

William Demant



Interim Report 2018

15th August 2018





Our vision is to
make a life-
changing difference
to people living
with hearing loss








H1 2018 highlights




Key take-aways

 Growth of 9% for the Group in local currencies – organic growth of 7%, substantial across all business activities


 Hearing aid wholesale business saw strong organic growth of 11% – product portfolio to be expanded significantly across all brands

 Hearing aid retail business saw growth of 8% in local currencies – organic growth of 1% with material differences between our markets

 Hearing Implants delivered organic growth of 9% driven by cochlear implants business

 Continued positive momentum in Diagnostic Instruments with 11% organic growth

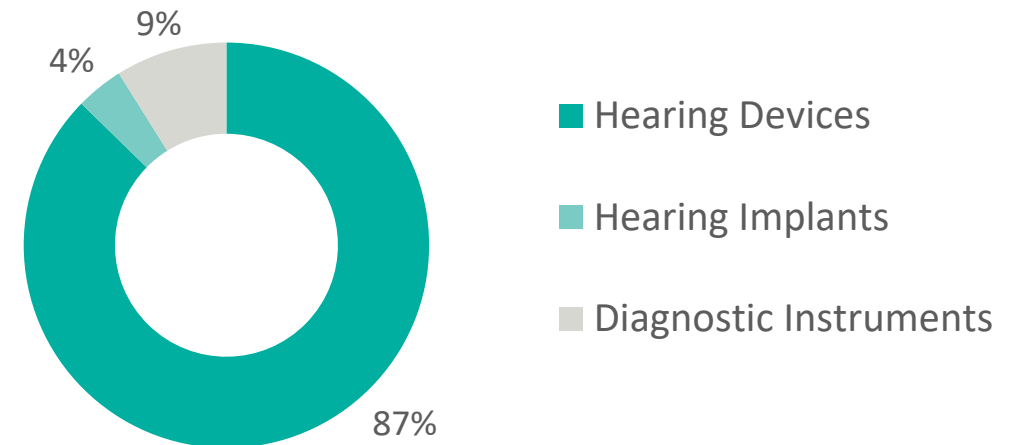
11% Adjusted EBIT grew by 11% to DKK 1,272 million with EBIT margin expansion of 1.2 pp to 18.8%
Reported EBIT grew by 16% to DKK 1,226 million with EBIT margin expansion of 1.8 pp to 18.1%
EPS grew by 15%

 Outlook for 2018 adjusted to EBIT of DKK 2.65-2.85 billion (previously DKK 2.55-2.85 billion) before restructuring costs of DKK 120 million (previously DKK 150 million)

Revenue on business activities

DKK million	H1 2018	H1 2017	Change		
			DKK	LCY	Organic
Hearing Devices	5,917	5,682	4%	9%	7%
Hearing Implants	257	246	4%	9%	9%
Diagnostic Instruments	603	577	5%	12%	11%
Total	6,777	6,505	4%	9%	7%

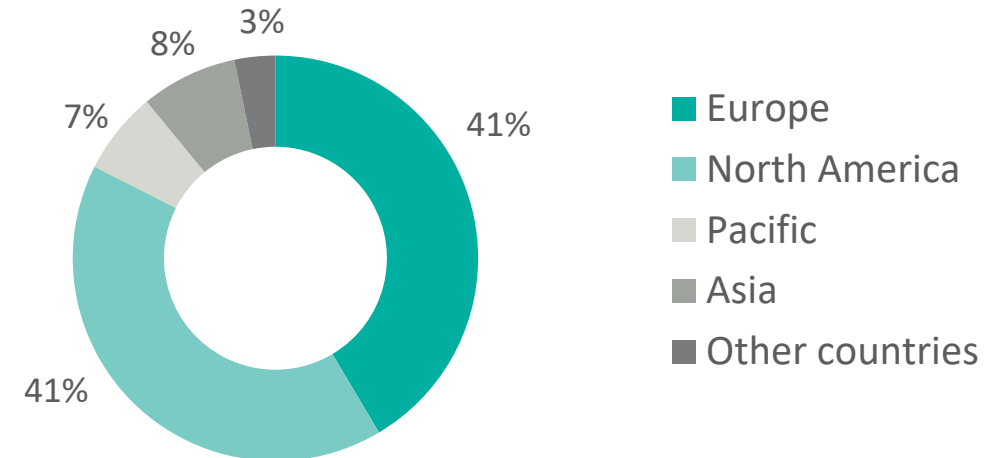
- Group revenue growth of 9% in local currencies (7% organic and 2% acquisitive)
- Substantial organic growth across all business activities driven by 11% in hearing aid wholesale
- Negative exchange rate effect of 5%
- Reported revenue growth of 4%



