Demant

Company announcement no 2020-10

17 August 2020

Interim Report 2020

Very strong start to the year disrupted in mid-March by coronavirus – organic growth of -27% in H1
Strong recovery towards end of H1 has continued after the reporting period
Material cost containment in response to coronavirus driving -14% organic growth in OPEX in H1
EBIT of DKK -193 million before net positive EPOS one-offs of DKK 307 million
New outlook: 5-15% revenue growth in local currencies in H2 (including EPOS)

- Group revenue in the first half-year amounted to DKK 6,078 million, corresponding to a decrease of 17% compared to last year. Organic growth contributed -27 percentage points, whereas acquisitions added 9 percentage points, including 7 percentage points due to revenue generated in EPOS. Exchange rate effects contributed close to 0 percentage point. After a very strong start to the year, we saw a significant revenue decline due to the severe negative impact of coronavirus. Since the low point in early May, market conditions have improved significantly, and we have seen strong recovery in the revenue run rate (please see table on page 2).
- Revenue in Hearing Devices declined by 28% in local currencies. In our hearing aid wholesale business, we saw strong double-digit organic growth until mid-March thanks to our broad and highly competitive product portfolio, including Oticon Opn S and Philips HearLink. However, due to the severe impact of coronavirus, revenue declined by 25% in local currencies in the first half-year. The decrease was driven by a 30% decline in unit sales but was partly offset by an increase in the average selling price (ASP) of 5% due to mix effects. After the low point in early May, we saw strong recovery in a number of markets, particularly among independent hearing care professionals.
- Despite a strong start to the year, our hearing aid retail business saw negative revenue growth of 31% in local currencies in the first half-year. Organic growth contributed -35 percentage points driven by widespread, temporary closure of our clinics since mid-March in response to market lockdowns, particularly in North America. As lockdown restrictions were eased, our retail business recovered significantly towards the end of the reporting period driven by France and Australia, in particular. Acquisitions contributed 4 percentage points to growth.
- In Hearing Implants, revenue declined by 18% in local currencies. Sales in our cochlear implants (CI) business declined by 34% in local currencies, as elective surgeries came to an almost complete halt due to coronavirus and the recovery in CI has so far been slow. Our bone anchored hearing systems (BAHS) business saw a modest decline in sales of 3% due to significant growth at the beginning of the year and a strong recovery towards the end of the first half-year driven by the uptake of the new Ponto 4 sound processor.
- Diagnostics saw a modest decline in revenue of 3% in local currencies, including a minor positive contribution from acquisitions of less than 1 percentage point. The negative impact of coronavirus has been less severe in this business activity than in our other hearing healthcare businesses aided by our existing sales pipeline, and we have seen strong recovery and market share gains in the business since the low point in early May.
- In Communications, our headset business, EPOS (demerged and fully consolidated into the Group with effect from 1 January 2020), delivered sales of DKK 546 million, corresponding to significant double-digit growth. After supply chain headwinds early in the year, EPOS benefitted from a surge in demand for headsets following the outbreak of coronavirus, resulting in a certain level of backorders at the end of the first half-year. For the reporting period, we have recognised net positive one-offs related to the demerger of DKK 307 million, which comprises a positive fair value adjustment, a negative inventory revaluation and extraordinary spending on the branding of EPOS.
- The Group's gross profit margin was 70.0% adjusted for EPOS one-offs, a decrease of 7.6 percentage points compared to the first half of 2019. This was primarily due to the significant drop in revenue but also to the consolidation of EPOS, which diluted the gross profit margin by slightly more than 2 percentage points.

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- Due to the strong execution of numerous cost-reduction actions, we were able to reduce Group capacity costs by 14% in the first half-year in organic terms (excluding a provision for additional bad debt of DKK 150 million). Cost savings were realised in distribution and administrative functions through publicly funded compensation schemes and through a significant decrease in sales and marketing activities, while we deliberately maintained our strong R&D commitments. In the second quarter, capacity costs decreased by 29% in organic terms.
- Operating profit (EBIT) before one-offs related to the consolidation of EPOS was negative in the first half-year and amounted to DKK -193 million, including the provision for additional bad debt of DKK 150 million. After net positive EPOS one-offs of DKK 307 million, reported EBIT amounted to DKK 114 million.
- Cash flow from operating activities (CFFO) before EPOS one-offs decreased by 27% to DKK 766 million driven by the significant drop in profits, but CFFO was less severely impacted than profits – primarily due to working capital improvements. Free cash flow was positively impacted by the suspension of non-essential investments, and M&A activities have been very limited since mid-March. Over the coming months, we expect to see an impact on CFFO of the low revenue level in the second quarter. The Group continues to have ample access to funding, and as of 30 June, unutilised credit facilities amounted to DKK 6.1 billion.

