

# Company announcement<sup>no 2022-10</sup>

## Interim Management Statement covering Q1 2022

3 May 2022

**Group revenue growth of 9% in Q1 driven by very strong performances by Hearing Aids and Diagnostics**  
**Continuing market share gains in the hearing aid market thanks to expansion of product portfolio**  
**Hearing Implants reported as a discontinued operation following announced intention to divest the business**  
**Outlook for 2022 maintained despite impact on full-year EBIT of approx. DKK -100 million related to Russia**

*As previously announced, starting with this Interim Management Statement, the Group will report quarterly revenue and growth rates by business area, by segment and for the Group as a whole. In line with previous years, full income statements, balance sheets and cash flow statements will only be reported on a half-year basis.*

Business area	Revenue (DKK million)		Growth				
	Q1 2022	Q1 2021	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids	2,351	2,159	9%	-2%	7%	2%	9%
<i>Hereof sales to Hearing Care</i>	<i>-441</i>	<i>-459</i>	<i>-11%</i>	<i>4%</i>	<i>-7%</i>	<i>3%</i>	<i>-4%</i>
Hearing Care	1,898	1,731	2%	5%	7%	3%	10%
Diagnostics	503	402	19%	1%	19%	6%	25%
<b>Hearing Healthcare</b>	<b>4,311</b>	<b>3,833</b>	<b>9%</b>	<b>1%</b>	<b>10%</b>	<b>3%</b>	<b>13%</b>
<b>Communications</b>	<b>292</b>	<b>381</b>	<b>-25%</b>	<b>0%</b>	<b>-25%</b>	<b>2%</b>	<b>-23%</b>
<b>Group</b>	<b>4,603</b>	<b>4,214</b>	<b>6%</b>	<b>1%</b>	<b>7%</b>	<b>3%</b>	<b>9%</b>

- In Q1, the **Group** generated organic growth of 6% with additional growth of 1% from acquisitions and of 3% from exchange rate effects. Total reported revenue growth for the Group was 9%.
- **Hearing Healthcare** saw organic growth of 9% driven by very strong performances by Hearing Aids and Diagnostics. Hearing Aids continued to gain market share following a successful expansion of the latest product families into more form factors and price points. Growth was driven by higher unit sales, whereas ASP growth was negative, as expected, due to product and channel mix changes. Hearing Care saw solid organic growth in most markets but was negatively impacted – albeit to a lesser extent than anticipated – by very high comparative figures in France due to the hearing healthcare reform implemented last year. In Q1, acquisitions in Hearing Care also contributed considerably to growth. Diagnostics continued its very strong momentum from last year.
- **Communications** saw organic growth of -25% due to very high comparative figures. Performance was largely in line with our plans driven by Enterprise Solutions, but in Gaming, supply chain challenges had a negative impact on the sale of specific product families.
- The Group's **gross margin** was in line with expectations as it remained negatively impacted by the dynamic supply chain situation. We estimate that this impact amounted to around 0.5 percentage point, primarily relating to higher freight costs.
- **OPEX** was in line with our plans, and at this stage, we see no material inflationary pressures beyond initial expectations. The Group's OPEX saw low double-digit growth in local currencies, with part of this growth reflecting the previously flagged temporary cost savings in the comparative period, which totalled approx. DKK 150-200 million for H1 2021 as a whole.
- As a result of the war in Ukraine and the current halt in sales to Russia, Belarus and the provinces of Donetsk and Luhansk, we expect the Group's EBIT to be negatively impacted by around DKK 100 million in 2022. This mostly comprises lost sales to the directly affected countries for the rest of the year, which account for less than 1% of the Group's total revenue, with only small realisable cost savings. It also comprises a provision for expected losses on all trade receivables, which has been recognised in distribution costs in Q1. The negative EBIT impact is expected to have full cash flow effect.

