-232
Profit before tax	**1,536**	**26**	**1,336**
Tax on profit for the period	-353	95	-202
Profit for the period	**1,183**	**121**	**1,134**
Profit for the period attributable to:			
Demant A/S' shareholders	1,174	119	1,121
Non-controlling interests	9	2	13
	1,183	**121**	**1,134**
Earnings per share (EPS), DKK	4.94	0.50	4.68
Diluted earnings per share (DEPS), DKK	4.94	0.50	4.68

Consolidated statement of comprehensive income

(DKK million)	H1 2021	H1 2020	Full year 2020
Profit for the period	**1,183**	**121**	**1,134**
Items that have been or may subsequently be reclassified to the income statement:			
Foreign currency translation adjustments, subsidiaries	204	-146	-467
Value adjustments of hedging instruments:			
Value adjustments for the period	-92	14	110
Value adjustments transferred to revenue	-1	22	-12
Tax on items that have been or may subsequently be reclassified to the income statement	21	-9	-3
Items that have been or may subsequently be reclassified to the income statement	**132**	**-119**	**-372**
Items that will not subsequently be reclassified to the income statement:			
Actuarial gains/losses on defined benefit plans	-	-	-2
Tax on items that will not subsequently be reclassified to the income statement	-	-	10
Items that will not subsequently be reclassified to the income statement	**-**	**-**	**8**
Other comprehensive income	**132**	**-119**	**-364**
Comprehensive income	**1,315**	**2**	**770**
Comprehensive income attributable to:			
Demant A/S' shareholders	1,306	-	757
Non-controlling interests	9	2	13
	1,315	**2**	**770**

Consolidated balance sheet

(DKK million)	H1 2021	H1 2020	Full year 2020
Assets			
Goodwill	8,902	8,759	8,320
Patents and licences	11	16	12
Other intangible assets	540	535	489
Prepayments and assets under development	256	222	283
Intangible assets	**9,709**	**9,532**	**9,104**
Land and buildings	1,003	869	980
Plant and machinery	219	224	217
Other plant, fixtures and operating equipment	357	339	350
Leasehold improvements	413	412	411
Prepayments and assets under construction	176	241	181
Property, plant and equipment	**2,168**	**2,085**	**2,139**
Leased assets	2,024	1,785	1,847
Investments in associates and joint ventures	853	715	833
Receivables from associates and joint ventures	273	235	247
Other investments	11	16	14
Other receivables	506	531	503
Deferred tax assets	544	757	553
Other non-current assets	**4,211**	**4,039**	**3,997**
Non-current assets	**16,088**	**15,656**	**15,240**
Inventories	2,088	1,936	1,968
Trade receivables	3,140	2,518	2,808
Receivables from associates and joint ventures	95	69	111
Income tax	72	81	63
Other receivables	542	581	441
Unrealised gains on financial contracts	26	27	81
Prepaid expenses	307	280	263
Cash	1,221	919	952
Current assets	**7,491**	**6,411**	**6,687**
Assets	**23,579**	**22,067**	**21,927**

Consolidated balance sheet

(DKK million)	H1 2021	H1 2020	Full year 2020
Equity and liabilities			
Share capital	48	48	48
Other reserves	7,716	7,392	8,202
Equity attributable to Demant A/S' shareholders	**7,764**	**7,440**	**8,250**
Equity attributable to non-controlling interests	32	9	29
Equity	**7,796**	**7,449**	**8,279**
Borrowings	3,376	2,427	3,499
Lease liabilities	1,586	1,425	1,437
Deferred tax liabilities	307	321	339
Provisions	316	298	305
Other liabilities	319	276	313
Deferred income	410	375	381
Non-current liabilities	**6,314**	**5,122**	**6,274**
Borrowings	5,284	5,959	3,612
Lease liabilities	491	406	456
Trade payables	753	643	802
Payables to associates and joint ventures	-	-	5
Income tax	308	157	131
Provisions	34	77	17
Other liabilities	2,011	1,677	1,801
Unrealised losses on financial contracts	52	21	14
Deferred income	536	556	536
Current liabilities	**9,469**	**9,496**	**7,374**
Liabilities	**15,783**	**14,618**	**13,648**
Equity and liabilities	**23,579**	**22,067**	**21,927**