Update on the effects of coronavirus (mid-August)

After the reporting period, the strong recovery of the hearing healthcare market has continued. The current revenue level for the Group (including EPOS) represents growth in local currencies of -5% to 5% compared to last year, and the Group is profitable at this level.

Growth in local currencies*	H1 2020	Mid-August	H2 outlook
Group revenue:	-18%	-5% to 5%	5% to 15%
Hearing aid wholesale	-25%	-15% to -5%	
Hearing aid retail	-31%	-10% to 0%	
Hearing Implants	-18%	-20% to -10%	
Diagnostics	-2%	-5% to 5%	
Communications (EPOS)	-	-	
Capacity costs (OPEX)	-4%	-5% to 5%	

** Please note that we have previously disclosed revenue run rates compared to initial expectations. However, growth rates shown above compare to the corresponding period last year.*

However, we still see significant uncertainties about the normalisation of the hearing healthcare market and thus of our business. In the past few months, the strong recovery of the hearing aid market has primarily been driven by users that were not serviced during the period of widespread lockdowns, while uncertainties persist regarding new lead generation at retail level. Furthermore, the Group's exposure to developments in large government systems and hospitals – not least VA in the US and the NHS in the UK – pose a risk due to slow recovery in these channels. Lastly, reinforced lockdown restrictions pose a risk, as local outbreaks continue to occur in a number of markets, including in our main market, the US, and in emerging markets. In contrast to the severe impact of coronavirus on our hearing healthcare businesses, EPOS continues to benefit from the surge in demand for virtual collaboration tools. While we intend to materially ramp up sales and marketing activities to drive sales, significant uncertainties persist when it comes to the actual sales and marketing costs and to the pace of new hirings in the second half-year. Additionally, there is high uncertainty on freight costs.

New outlook

The Group's outlook for 2020 was withdrawn on 15 March as a direct consequence of coronavirus and, as mentioned above, we still see significant uncertainties when it comes to the normalisation of the hearing healthcare market. However, based on an assumption of no further widespread lockdowns occurring before the end of the year and of sales in the hearing healthcare market approaching normalisation in the fourth quarter of the year, we now expect to generate revenue growth in local currencies of 5-15% in the second half-year (revenue in the comparative period was negatively impacted by the IT incident). This includes revenue generated by EPOS (not consolidated last year). We expect to see improvements in the Group's EBIT before EPOS one-offs in the second half-year compared to the first half-year, reflecting an expected revenue improvement. We expect to recognise negative EPOS one-offs of DKK 75-125 million in the second half-year related to extraordinary spending on branding. We maintain the suspension of our share buy-backs, pending more visibility on the pace of market recovery.

"Thanks to a strong and innovative product portfolio, we saw high growth above expectations and very positive development in all our hearing healthcare activities in the first months of 2020. In the unprecedented period from mid-March and onwards, our revenue was severely hit, and the hearing healthcare market came to an almost complete halt. I am proud to note that with our ability to control costs and stay in close contact with our customers, we are in a solid position that will enable us to ensure continuous recovery and steer through the corona crisis. With the working from home trend, we have also been favoured by strong tailwind in our new headset business EPOS. To my great satisfaction, we have been able to keep our roadmap and pace when it comes to new product development and launches through a challenging half-year, and our employees have been dedicated and done an excellent job in supporting our company," says Søren Nielsen, President & CEO of Demant, and continues:

"I'm especially thankful for the trust and loyalty that our customers and users have shown us, resulting in current performance at the same level as last year. Bearing the improved recovery situation in mind, we expect to approach normalisation this year, however, with a potential spill-over into next year, as it is uncertain how and when the demand will materialise."

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Demant will host a conference call on 17 August 2020 at 14:00 CET. 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 74309912#. A presentation for the call will be uploaded on www.demant.com shortly before the call.