Revenue on geographies

DKK million	H1 2018	H1 2017	Change		
			DKK	LCY	Organic
Europe	2,810	2,691	4%	6%	4%
North America	2,778	2,637	5%	14%	11%
Pacific	447	461	-3%	5%	3%
Asia	521	456	14%	20%	20%
Other countries	221	260	-15%	-7%	-7%
Total	6,777	6,505	4%	9%	7%

- Broadly based growth with strong organic growth in Asia and North America
- Solid organic growth in Europe
- Negative organic growth in other countries region due to large tenders last year



A pair of dark blue, behind-the-ear hearing aids with clear earbuds and thin wires, resting on a black, textured mousepad. The mousepad is on a green and white checkered surface. In the background, a colorful, abstract pattern is visible.

Hearing Devices



The global hearing aid market in H1 2018

We estimate that unit growth rate in the global wholesale hearing aid market in the first half-year was in line with our general expectation of 4-6%

- Growth in North America driven by strong growth in the US of 6%
- Growth in Europe of 2-3% driven by Germany and France but adversely impacted by negative growth in the large public channel in the UK, NHS
- Solid unit growth rates in Japan and Australia and presumably high growth in China
- We estimate a flat to slightly negative wholesale ASP and overall value growth of 2-4%
- Retail ASP in individual channels relatively stable

Global hearing aid market volume growth of 4-6%



Strong organic growth of 11% in Wholesale

Continued market share gains in value and expanding industry-leading position



- Strong product portfolio across all brands
 - Oticon Opn continues to stand out in the market
 - Good traction with Bernafon Zerena and Sonic Enchant product families
 - Introduction of rechargeable solution and ConnectClip supported growth
- Ambition of further expanding industry-leading position
 - Increased R&D spend by 16% in local currencies
Particular focus on software and connectivity solutions
 - Launching vast range of new products across all brands

Mix changes driving significant ASP increase

Underlying ASP increased by 8% and unit sales by 6%

- Significant market share gains in North America driven by the US with increasing sales to independents, VA (market share of 19.7% in July 2018 vs. 14.6% in December 2017) and own retail network
- Strong organic growth in Europe led by France with higher sales to independents and own retail
- High growth in Asia, particularly in China



Three factors had a material impact on reported ASP and unit growth of 17% and -5% respectively

- Loss of sales to a large customer in late H1 last year (acquired by a competitor)
- Two large but low-priced tenders in comparative period
- Negative growth in the large public channel in the UK, NHS

Introducing new custom products in all brands

Expanding flagship concepts to custom products in Oticon, Bernafon and Sonic

- Outstanding Connectivity
- IIC completely invisible in 8 out of 10 ears
- The smallest CIC we have ever made

New custom products

IIC
(Invisible-In-Canal)



CIC
(Completely-In-Canal)



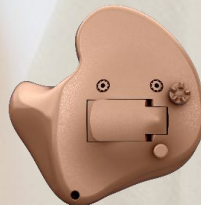
ITC
(In-The-Canal)



ITE
(In-The-Ear Half Shell)



ITE
(In-The-Ear Full Shell)



Previous portfolio

miniRITE
(Receiver-In-The-Ear)



miniRITE-T
(Receiver-In-The-Ear with telecoil)



BTE PP
(Behind-The-Ear)



Note: Examples based on Oticon Opn product range

Introducing new price points in all brands

A quantum leap forward in the essential category

- 2.4 GHz wireless connectivity
- Rechargeable option for miniRITEs
- Comprehensive offering across multiple styles
- Available in two lower price points