- In spite of a negative impact of the war in Ukraine, the Group's **EBIT** was in line with expectations driven by Hearing Aids and Diagnostics. Exchange rate effects also contributed positively to the Group's EBIT in Q1. In line with expectations, Communications realised a negative EBIT.
- On 4 March 2022, we completed the acquisition of 20% of **ShengWang**, a leading hearing care network in China with around 500 clinics. We still expect to complete the acquisition of the remaining 80% of ShengWang before the end of H1 2022 at which point details of the financial impact of the transaction will be disclosed.
- As announced on 27 April 2022, the Group intends to divest its **Hearing Implants** business to Cochlear Limited, and Hearing Implants is therefore recognised separately as a discontinued operation. Consequently, Hearing Implants is no longer reported as part of the Hearing Healthcare segment, and comparative figures are restated to reflect this. In Q1, Hearing Implants saw growth in line with expectations, but in the period until closing of the transaction, growth is expected to be negatively impacted by the announcement of the transaction.
- As of 31 March 2022, we had bought back shares worth DKK 817 million.

## Outlook for 2022

Our outlook for 2022, which is summarised in the table below, remains unchanged except for the FX growth, which is updated to reflect current exchange rates.

Metric	Outlook for 2022
Organic growth	5-9%
Acquisitive growth	1% based on revenue from acquisitions completed as of 2 May 2022
FX growth	4% based on exchange rates as of 2 May 2022 and including the impact of hedging
EBIT	DKK 3,600-3,900 million
Effective tax rate	22-23%
Gearing	Gearing (NIBD relative to EBITDA) in line with medium- to long-term target of 2.0-2.5
Share buy-backs	At least DKK 2.5 billion
Profit after tax from discontinued operations	Negative by DKK 150-200 million

The outlook continues to be based on a number of key assumptions, which remain unchanged except for comments in bold below:

- The hearing healthcare market to normalise in 2022, resulting in unit growth in the hearing aid market of 4-6% and additional growth due to the release of some pent-up demand, albeit with significant differences between individual markets and channels. Such differences will not least be driven by different comparative bases going into 2022. Due to changes in geography and channel mixes, we expect ASP growth in the hearing aid market to be slightly more negative in 2022 than the normal 1-2% annual decline.
- Growth in the French hearing aid market to be negative in 2022 following the extraordinary demand in 2021, which we estimate benefitted the Group's revenue by DKK 300 million and EBIT by DKK 150 million. We do not expect this benefit to recur. **Following the positive momentum in Q1, the French hearing aid market could develop slightly more favorably in 2022 than initially anticipated.**
- **The market for enterprise and gaming headsets and video solutions to grow below the estimated structural growth level of around 12% due to the current supply chain situation.**
- Both segments, Hearing Healthcare and Communications, to gain market share in 2022.
- Supply chain situation to remain dynamic throughout the year and to result in higher-than-normal component costs and freight charges with an impact that is roughly similar to the impact in 2021, but with no material disruption to sales activities.
- The Group's OPEX base to see no benefit from temporary cost savings in 2022, which we estimate amounted to DKK 150-200 million in H1 2021.
- Communications to realise a slightly negative EBIT in 2022.
- **Planned divestment of Hearing Implants to close at the end of 2022.**

*“Today, on the backdrop of an eventful beginning of 2022 with uncertainties impacting businesses all over the world, we announce a strong first quarter for Demant with particularly strong growth in our Hearing Aids and Diagnostics business areas. During the quarter, we have demonstrated that we are very successful when it comes to bringing attractive products and services to market and constantly staying relevant to our customers and users. We will continue to do so, and despite expecting a negative impact of the halt in sales activities in Russia, we maintain our financial outlook for 2022, which reflects very solid growth and profit. Our constantly changing surroundings as well as our own strategic decisions, such as our recently announced intention to divest our Hearing Implants business, more than anything demonstrate that our ability to act dynamically is a prerequisite for success,”* says Søren Nielsen, President & CEO of Demant.

Demant will host a conference call on 3 May 2022 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 70596694#. A presentation for the call will be uploaded to [www.demant.com](http://www.demant.com) shortly before the call.

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## Hearing Healthcare

### Market trends

Overall, the hearing healthcare market that we address, which now comprises the markets for hearing aids and diagnostic instruments and services, saw very solid growth in Q1, albeit with large differences between regions.

#### *Hearing aid market*

Based on available market statistics, covering slightly less than 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 12% in Q1 compared to the same period in 2021. The market saw significant growth in public channels, such as the NHS and Veterans Affairs (VA), which had lower comparative bases than commercial channels. Generally, we continue to see large differences between individual markets and channels of which some remain below normal and others above normal supported by pent-up demand. We estimate that such geography and channel mix changes resulted in a negative development in the market's ASP, which is in line with expectations.

