

Company announcement no 2023-02

Annual Report 2022

7 February 2023

Group revenue growth of 10% (4% organic) in 2022 despite macroeconomic and geopolitical headwinds
Market share gains in Hearing Aids and Diagnostics helped offset impact of weaker-than-expected markets
EBIT of DKK 3,207 million in 2022, corresponding to an EBIT margin of 16.3%
Outlook for 2023: Organic growth of 3-7% and EBIT of DKK 3,600-4,000 million

“Demant entered 2022 with optimism and an ambitious plan, but during the year, the good momentum lost pace as both the hearing healthcare and the audio technology markets – to varying degrees – faced an unstable macroeconomic environment. Unfortunately, this had an adverse impact on our overall results, but despite this headwind, we delivered top-line growth of 10%, which we consider a solid performance in tough circumstances and a testament to our strong organisation, culture and people,” says Søren Nielsen, President & CEO of Demant.

“We saw a significant sequential improvement in organic growth from 1% in the third quarter to 8% in the fourth quarter in Hearing Healthcare. For 2022 as a whole, our Hearing Healthcare segment grew thanks to our Diagnostics and Hearing Aids business areas, which both gained market shares and performed very well, enabling us to reach more people with our life-changing hearing healthcare solutions. Our Hearing Care business grew less than originally expected, and Communications saw significant negative growth due to a very weak gaming market. However, we expect both businesses to grow in 2023. Overall, we look into a new year with many new product launches, including new families of premium hearing aids in all our brands. The soon-to-be launched Oticon Real flagship hearing aids will offer improved speech understanding and a more comfortable and focused hearing experience by removing disruptive sounds for the benefit of our many users,” says Søren Nielsen, President & CEO of Demant.

Business area	Revenue (DKK million)		Growth				
	Q4 2022	Q4 2021	Organic	Acquisitive	LCY	FX	Reported
<i>Hearing Aids, total sales</i>	2,703	2,338	11%	0%	11%	5%	16%
<i>Hearing Aids, internal sales</i>	-395	-381	-6%	7%	1%	3%	4%
Hearing Aids, external sales	2,308	1,957	14%	-2%	13%	5%	18%
Hearing Care	2,173	1,969	1%	6%	7%	3%	10%
Diagnostics	612	511	7%	5%	13%	7%	20%
Hearing Healthcare	5,093	4,437	8%	3%	10%	5%	15%
Communications	252	320	-23%	0%	-23%	2%	-21%
Group	5,345	4,757	6%	2%	8%	4%	12%

Business area	Revenue (DKK million)		Growth				
	H2 2022	H2 2021	Organic	Acquisitive	LCY	FX	Reported
<i>Hearing Aids, total sales</i>	5,149	4,562	9%	-1%	8%	5%	13%
<i>Hearing Aids, internal sales</i>	-865	-761	2%	7%	9%	5%	14%
Hearing Aids, external sales	4,284	3,801	10%	-3%	7%	6%	13%
Hearing Care	4,191	3,816	-2%	7%	5%	5%	10%
Diagnostics	1,225	980	10%	5%	15%	10%	25%
Hearing Healthcare	9,700	8,597	5%	3%	7%	6%	13%
Communications	508	562	-13%	0%	-13%	3%	-10%
Group	10,208	9,159	3%	2%	6%	6%	12%

Unless otherwise indicated, the commentary below relates to H2 2022.