Consolidated cash flow statement

(DKK million)	H1 2021	H1 2020	Full year 2020
Operating profit (EBIT)	1,638	114	1,530
Non-cash items etc.	509	364	855
Change in receivables etc.	-397	357	266
Change in inventories	-93	-54	-73
Change in trade payables and other liabilities etc.	53	-42	236
Change in provisions	52	62	41
Dividends received	42	20	41
Cash flow from operating profit	**1,804**	**821**	**2,896**
Financial income etc. received	14	11	20
Financial expenses etc. paid	-123	-109	-232
Realised foreign currency translation adjustments	-	-1	-2
Income tax paid	-184	7	-61
Cash flow from operating activities (CFFO)	**1,511**	**729**	**2,621**
Acquisition of enterprises, participating interests and activities	-406	-293	-394
Investments in and disposal of intangible assets	-71	-85	-174
Investments in property, plant and equipment	-211	-246	-507
Disposal of property, plant and equipment	8	4	14
Investments in other non-current assets	-151	-104	-219
Disposal of other non-current assets	148	191	288
Cash flow from investing activities (CFFI)	**-683**	**-533**	**-992**
Repayments of borrowings	-2,266	-97	-82
Proceeds from borrowings	2,500	1,180	1,446
Change in short-term bank facilities	1,270	-717	-2,157
Repayment of lease liabilities	-257	-221	-442
Dividends to non-controlling interests	-5	-2	-3
Share buy-backs	-1,813	-197	-197
Cash flow from financing activities (CFFF)	**-571**	**-54**	**-1,435**
Cash flow for the period, net	**257**	**142**	**194**
Cash and cash equivalents at the beginning of the period	952	792	792
Foreign currency translation adjustments of cash and cash equivalents	12	-15	-34
Cash and cash equivalents at the end of the period	**1,221**	**919**	**952**
Breakdown of cash and cash equivalents at the end of the period:			
Cash	1,221	919	952
Cash and cash equivalents at the end of the period	**1,221**	**919**	**952**

Consolidated statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	Demant A/S' shareholders' share	Non-controlling interests' share	Equity
Equity at 1.1.2021	**48**	**-414**	**55**	**8,561**	**8,250**	**29**	**8,279**
Comprehensive income for the period:							
Profit for the period	-	-	-	1,174	1,174	9	1,183
Other comprehensive income:							
Foreign currency translation adjustments, subsidiaries	-	204	-	-	204	-	204
Value adjustments of hedging instruments:							
Value adjustments for the period	-	-	-91	-	-91	-	-91
Value adjustments transferred to revenue	-	-	-1	-	-1	-	-1
Tax on other comprehensive income	-	-1	22	-	21	-	21
Other comprehensive income	**-**	**203**	**-70**	**-**	**133**	**-**	**133**
Comprehensive income for the period	**-**	**203**	**-70**	**1,174**	**1,307**	**9**	**1,316**
Share buy-backs	-	-	-	-1,813	-1,813	-	-1,813
Share-based compensation	-	-	-	27	27	-	27
Transactions with non-controlling interests	-	-	-	-	-	-5	-5
Non-controlling interest on acquisitions	-	-	-	-7	-7	-1	-8
Equity at 30.06.2021	**48**	**-211**	**-15**	**7,942**	**7,764**	**32**	**7,796**

Consolidated statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	Demant A/S' shareholders' share	Non-controlling interests' share	Equity
Equity at 1.1.2020	**49**	**34**	**-21**	**7,574**	**7,636**	**9**	**7,645**
Comprehensive income for the period:							
Profit for the period	-	-	-	119	119	2	121
Other comprehensive income:							
Foreign currency translation adjustments, subsidiaries	-	-146	-	-	-146	-	-146
Value adjustments of hedging instruments:							
Value adjustments for the period	-	-	14	-	14	-	14
Value adjustments transferred to revenue	-	-	22	-	22	-	22
Tax on other comprehensive income	-	-	-9	-	-9	-	-9
Other comprehensive income	**-**	**-146**	**27**	**-**	**-119**	**-**	**-119**
Comprehensive income for the period	**-**	**-146**	**27**	**119**	**-**	**2**	**2**
Share buy-backs	-	-	-	-197	-197	-	-197
Share-based compensation	-	-	-	1	1	-	1
Capital reduction through cancellation of treasury shares	-1	-	-	1	-	-	-
Other changes in equity	-	-	-	-	-	-2	-2
Equity at 30.06.2020	**48**	**-112**	**6**	**7,498**	**7,440**	**9**	**7,449**