#### Estimated hearing aid market unit growth by region

Region	2021					2022
	Q1	Q2	Q3	Q4	Total	Q1
Europe	10%	130%	12%	14%	30%	20%
North America	9%	182%	18%	16%	35%	8%
<i>Hereof US (commercial)</i>	12%	156%	17%	15%	34%	6%
<i>Hereof US (VA)</i>	-7%	522%	52%	22%	51%	19%
Rest of world	0%	64%	11%	8%	16%	4%
<b>Global</b>	<b>6%</b>	<b>116%</b>	<b>14%</b>	<b>13%</b>	<b>27%</b>	<b>12%</b>

Compared to the same period in 2021, unit growth in Europe in Q1 was very strong with positive developments in most countries. In the UK, market growth was extraordinarily high, and especially the NHS saw strong growth, which can be attributed to very low comparative figures, and the commercial market remained strong. Germany continued the recovery seen in recent quarters and saw strong growth against low comparative figures. In France, market growth was slightly positive despite the extraordinary positive impact last year of the hearing healthcare reform.

Unit growth in North America was solid in Q1 and was predominantly driven by a rebound in VA. The commercial part of the market remained above the normal level despite regional flare-ups of coronavirus infections, which negatively affected growth in the early part of Q1. Unit growth in Canada remained on a solid trend in Q1 and the market was in line with the normal level.

In Australia, unit growth was slightly positive in Q1 compared to the same period last year, despite coronavirus restrictions limiting market growth. In Japan, growth was also slightly positive compared to last year, but the market remained below the pre-pandemic level in Q1 2019. We estimate that growth rates in China and South Korea were negative in Q1. For China specifically, the year started on a solid trajectory, but recent lockdowns and coronavirus-related restrictions significantly affected growth towards the end of Q1, and we estimate that the activity level is currently materially lower than normal with large regional variations.

We continue to expect that the long-awaited over-the-counter (OTC) category of hearing aids will be finalised by the US Food and Drug Administration (FDA) in 2022. As previously communicated, the content of the proposed rule does not change our fundamental belief in the importance of providing a combination of personal counselling, individual fitting, life-long service and highly advanced technology, but the new category may supplement the existing hearing aid categories well.

#### *Diagnostics market*

The market for diagnostic instruments and services remains very resilient. We estimate that, compared to the same period last year, the market growth rate in Q1 was above the estimated structural annual growth rate of 3-5%.

## Hearing Aids

Our Hearing Aids business delivered a very strong performance in Q1 with organic growth of 9%. Growth from acquisitions was -2% due to the divestment in October 2021 of FrontRow Calypso LLC, whereas exchange rate effects were 2%.

Revenue	Revenue (DKK million)		Growth				
	Q1 2022	Q1 2021	Organic	Acquisitive	LCY	FX	Reported
Total revenue	2,351	2,159	9%	-2%	7%	2%	9%
Internal sales to Hearing Care	441	459	-11%	4%	-7%	3%	-4%
Sales to external customers	1,910	1,700	14%	-4%	11%	2%	12%

Organic growth was driven by very strong sales to external customers, which grew organically by 14% thanks to high unit sales in emerging markets and to the NHS, which recovered significantly from a low comparative base in 2021. We also saw strong momentum in most European markets. Internal sales to Hearing Care accounted for 19% of total revenue in Hearing Aids, but growth was negative due to high comparative numbers last year. In line with our expectations, growth was entirely driven by an increase in unit sales, whereas the ASP declined due to material differences in momentum between individual regions and channels.

Hearing Aids continued to gain market share following a successful expansion of the latest product families, Oticon More, Philips HearLink, Bernafon Alpha and Sonic Radiant, in more form factors and price points. In Q1, all our four hearing aid brands introduced new miniBTE form factors and expanded all currently available form factors into the mid-priced product categories.

In Europe, we saw strong growth in Q1 driven particularly by the significant recovery in sales to the NHS after having been heavily impacted by coronavirus in the comparative period. Commercial sales in the UK continued to see strong momentum, as did sales in Italy and to a lesser extent in France. The impact of the current halt in sales to Russia, Belarus and the provinces of Donetsk and Luhansk only had very limited impact on growth in Q1, but this halt in sales is nonetheless expected to be a slight drag on growth throughout 2022.