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Key figures and financial ratios

	H1 2020	H1 2019	Change H1/H1	Full year 2019
INCOME STATEMENT, DKK MILLION				
Revenue	6,078	7,350	-17%	14,946
Gross profit	4,146	5,701	-27%	11,325
Gross profit – adjusted*	4,255	5,701	-25%	11,325
R&D costs	618	552	12%	1,120
EBITDA	629	1,582	-60%	3,110
Amortisation and depreciation etc.	515	469	10%	959
Operating profit (EBIT)	114	1,113	-90%	2,151
Operating profit (EBIT) – adjusted*	-193	1,113	-117%	2,151
Net financial items	-88	-119	-26%	-240
Profit before tax	26	994	-97%	1,911
Profit for the period	121	767	-84%	1,467
BALANCE SHEET, DKK MILLION				
Net interest-bearing debt (NIBD)	6,558	5,654	16%	6,221
Net interest-bearing debt and lease liabilities	8,388	7,613	0%	8,185
Assets	22,067	20,759	6%	21,798
Equity	7,449	7,596	-2%	7,645
OTHER KEY FIGURES, DKK MILLION				
Investment in property, plant and equipment, net	242	251	-4%	561
Cash flow from operating activities (CFFO)	729	1,047	-30%	2,149
Cash flow from operating activities (CFFO) – adjusted*	766	1,047	-27%	2,149
Free cash flow	489	702	-30%	1,338
Average number of employees	16,107	15,044	7%	15,352
FINANCIAL RATIOS				
Gross profit margin	68.2%	77.6%		75.8%
Gross profit margin – adjusted*	70.0%	77.6%		75.8%
EBITDA margin	10.3%	21.5%		20.8%
Profit margin (EBIT margin)	1.9%	15.1%		14.4%
Profit margin (EBIT margin) – adjusted*	-3.2%	15.1%		14.4%
Return on equity	3.2%	21.0%		19.5%
Equity ratio	33.8%	36.6%		35.1%
Gearing (NIBD/EBITDA), rolling 12 months	3.9	2.0		2.4
Gearing including effects from leases, rolling 12 months	3.9	2.3		2.6
Earnings per share (EPS), DKK**	0.50	3.12	-84%	6.00
Cash flow per share (CFPS), DKK**	3.04	4.28	-29%	8.82
Free cash flow per share, DKK**	2.04	2.87		5.49
Dividend per share, DKK**	-	-		-
Equity value per share, DKK**	31.1	31.1	0%	31.4
Price earnings (P/E)	174.9	32.7	435%	35.0
Share price, DKK**	174.9	204.1	-14%	209.8
Market capitalisation adjusted for treasury shares, DKK million	41,917	49,783	-16%	50,470
Average number of shares outstanding, million**	239.90	244.40	-2%	243.55

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated, duly considering share buy-backs.

** Figures are adjusted for one-off costs related to the consolidation of EPOS.*

*** Per share of nominally DKK 0.20.*

Financial review

Unless otherwise indicated, the commentary below on our financial results is based on adjusted figures, i.e. before positive one-offs totalling DKK 307 million related to the consolidation of EPOS with financial effect from 1 January 2020.

Income statement

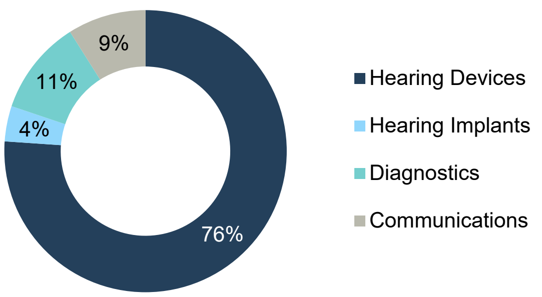
(DKK million)	Reported H1 2020	EPOS one-offs	Adjusted H1 2020	H1 2019	Growth
Revenue	6,078		6,078	7,350	-17%
Production costs	-1,932	-109	-1,823	-1,649	11%
Gross profit	**4,146**	**-109**	**4,255**	**5,701**	**-25%**
Gross profit margin	68.2%		70.0%	77.6%	
R&D costs	-618		-618	-552	12%
Distribution costs	-3,492	-37	-3,455	-3,661	-6%
Administrative expenses	-388		-388	-415	-6%
Share of profit after tax, associates and joint ventures	466	453	13	40	-68%
Operating profit (EBIT)	**114**	**307**	**-193**	**1,113**	**-117%**
Operating profit margin (EBIT margin)	1.9%		-3.2%	15.1%	

Revenue

In the first half-year, Group revenue amounted to DKK 6,078 million, corresponding to a growth rate of -18% in local currencies compared to the first half of 2019. Organic growth contributed -27 percentage points and acquisitions 9 percentage points of which revenue generated in EPOS accounted for 7 percentage points. Exchange rate effects were close to 0% in the reporting period, resulting in reported growth of -17%.