Note 1 – Acquisition of enterprises and activities

(DKK million)	Hearing Healthcare North America	Hearing Healthcare Europe	H1 2021	H1 2020
Intangible assets	1	4	5	14
Property, plant and equipment	2	2	4	19
Other non-current assets	14	59	73	20
Inventories	1	2	3	42
Current receivables	3	4	7	120
Cash and cash equivalents	10	3	13	40
Non-current liabilities	-13	-54	-67	-23
Current liabilities	-9	-16	-25	-201
Acquired net assets	**9**	**4**	**13**	**31**
Goodwill	192	245	437	997
Acquisition cost	**201**	**249**	**450**	**1,028**
Carrying amount of non-controlling interests on obtaining control	-6	-5	-11	-229
Fair value adjustment of non-controlling interests on obtaining control	0	1	1	-456
Contingent considerations and deferred payments	-13	-60	-73	-51
Acquired cash and bank debt	-10	-3	-13	-40
Cash acquisition cost	**172**	**182**	**354**	**252**

In H1 2021, the Group acquired a number of minor retail entities in North America and Europe. In respect of these acquisitions, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

At the time of acquisition, non-controlling interests' shares of acquisitions were measured at their proportionate shares of the total fair value of the acquired entities, including goodwill. On obtaining a controlling interest through step acquisitions, previously held non-controlling interests are at the time of obtaining control included at fair value with fair value adjustments in the income statement.

In H1 2021, a few adjustments were made to the preliminary recognition of acquisitions made in 2020. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 5 million (DKK 1 million in H1 2020), and the impact on contingent considerations was DKK 7 million (DKK 0 million in H1 2020). In relation to acquisitions with final recognition in 2014-2020, adjustments were made in 2021 in respect of estimated contingent considerations. Such adjustments are recognised in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK 1 million (DKK 456 million in H1 2020). Adjustments of contingent considerations made via the income statement of DKK 3 million (DKK 16 million in H1 2020) are recognised under *Distribution cost for acquisitions*, and in respect of associates and joint ventures, DKK 0 million (DKK 5 million in H1 2020) is recognised under *Share of profit after tax, associates and joint ventures*.

Of total acquisition costs in the reporting period, the fair value of estimated contingent considerations in the form of earnouts or deferred payments accounted for DKK 73 million (DKK 51 million in H1 2020). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 73 million (DKK 53 million in H1 2020) for acquisitions.

Note 1 – Acquisition of enterprises and activities

The acquired assets include contractual receivables amounting to DKK 3 million (DKK 100 million in H1 2020) of which DKK 0 million (DKK 1 million in H1 2020) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 437 million (DKK 997 million in H1 2020), DKK 354 million (DKK 40 million in H1 2020) can be amortised for tax purposes.

Transaction costs in connection with acquisitions made in 2021 amounted to DKK 4 million (DKK 0 million in H1 2020) and are recognised under *Distribution costs*.

Revenue and profit generated by the acquired enterprises since our acquisition in 2021 amount to DKK 65 million (DKK 590 million in H1 2020) and DKK 5 million (DKK 17 million in H1 2020), respectively. Had such revenue and profit been consolidated on 1 January 2021, we estimate that consolidated pro forma revenue and profit would have been DKK 9,042 million (DKK 6,086 million in H1 2020) and DKK 1,184 million (DKK 121 million in H1 2020), respectively. Without taking synergies with our core business into account, we believe that these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises.

The above statements of the fair values of acquisitions are not considered final until 12 months after takeover. From the balance sheet date and until the date of publication of this Interim Report 2021, we have acquired additional distribution enterprises. We are in the process of estimating their fair value. The acquisition costs are expected to relate primarily to goodwill.

Note 2 – Accounting policies and estimates

This Interim Report 2021 is presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. We have not prepared a separate interim report for the Parent. The report is presented in Danish kroner (DKK), which is the functional currency of the Parent. The accounting policies used for this Interim Report 2021 are the same as the accounting policies used for our Annual Report 2020 to which we refer for a full description. The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU, effective for the accounting period beginning on 1 January 2021. The amendments, revised standards and interpretations have not had a significant effect.