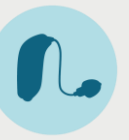
Note: Examples based on Oticon product range

HearingFitness™

The world's first hearing fitness app

- Award-winning new element of Oticon ON App
- Aims to motivate and improve hearing aid use
- Uses data analytics to combine data
- Promotes health benefits of hearing
- Launched concurrently with new custom and essential products





Retail growth driven by acquisitions

8% growth in local currencies – 1% organic growth with material differences across markets

- Growth in North America driven by acquisitions
 - Negative organic growth in the US
 - Continue journey to improve operating model of US retail business across different brands and acquired shops
- Retail in Europe driven by strong organic growth across a number of countries combined with growth from acquisitions
 - Particularly strong performance in France where we have a proven operating model and strong brand recognition supporting efficient marketing
- In Australia, improved efficiency and unit growth compensated for the significant drop in market ASP last year (free-to-client hearing aids bigger part of the mix)

A photograph of two men in a parking garage. The man on the right, with a beard and a red plaid jacket over a teal hoodie, is smiling and gesturing with his hand. The man on the left, wearing a grey sweatshirt, is seen from the back, looking towards the first man. The background is filled with graffiti on the walls and concrete pillars, with a white car parked in the distance.

Hearing Implants



Organic growth of 9% in Hearing Implants

Double-digit organic growth in CI

- Significant resources dedicated to upgrade programme since launch of Neuro 2 in late February
 - Very positive feedback from implanted patients
 - New approvals in France and Brazil
- Strong growth in most European markets
- Reduced activity level in a couple of markets with lower prices
- Expansion of R&D and global sales and support organisation continues

Modest growth in BAHS albeit above market

- Growth continues to be driven by Ponto 3, particularly the unique Ponto 3 Super Power
- Strong contribution from North America driven by US
- Market growth estimated to have temporarily slowed in the first half due to limited product introductions



Strong feedback from patients fitted with Neuro 2

- More than 500 users in Germany, Denmark, France, Spain, Italy, Switzerland, the Netherlands, Morocco and UK
- No unexpected events and great performance
 - Ergonomics
 - Battery life
 - Reliability
 - Fitting software
 - Audiological outcomes



Diagnostic Instruments





Organic growth of 11% in Diagnostic Instruments

Strong position leading to further market share gains in a healthy market



- Growth centred in North America, particularly US
 - Strong performance by e3 Diagnostics, our network of Special Instrument Distributors
- Europe also contributed positively driven by our Interacoustics brand
- Solid traction with new products and services including
 - Grason-Stadler's novel patient-directed evaluation tool, AMTAS
 - US-based newborn hearing screening business

A person with short brown hair is shown from the side, wearing a black and red Sennheiser gaming headset. They are sitting at a desk, looking at a computer monitor that displays a game with a dinosaur. Their hands are on a black mechanical keyboard. A circular device with a red light is visible on the desk next to the keyboard. The background is dark and out of focus.

Personal Communication

32% growth in Personal Communication business

Significant increase in contribution to Group EBIT from Sennheiser Communications

- 45% growth in reported revenue
- Net of inventory effects, underlying revenue grew by 32%
 - High growth in Gaming and Mobile segments
 - Solid growth in CC&O segment despite tough comparative figures
- Contribution from joint venture to Group EBIT increased by DKK 31 million to DKK 45 million



SENNHEISER
COMMUNICATIONS



Strategic Group initiatives



Strategic initiatives on track

The strategic initiatives announced in 2016 are designed to create the best possible platform for future growth and are all on track

Major initiatives	Financial impact
<ul style="list-style-type: none">• Transfer of activities from the production site in Thisted, Denmark, to Poland to be completed in December 2018• Eagan site has been closed down, and all activities have been transferred• Successful ramp-up in Mexico continues• Transfer of R&D in Switzerland to Denmark and Poland completed• New site for R&D software development has been opened in Warsaw and is expanding• 100+ FTE currently working in the new Demant Technology Centre in Warsaw	<ul style="list-style-type: none">• Restructuring costs in H1 2018 amounted to DKK 46 million – expect DKK 120 million for full-year (previously DKK 150 million)• Negative cash flow effect of around DKK 370 million (previously DKK 400 million) for the entire period from 2016 to 2018• Expect annual cost savings of DKK 200 million in 2019 when fully implemented<ul style="list-style-type: none">• DKK 150 million for full-year 2018 compared to DKK 100 million last year