Revenue by business activity

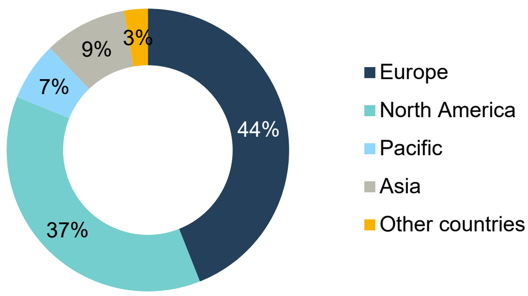
(DKK million)	H1 2020	H1 2019	Change DKK	Change LCY	Change Org.
- Wholesale			-24%	-25%	-25%
- Retail			-31%	-31%	-35%
Hearing Devices	4,626	6,373	-27%	-28%	-30%
- CI			-35%	-34%	-34%
- BAHS			-4%	-3%	-4%
Hearing Implants	246	304	-19%	-18%	-18%
Diagnostics	660	673	-2%	-2%	-3%
Communications	546	-	-	-	-
Total	**6,078**	**7,350**	**-17%**	**-18%**	**-27%**



In terms of geography, we saw a significant decline in revenue in local currencies in all regions, except in Asia where acquisitive growth counterbalanced negative organic growth. In organic terms, the revenue decrease was most severe in North America due to a relatively extended lockdown period compared to other regions and also due to the fact that our hearing aid retail business is particularly exposed in some of the most severely impacted areas in North America. In all regions, the main part of acquisitive growth is attributable to revenue generated by EPOS.

Revenue by geographic region

(DKK million)	H1 2020	H1 2019	Change DKK	Change LCY	Change Org.
Europe	2,674	2,996	-11%	-11%	-23%
North America	2,258	3,063	-26%	-28%	-34%
Pacific	406	459	-12%	-8%	-14%
Asia	575	574	0%	0%	-12%
Other countries	165	258	-36%	-29%	-30%
Total	**6,078**	**7,350**	**-17%**	**-18%**	**-27%**



Financial review

Gross profit

In the reporting period, gross profit decreased by 25% to DKK 4,255 million, resulting in a gross profit margin of 70.0%, or a decrease of 7.6 percentage points on the same period last year. The margin contraction was a natural consequence of the significant drop in revenue that we saw in the first half-year due to coronavirus. Also, the gross profit margin was diluted by slightly more than 2 percentage points from the consolidation of EPOS and to a lesser extent by an increasing share of sales of rechargeable hearing aids and higher freight costs.

Capacity costs

Total capacity costs for the period decreased by 4% to DKK 4,461 million of which less than 1 percentage point is attributable to exchange rate effects.

Capacity costs

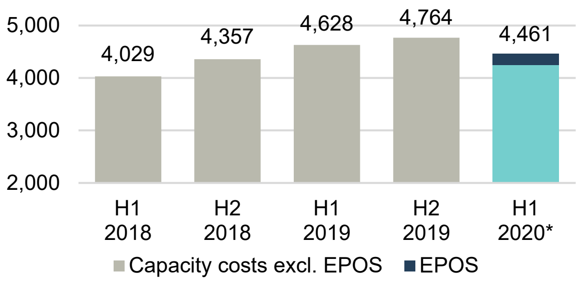
			Change		
(DKK million)	H1 2020	H1 2019	DKK	LCY	Org.
R&D costs	618	552	12%	12%	-3%
Distribution costs	3,455	3,661	-6%	-7%	-12%
Adm. expenses	388	415	-7%	-6%	-10%
Total	**4,461**	**4,628**	**-4%**	**-4%**	**-11%***

** -14% adjusted for bad debt provision of DKK 150 million.*

In organic terms, capacity costs decreased by 14% compared to the same period last year, when excluding a provision for additional bad debt of DKK 150 million (recognised in distribution costs), reflecting an increased risk of customers defaulting on their debt due to coronavirus. Acquisitions added almost 7 percentage points to the Group's capacity costs of which the consolidation of EPOS accounted for 5 percentage points. In local currencies, capacity costs declined by 4% compared to the first half-year of 2019.

The organic cost savings were realised through the strong execution of the numerous cost reduction actions, that we took in response to coronavirus. While we maintained our strong commitment to R&D where activities continued in line with the plans made, we realised significant savings in distribution costs and administrative expenses. Material savings were realised through the availability of publicly funded compensation schemes, most importantly related to salaries, as a substantial number of employees were temporarily furloughed or employed under similar arrangements. We also significantly reduced our sales and marketing costs – mainly in Hearing Devices and Hearing Implants – as well as other costs, such as travelling expenses. Savings peaked in the second quarter where capacity costs decreased by 29% in organic terms (excluding the provision for additional bad debt).