- The **Group** generated organic growth of 3% (Q4: 6%) driven entirely by Hearing Healthcare. Growth from acquisitions added 2% (Q4: 2%) and exchange rate effects 6% (Q4: 4%), and total reported growth was 12% (Q4: 12%). For the full year, organic growth was 4%, with growth from acquisitions adding 2% and exchange rate effects 5%. Total reported growth for the Group thus amounted to 10% in 2022.
- **Hearing Healthcare** saw organic growth of 5% (Q4: 8%) driven by strong performances in Hearing Aids and Diagnostics, whereas Hearing Care contributed negatively to growth in H2. Organic growth increased significantly from 1% in Q3 to 8% in Q4 driven by Hearing Aids.
 - **Hearing Aids** delivered significant market share gains thanks to strong commercial traction and a successful expansion of the product portfolio, including new custom form factors. In a market that remained soft, not least in the US, organic growth in our total sales accelerated from 6% in Q3 to 11% in Q4 fuelled by positive commercial momentum in the US. For H2 as a whole, growth was driven by strong unit growth of 10%, whereas ASP growth was -2%, as price increases implemented at the beginning of the period were offset by geography and channel mix changes. In the coming weeks, we will begin the roll-out of new, premium, industry-leading hearing aids in all our brands, including our new flagship product, Oticon Real, which will support our growth in 2023.
 - **Hearing Care** saw slightly negative organic growth, which is mainly attributable to the US where negative market developments combined with our decision to exit selected managed care plans continued to weigh on growth. In line with our expectations, growth was also impacted by high comparative figures in France. After seeing organic growth of -5% in Q3, we realised organic growth of 1% in Q4 driven by the US, which is partly due to lower comparative figures. Acquisitions contributed considerably to growth, but revenue from Sheng Wang was severely impacted by the rapidly rising coronavirus infection rates in China in Q4.
 - **Diagnostics** continued to deliver very strong performance with organic growth of 10%. The organic growth rate thus exceeded the market growth rate, despite decelerating from 12% in Q3 to 7% in Q4, which is partly due to negative impacts of coronavirus in China. Acquisitive growth is mainly attributable to the acquisition of Italy-based Inventis Srl. in June 2022.
- **Communications** saw organic growth of -13% (Q4: -23%), which is primarily attributable to Gaming, as the market for gaming products remained very weak, but growth also slowed down in Enterprise Solutions in Q4. Overall, organic growth decelerated significantly from 0% in Q3 to -23% in Q4, as the normal positive seasonal effects did not materialise.
- The Group's **gross margin** was 74.3%, a material decrease of 1.5 percentage points compared to H2 2021, as the gross margin declined in both Hearing Healthcare and Communications due to mix changes and a negative impact of foreign exchange rates. While we saw some easing of the impact of the dynamic supply chain situation, we also saw some negative effect of higher-than-normal wage inflation.
- **OPEX** grew organically by 6% with additional growth of 6% from acquisitions and 5% from exchange rate effects compared to H2 2021. The increased OPEX reflects investments in R&D to ensure continued technological leadership, and also distribution costs in acquired businesses as well as some impact of inflation. As announced on 1 November 2022, we implemented certain cost reduction initiatives in Q4 to align our business with market developments. These resulted in around 150 redundancies globally and estimated annual cost savings of approx. DKK 100 million, which had minimal effect in 2022 but will have full effect in 2023.
- The Group's **EBIT** amounted to DKK 1,619 million, corresponding to an EBIT margin of 15.9%. The decrease of 4.1 percentage points compared to H2 2021 is mainly attributable to weaker-than-expected growth in Hearing Care, resulting in an imbalance between sales and OPEX in the period, and to the gross margin decrease. For the full year, EBIT amounted to DKK 3,207 million, corresponding to an EBIT margin of 16.3%. This is at the low end of our most recent guidance range due to the impact of coronavirus on our sales in China and weaker-than-expected sales in Communications.
- The Group delivered strong **cash flow** in H2 with CFFO of DKK 1,707 million driven by an improvement in the net working capital. FCF before acquisitions amounted to DKK 1,219 million.