Group financials



Adjusted income statement

(DKK million)	Reported H1 2018	Restructuring costs	Adjusted H1 2018	Reported H1 2017	Restructuring costs	Adjusted H1 2017	Growth (adjusted)
Revenue	6,777	0	6,777	6,505	0	6,505	4%
Production costs	-1,576	-10	-1,566	-1,566	-17	-1,549	1%
Gross profit	5,201	-10	5,211	4,939	-17	4,956	5%
<i>Gross profit margin</i>	<i>76,7%</i>		<i>76.9%</i>	<i>75.9%</i>		<i>76.2%</i>	
R&D costs	-492	-12	-480	-458	-40	-418	15%
Distribution costs	-3,157	-12	-3,145	-3,086	-16	-3,070	2%
Administrative expenses	-380	-12	-368	-358	-10	-348	6%
Share of profit after tax, associates and JVs	54	0	54	22	0	22	145%
Operating profit (EBIT)	1,226	-46	1,272	1,059	-83	1,142	11%
<i>Profit margin (EBIT margin)</i>	<i>18.1%</i>		<i>18.8%</i>	<i>16.3%</i>		<i>17.6%</i>	

- Adjusted gross profit margin increased by 0.7 percentage point to 76.9%
- Adjusted EBIT margin expanded by 1.2 percentage points to 18.8% despite increased R&D spend

Group underlying development

DKK million	Reported			Restructuring		Adjusted			Transaction		Translation		One-offs		Underlying		
	H1 2017	H1 2018	%	H1 2017	H1 2018	H1 2017	H1 2018	%	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	%
Revenue	6,505	6,777	4%	0	0	6,505	6,777	4%	-8	55	370	0	0	0	6,143	6,722	9%
EBIT	1,059	1,226	16%	-83	-46	1,142	1,272	11%	-70	42	82	0	0	0	1,130	1,230	9%
EBIT margin	16.3%	18.1%				17.6%	18.8%								18.4%	18.3%	

- Revenue and EBIT for H1 2017 restated to reflect exchange rates in H1 2018
- 9% growth in underlying revenue and EBIT
- Underlying EBIT margin 0.1 percentage point lower than last year

Balance sheet

Assets (DKK million)	H1 2018	H1 2017	FY 2017
Intangible assets	7,644	6,868	6,892
Property, plant and equipment	1,768	1,712	1,718
Other non-current assets	2,141	2,294	2,272
Non-current assets	11,553	10,874	10,882
Inventories	1,480	1,321	1,351
Receivables etc.	3,428	3,172	3,292
Cash	763	715	697
Current assets	5,671	5,208	5,340
Total assets	17,224	16,082	16,222

Equity and liabilities (DKK million)	H1 2018	H1 2017	FY 2017
Equity	6,943	7,248	7,433
Non-current liabilities	2,644	2,731	3,086
Current liabilities	7,637	6,103	5,703
Total equity and liabilities	17,224	16,082	16,222
Net interest-bearing debt	5,061	4,081	4,030

- Total assets increased by 5% in the first half-year to DKK 17,224 million (adjusted for IFRS 9 and 15), mainly attributable to goodwill from acquisitions
- Net interest-bearing debt of DKK 5,061 corresponding to gearing multiple of 1.7 (NIBD/LTM EBITDA)

Cash flow statement

(DKK million)	H1 2018	H1 2017	Change	FY 2017
Adjusted operating profit (EBIT)	1,272	1,142	11%	2,504
Adjusted cash flow from operating activities (CFFO)	1,051	969	8%	2,023
Cash flow from restructuring costs	-55	-83	-34%	-151
Reported cash flow from operating activities	996	886	12%	1,872
Cash flow from investing activities before acquisitions	-341	-226	51%	-485
Free cash flow before acquisitions (FCF)	655	660	-1%	1,387
Acquisition and divestment of enterprises, participating interests and activities	-494	-494	0%	-656
Buy-back of shares	-902	-396	128%	-1,031
Other financing activities	549	226	143%	265
Net cash flow for the period	-192	-4	4,700%	-35

