

Company announcement no 2023-12

Pre-announcement of Interim Report 2023 and upgraded outlook

15 August 2023

Strong revenue growth of 17% in H1 (13% organic) driven by market share gains in Hearing Healthcare
EBIT of DKK 2,014 million, with EBIT margin expanding to 18.1% due to material operating leverage
Very strong cash flow with CFFO of DKK 1,863 million and FCF of DKK 1,490 million
Outlook for 2023 upgraded: Organic growth of 11-14% (prev. 6-10%) and EBIT of DKK 4,000-4,400 million (prev. DKK 3,800-4,200 million)

“We’re very pleased with the overall development that the Demant Group has seen in the first half-year thanks to strong performance in all areas of our Hearing Healthcare segment. Very high growth rates and a solid operating profit are the results of high customer focus, personalised hearing care and strong product innovation as reflected in the very successful launches of new premium hearing aids in all brands. Offering precise and balanced sound, Oticon Real has gotten a historically good reception by customers and users alike. Also Diagnostics has done well and managed to accelerate growth after having ramped up our new production site, and despite disappointing results in Communications, the Group has entered the second half in very good shape. Based on our very strong performance in the first part of the year, on increased expectations of hearing aid market growth and on ambitious plans for the remainder of the year, I am pleased that we can increase our guidance for the full year,” says Søren Nielsen, President & CEO of Demant.

Business area	Revenue (DKK million)		Growth				
	Q2 2023	Q2 2022	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids, total revenue	3,040	2,491	20%	0%	20%	2%	22%
Hearing Aids, internal revenue	-530	-454	12%	7%	19%	-2%	17%
Hearing Aids, external revenue	2,510	2,037	22%	-1%	21%	3%	23%
Hearing Care	2,290	2,034	7%	8%	15%	-3%	13%
Diagnostics	632	563	9%	6%	15%	-3%	12%
Hearing Healthcare	5,432	4,634	14%	4%	18%	-1%	17%
Communications	215	260	-16%	0%	-16%	-2%	-17%
Group	5,647	4,894	12%	4%	16%	-1%	15%

Business area	Revenue (DKK million)		Growth				
	H1 2023	H1 2022	Organic	Acquisitive	LCY	FX	Reported
Hearing Aids, total revenue	6,088	4,842	23%	0%	23%	3%	26%
Hearing Aids, internal revenue	-1,100	-895	18%	6%	24%	-1%	23%
Hearing Aids, external revenue	4,988	3,947	24%	-1%	23%	3%	26%
Hearing Care	4,508	3,932	8%	8%	16%	-2%	15%
Diagnostics	1,198	1,066	6%	7%	13%	-1%	12%
Hearing Healthcare	10,694	8,945	15%	4%	19%	1%	20%
Communications	461	552	-15%	0%	-15%	-1%	-17%
Group	11,155	9,497	13%	4%	17%	1%	17%

Unless otherwise indicated, the commentary below relates to H1 2023.