- Cash spent on **acquisitions** amounted to DKK 1,810 million, primarily reflecting the acquisition of Sheng Wang in China, and **share buy-backs** amounted to DKK 533 million before being paused in November 2022. In line with our most recent outlook, the Group's **gearing multiple** (NIBD/EBITDA) was 2.9 at 31 December 2022 and thus exceeded our medium- to long-term target of 2.0-2.5, driven by the acquisition of Sheng Wang.
- Profit after tax from **discontinued operations**, which comprise our Hearing Implants business, amounted to DKK -85 million. Subject to regulatory approvals and other customary closing conditions, we still expect the divestment of the business to Cochlear Limited to close in Q2 2023.
- In 2022, we introduced new gender diversity targets and an updated policy, and for the full year, we saw a slight improvement in **gender diversity** in our top-level management by 1 percentage point to 23%.
- In H2, Scope 1 & 2 **CO2e emissions** amounted to 14,938 tonnes. In November, we submitted to the Science Based Targets initiative both our "net zero in 2050 target" and our short-term reduction targets, including our ambition to transition to 100% renewable electricity by 2030. These are currently awaiting validation.

Outlook for 2023

Our outlook for 2023 is summarised in the table below:

Metric	Outlook for 2023
Organic growth	3-7%
Acquisitive growth	3% based on revenue from acquisitions completed as of 6 February 2023
FX growth	-1% based on exchange rates as of 6 February 2023 and including the impact of hedging
EBIT	DKK 3,600-4,000 million
Net financials	Negative by around DKK 600 million
Effective tax rate	25-26%
Gearing multiple	Gearing multiple (NIBD/EBITDA) at the end of 2023 around the high end of our medium- to long-term target of 2.0-2.5
Share buy-backs	None
Profit after tax from discontinued operations	Negative by around DKK 100 million

The outlook is based on a number of key assumptions as described below:

- Due to continued macroeconomic headwinds, we expect the unit growth rate in the global hearing aid market in 2023 to be slightly below the structural growth rate of 4-6% with a negative contribution from ASP declines around the normal level of 1-2% due to mix effects.
- We see material uncertainty about the growth trajectory in 2023 in the markets for enterprise and gaming headsets and for video solutions due to low consumer confidence and caution by enterprises when it comes to investment decisions. In our Communications segment, we expect modest positive organic growth in 2023, albeit negative in Q1. Supported by cost savings, we expect an EBIT that is less negative than in 2022.
- Due to a high level of attractive opportunities, we expect the level of bolt-on acquisitions in 2023 to be higher than normal, and our gearing multiple at the end of the year is thus expected to be around the high end of our medium- to long-term target.
- Despite higher-than-normal cost inflation, we plan to grow OPEX less than revenue through focused cost control in order to support margin improvement.
- We expect the divestment of Hearing Implants to close in Q2 2023, resulting in payment of DKK 700 million of the total DKK 850 million consideration.

Demant will host a conference call on 7 February 2023 at 14:00 CEST. To attend this call, please use one of the following dial-ins: +45 7877 4197 (DK), +44 808 101 1183 (UK) or +1 785 424 1226 (US). The pin code is 70355#. A presentation for the call will be uploaded on www.demant.com shortly before the call.

Further information:

Søren Nielsen, President & CEO
Phone +45 3917 7300
www.demant.com

Other contacts:

René Schneider, CFO
Mathias Holten Møller, Head of Investor Relations
Peter Pudselykke, Investor Relations Officer
Trine Kromann-Mikkelsen, VP Corporate Communications and Sustainability

Key figures and financial ratios (1/2)