- CFFO increased by 8% to DKK 1,051 million
- Cash flow from restructuring costs was DKK 55 million
- FCF slightly down due to increased investments
- Cash flow from acquisitions at same level as last year
- Significant increase in share buy-backs to DKK 902 million



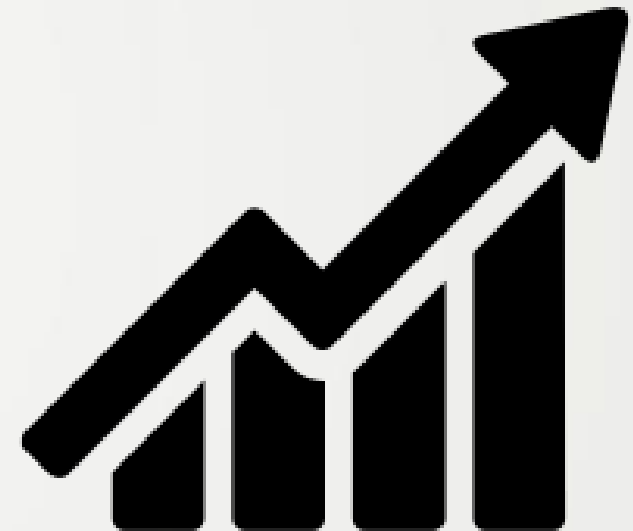
Outlook for 2018



The hearing healthcare market in 2018

Total hearing healthcare market still estimated to see value growth rate of 5% in 2018

- We still expect the hearing aid wholesale market to grow by 2-4% in value terms
 - Unit growth rate expected to be 4-6%
 - Slight decline in the ASP
- The hearing implants market is estimated to see a value growth rate of 10-15% in total, but with growth for the BAHS market below this range
- The diagnostic equipment market is expected to see a value growth rate of 5-7%



Outlook 2018

- We maintain our expectation to generate substantial organic sales growth in 2018. Based on exchange rates as of 14 August 2018, we now expect exchange rate effects on total revenue for 2018 to be slightly less negative at around -3% including the impact of exchange rate hedging (previously -4%).
- Our guidance for total share buy-backs remains unchanged at DKK 1.5-2.0 billion, and we still aim at a gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA
- We raise the lower end of our outlook range and now guide for an EBIT of DKK 2.65-2.85 billion (previously DKK 2.55-2.85 billion) before restructuring costs of DKK 120 million (previously DKK 150 million).

Q&A

Roadshows and conferences

16 August	Copenhagen (Danske Bank)
17 August	London (UBS)
21 August	Oslo (DNB)
22 August	Stockholm (ABGSC)
23 August	Edinburgh (Deutsche Bank)
28 August	Frankfurt (Commerzbank Conference)
29 August	Zurich (Credit Suisse) & Munich (Handelsbanken)
30 August	Geneva (Mirabaud)
4 September	Paris (Exane) & Dublin (Kepler Cheuvreux)
5 September	Copenhagen (ABGSC Large Cap Seminar)
5-6 September	London (Goldman Sachs European Medtech and Healthcare Services Conference)
12 September	Toronto (SEB) & Chicago (SEB)
13-14 September	New York (Morgan Stanley Global Healthcare Conference)
21 September	Madrid (ABGSC)
9 October	Abu Dhabi (Carnegie)
17-18 October	Hannover (EUHA Hearing Aid Congress)

Financial calendar 2018

- **6 November 2018:**
Interim Management Statement

IR Contacts



Søren B. Andersson

Vice President, Investor Relations

Email: sba@demant.com

Tel: +45 3913 8967

Mob: +45 5117 6657



Mathias Holten Møller

Investor Relations Officer

Email: msmo@demant.com

Tel: +45 3913 8827

Mob: +45 2924 9407