North America delivered solid revenue growth driven by sales to VA – where our unit market share has increased from 10.5% in March 2021 to 15.1% in March 2022 – but also by continuing strong momentum in sales to Costco and independents. Canada also delivered solid growth in Q1.

Growth in the Asia and Pacific regions was impacted by new coronavirus-related restrictions in some of the large markets. China was impacted most significantly, and with lockdowns extending into April and the beginning of May – most importantly in Shanghai, which is a hub for our Chinese activities – our current run rate in China is very low. Japan, South Korea and Australia were also impacted by continuing restrictions. Sales to our *Other countries* region, which mostly comprises emerging markets, saw very strong growth in Q1 driven by good commercial momentum and significant, broadly based market recoveries.

## Hearing Care

In Q1, Hearing Care saw good momentum and delivered organic growth of 2% despite high comparative figures in France following the healthcare reform implemented in 2021. Driven by the US and Canada, growth from acquisitions was 5%, and exchange rate effects were 3%. In Q1, we continued to see a slightly negative impact of coronavirus in some markets, leading to an increase in the number of cancelled appointments, but we believe that this effect is only temporary, and many appointments have quickly been rescheduled.

Europe was the biggest contributor to growth in Q1, driven by positive performances in most markets. France was a slight drag on growth following the significant tailwind we experienced last year due to the hearing healthcare reform, but the impact was less negative than anticipated. We have also seen good performances in Spain and Poland and in a number of other European countries.

North America delivered slightly negative organic growth in Q1, which was due to the US where high coronavirus infection rates at the beginning of the year resulted in an increased number of cancelled appointments and difficulties in fully staffing clinics. Also, the strategic decision to reduce the share of sales related to managed care had a negative impact on growth but a neutral impact on profit. Canada delivered positive organic growth, and acquisitions in both the US and Canada contributed meaningfully to growth.

In Australia, revenue was negatively impacted by lockdowns and coronavirus-related restrictions in early Q1, which were, however, lifted during the period. We also experienced a negative impact of floodings in some areas, resulting in clinics being temporarily closed. In the last part of Q1, revenue returned to more normal levels in the region.

## **Diagnostics**

Following an impressive 2021, Diagnostics delivered very strong organic growth of 19% in Q1 and continued to gain market share. In addition, we realised growth of 1% from acquisitions and 6% from exchange rate effects. Growth was broadly based across all regions, and the order intake continued to be strong. The US is still the biggest single contributor to growth, but we also saw positive developments in Europe, driven by the UK and Denmark, and in Australia. Towards the end of Q1, sales to China were negatively impacted by reimposed coronavirus-related restrictions.

In terms of product categories, Diagnostics generated growth in all product categories, with the biggest contribution to growth coming from our instruments for hearing aid fitting and balance testing.

## **Communications**

### **Market trends**

Following very strong developments in the comparative period, we estimate that the market for gaming and enterprise solutions saw negative growth in Q1. The decline in the market was, and continues to be, exacerbated by the ongoing supply chain situation, impacting especially wireless products. We believe that the gaming market is also seeing some impact of the general weakening of consumer spending, but that demand for enterprise solutions remains solid.

As a result of the ongoing supply chain situation, the market for enterprise and gaming headsets and video solutions is expected to see growth in 2022 below the estimated structural level of around 12%. However, in the medium- to long-term, we still consider the fundamental growth drivers of the market to be fully intact and we continue to expect the structural market growth rate to be around 12%.

### **Communications (EPOS)**

The Communications business area, which operates under the EPOS brand, saw organic growth of -25% in Q1. Exchange rate effects amounted to 2%. Growth was significantly impacted by the high comparative base following a very strong Q1 2021. Geographically, Europe saw the most negative growth rate, whereas the US and Asia performed better.

The negative growth was most pronounced in Gaming where user demand for low-end products, high inventories in the sales channels and supply chain challenges for certain product families were all a drag on growth. In Q1, Enterprise Solutions saw solid performance, which was broadly based across geographies, but with Europe as the most prominent growth driver. We saw a positive development in the order intake, and our backlog increased from the end of 2021.