(DKK million)	H2 2022	H2 2021	Change	FY 2022	FY 2021	Change
Hearing Healthcare						
Revenue	9,700	8,597	13%	18,645	16,722	11%
Organic growth	5%	14%		5%	31%	
Gross margin	75.9%	77.6%		76.1%	77.1%	
EBIT	1,748	1,908	-8%	3,443	3,626	-5%
EBIT margin	18.0%	22.2%		18.5%	21.7%	
Communications						
Revenue	508	562	-10%	1,060	1,183	-10%
Organic growth	-13%	-27%		-13%	-9%	
Gross margin	43.9%	48.2%		45.0%	48.3%	
EBIT	-129	-78	65%	-236	-122	93%
EBIT margin	-25.4%	-13.9%		-22.3%	-10.3%	
Group						
Income statement						
Revenue	10,208	9,159	11%	19,705	17,905	10%
Organic growth	3%	10%		4%	27%	
Gross margin	74.3%	75.8%		74.4%	75.2%	
EBITDA	2,255	2,543	-11%	4,383	4,730	-7%
EBITDA margin	22.1%	27.8%		22.2%	26.4%	
Adjusted EBIT*	1,619	1,830	-12%	3,207	3,504	-8%
Adjusted EBIT margin*	15.9%	20.0%		16.3%	19.6%	
EBIT	1,619	1,989	-19%	3,207	3,663	-12%
EBIT margin	15.9%	21.7%		16.3%	20.5%	
Net financial items	-185	-101	83%	-280	-202	39%
Profit after tax – continuing operations	1,118	1,495	-25%	2,276	2,711	-16%
Profit after tax – discontinued operations	-84	-150	-44%	-192	-183	5%
Profit for the period	1,035	1,345	-23%	2,084	2,528	-18%
Balance sheet						
Total assets	29,857	24,860	20%	29,857	24,860	20%
Net interest-bearing debt (NIBD)	12,711	9,150	39%	12,711	9,150	39%
Equity	8,562	7,981	7%	8,562	7,981	7%
Cash flow statement						
Cash flow from operating activities (CFFO)	1,707	2,000	-15%	2,622	3,593	-27%
Investment in property, plant and equipment, net	329	340	-3%	630	547	15%
Free cash flow (FCF)	1,219	1,522	-20%	1,617	2,838	-43%
Share buy-backs	533	1,387	-62%	1,840	3,200	-43%

*Adjusted for one-offs in 2021.

As a consequence of the planned divestment of the Hearing Implants business, comparative figures for 2021 in the income statement and cash flow statement as well as related key figures and financial ratios, however excluding organic growth rates, have been restated.

We refer to section 9.1 of Annual Report 2022 for a description of the accounting policies used for reporting key figures and financial ratios.

Key figures and financial ratios (2/2)

	H2 2022	H2 2021	Change	FY 2022	FY 2021	Change
Other key figures						
Gearing multiple (NIBD/EBITDA)	2.9	1.9		2.9	1.9	
Earnings per share (EPS) – continuing operations, DKK	4.99	6.40	-22%	10.06	11.48	-12%
Earnings per share (EPS), DKK	4.61	5.76	-20%	9.21	10.70	-14%
Free cash flow per share (FCFPS), DKK	5.40	6.55	-18%	7.15	12.09	-41%
Share price, end of period, DKK	192.55	335.10	-43%	192.55	335.10	-43%
Average number of shares outstanding, million	224.06	232.59	-4%	226.01	234.82	-4%
Average number of employees	20,349	17,161	19%	19,239	16,866	14%
Scope 1 & 2 CO2e emissions (tonnes)****	14,938	**		31,349	30,813	2%
Gender diversity, Board of Directors (women/men)***	40/60%	**		40/60%	40/60%	
Gender diversity, all managers (women/men)	45/55%	**		44/56%	43/57%	

**No available data for the period.

***Shareholder-elected members.

****The newly acquired retail chain Sheng Wang has not been integrated into our emissions reporting for 2022.

Full-year growth rates by business area

Business area	Revenue (DKK million)		Growth				
	FY 2022	FY 2021	Organic	Acquisitive	LCY	FX	Reported
<i>Hearing Aids, total sales</i>	9,991	8,979	9%	-1%	7%	4%	11%
<i>Hearing Aids, internal sales</i>	-1,760	-1,633	-2%	6%	4%	4%	8%
Hearing Aids, external sales	8,231	7,346	11%	-3%	8%	4%	12%
Hearing Care	8,123	7,553	-3%	6%	3%	4%	8%
Diagnostics	2,291	1,823	13%	4%	17%	9%	26%
Hearing Healthcare	18,645	16,722	5%	2%	7%	5%	12%
Communications	1,060	1,183	-13%	0%	-13%	3%	-10%
Group	19,705	17,905	4%	2%	5%	5%	10%