- The **Group** generated organic growth of 13% (Q2: 12%) driven entirely by Hearing Healthcare. Acquisitive growth was 4% (Q2: 4%) and exchange rate effects were 1% (Q2: -1%). Reported revenue growth was 17% (Q2: 15%).
- **Hearing Healthcare** saw organic growth of 15% (Q2: 14%), driven mostly by Hearing Aids, with additional growth of 4% (Q2: 4%) from acquisitions in Hearing Care and Diagnostics.
 - **Hearing Aids** delivered a very strong performance with significant market share gains throughout the period. Following exceptional organic growth of 26% in Q1, organic growth remained very strong at 20% in Q2, particularly driven by North America and Asia. New premium hearing aids launched in Q1, including our new flagship product, Oticon Real, continued to support growth throughout H1. Overall, growth was driven mostly by unit growth of 18% but also by a positive ASP development of 4% due to geography and product mix changes as well as price increases implemented last year.
 - **Hearing Care** also saw positive momentum with solid organic growth in most major markets outside the US and France. Organic growth decelerated slightly from 9% in Q1 to 7% in Q2 driven by France. In H1, organic growth was supported by slightly positive ASP growth due to price increases implemented in H2 last year. Acquisitive growth mainly related to China, where Sheng Wang delivered revenue slightly ahead of original expectations, and to Germany and Japan.
 - **Diagnostics** delivered a solid performance, with organic growth accelerating from 4% in Q1 to 9% in Q2 following the ramp-up of a new production site in Poland. Growth continued to be supported by minor acquisitions, including the acquisition of Inventis Srl. in June 2022.
- The performance in **Communications** was disappointing, particularly in Q2 where revenue slowed down sequentially compared to Q1. Organic growth was -16% in Q2 and thus remained negative, as the markets for both enterprise solutions and for gaming headsets remained weak. In June, EPOS launched its new top-of-the-line enterprise headset, IMPACT 1000, which – together with further cost control measures – will help improve profitability.
- The Group's **gross margin** was 73.3%, a decline of 1.3 percentage points compared to H1 2022 and below our original expectations. The decline was mainly due to adverse exchange rate effects, but also to increased unit costs in Hearing Healthcare and to a gross margin decline of 12.0 percentage points in Communications due to promotional activities and lower revenue.
- **OPEX** grew organically by 7%, with additional growth of 5% from acquisitions, while exchange rate effects were -1%. Growth reflected a combination of continued investments in Hearing Healthcare and further cost savings in Communications with a view to improving profitability.
- The Group's **EBIT** amounted to DKK 2,014 million, corresponding to an EBIT margin of 18.1%. The margin expansion of 1.4 percentage points compared to H1 2022 reflects material operating leverage in Hearing Healthcare, which more than offset a weaker-than-expected performance in Communications.
- The Group delivered very strong **cash flow** with CFFO of DKK 1,863 million and FCF of DKK 1,490 million driven by the higher profitability and by an improvement in net working capital. The cash spent on acquisitions amounted to DKK 313 million, which is lower than originally expected due to the timing of transactions.
- As a result of the strong cash flow, the Group's **gearing multiple** decreased from 2.9 at the end of 2022 to slightly below 2.5 at the end of June 2023. This is within the targeted range of 2.0-2.5, and the Group may resume its share buy-backs in H2, however subject to cash generation and the level of acquisitions completed.
- Profit after tax from **discontinued operations**, which comprise our Hearing Implants business, amounted to DKK -676 million. This is mainly attributable to non-recurring, non-cash write-downs of assets related to our cochlear implants (CI) business as part of the pending divestment to Cochlear Limited, but also to an operating loss in Hearing Implants. EBIT generated by our bone anchored hearing systems (BAHS) business, which will remain with Demant for now, pending a review of strategic options, was positive.
- Total scope 1 and 2 **CO2e emissions** amounted to 14,923 tonnes, which represents an 11% decrease compared to the same period last year thanks to our continued transition to renewable electricity. In July, the Science Based Targets initiative validated and approved our targets to reduce the Group's aggregate scope 1 and 2 CO2e emissions by 46% as well as to reduce our scope 3 CO2e emissions by 46% by 2030 from a 2019 base year. Demant has also committed to reach net zero emissions across the value chain by 2050.

- The Group saw a slight improvement in **gender diversity** with the share of women in top-level management reaching 25% in H1 compared to 23% in 2022 and the share of women at all management levels increasing to 47% compared to 44% in 2022.

Outlook for 2023

The Group's outlook for 2023, which is summarised in the table below, has been upgraded to reflect the Group's strong performance in H1 and increased expectations of H2. Specifically, we now expect the hearing aid market to grow at a faster rate than previously assumed, and we expect our strong commercial momentum and market share gains in Hearing Healthcare to be sustained for longer than previously anticipated.

Metric	Outlook for 2023
Organic growth	11-14% (previously 6-10%)
Acquisitive growth	3% based on revenue from acquisitions completed as of 15 August 2023
FX growth	-2% based on exchange rates as of 15 August 2023 and including the impact of hedging (previously -1%)
EBIT	DKK 4,000-4,400 million (previously DKK 3,800-4,200 million)
Net financials	Negative by around DKK 700 million (previously negative by around DKK 600 million)
Effective tax rate	24-25% (previously 25-26%)
Gearing multiple	Gearing multiple (NIBD/EBITDA) at the end of 2023 within our medium- to long-term target of 2.0-2.5
Share buy-backs	None
Profit after tax from discontinued operations	Negative by DKK 700-850 million (previously negative by DKK 700-1,000 million)

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

- **Following a stabilisation of the global hearing aid market in H1, we now expect the market unit growth rate in 2023 to be slightly above the structural growth rate of 4-6%.** We expect a negative contribution from ASP declines around the normal level of 1-2% due to mix effects.
- **We expect the weak momentum in the markets for enterprise solutions and gaming headsets to continue throughout 2023. In 2023, we expect our Communications segment to see negative organic growth and to generate EBIT that is more negative than the level in 2022, as lower revenue and gross margin are only partly offset by cost savings already implemented. We continue to consider further actions with a view to aligning the business with current activity levels.**
- Due to a high level of attractive opportunities, we expect the level of bolt-on acquisitions in 2023 to be higher than normal.
- Despite higher-than-normal cost inflation, we plan to grow OPEX less than revenue through focused cost control in order to support margin improvement.
- **As announced on 22 June, the expected profit after tax from discontinued operations is based on a scenario where the divestment of our cochlear implants business is closed at the end of 2023. Our bone anchored hearing systems business will remain with the Group, pending a review of our strategic options.**

Demant will host a conference call on 16 August 2023 at 13:00 CEST. To attend this call, please use one of the following dial-ins: +45 7877 4197 (DK), +44 0 808 101 1183 (UK) or +1 785 424 1102 (US). The pin code is 42714#. 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 Communication and Sustainability