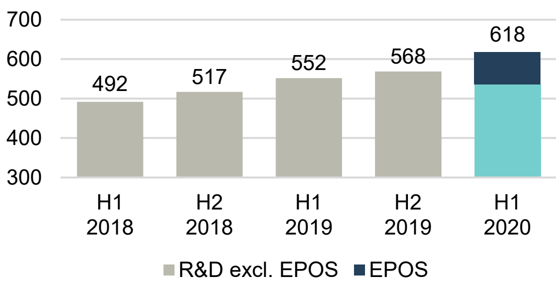
Capacity costs – DKK million



** Before EPOS one-offs.*

R&D costs increased by 12% in local currencies, reflecting the consolidation of EPOS, but organic growth was -3% thanks to savings in travelling expenses, fewer hirings and other general savings. However, cost savings in R&D were less than in other areas, as we remain committed to launching innovative solutions to the market.

R&D costs – DKK million



Operating profit

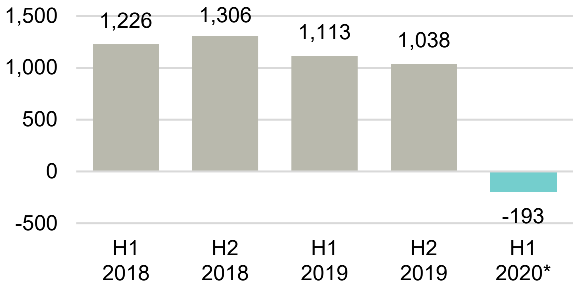
Due to the severe impact of coronavirus, operating profit (EBIT) before EPOS one-offs was negative in the reporting period and amounted to DKK -193 million. The operating loss is in stark contrast to the strong momentum gained and the improved profitability achieved at the beginning of the year driven by strong performances in all hearing healthcare business activities. However, since mid-March, lockdowns in virtually all hearing healthcare markets significantly impacted our ability to service users, and revenue as well as profits declined rapidly in Hearing Devices, Hearing Implants and Diagnostics. In Communications (EPOS), the outbreak of coronavirus led to a surge in demand for headsets and virtual collaboration tools, but profits in EPOS were only slightly

Financial review

ahead of plans in the first half-year due to a less favourable product mix and a significant increase in freight costs.

Share of profit after tax from associates and joint ventures was DKK 13 million, a decrease of DKK 27 million compared to last year when the item included the contribution from the Sennheiser Communications joint venture (now consolidated into the Group as EPOS).

Operating profit (EBIT) – DKK million



** Before EPOS one-offs.*

Due to the consolidation of EPOS with financial effect from the beginning of the year, we realised several one-offs in the reporting period:

- A positive fair value adjustment, primarily of goodwill, related to the demerger of the Sennheiser Communications joint venture of DKK 453 million with no effect on cash flows (recognised in *Share of profit after tax, associates and joint ventures*).
- A negative revaluation of inventory purchased as part of the demerger of DKK 109 million with no effect on cash flows (recognised in *Production costs*).
- Costs related to extraordinary spending on the branding of EPOS of DKK 37 million with direct effect on cash flows (recognised in *Distribution costs*).

The one-offs were positive by DKK 307 million, and reported EBIT thus amounted to DKK 114 million.

Financial items

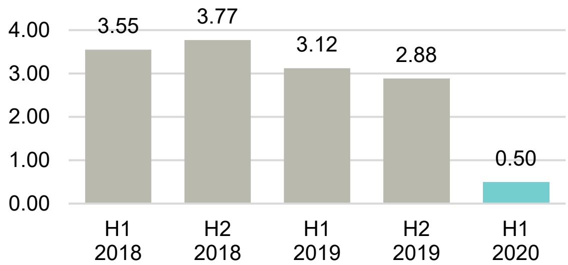
Reported net financial items amounted to expenses of DKK 88 million, or a decrease of DKK 31 million on last year. The decrease is driven by lower interest rate levels as well as lower credit card fees, which reflect the decrease in business activities in the reporting period. The decrease was partly offset by an increase in costs related to the expansion of credit facilities in the first half-year.

Profit for the period

Reported profit before tax amounted to DKK 26 million, which is a significant decline compared to last year. As the positive, one-off fair value adjustment realised as part of the consolidation of EPOS is tax-exempt, we realised a net tax gain of DKK 95 million. Adjusted for this, the effective tax rate was 22.2%, or a decrease of 0.6 percentage points on last year due to the realisation of negative taxable profits in some countries with relatively higher tax rates.

Reported net profit for the period was DKK 121 million. The resulting reported earnings per share (EPS) was DKK 0.50.

Earnings per share – DKK



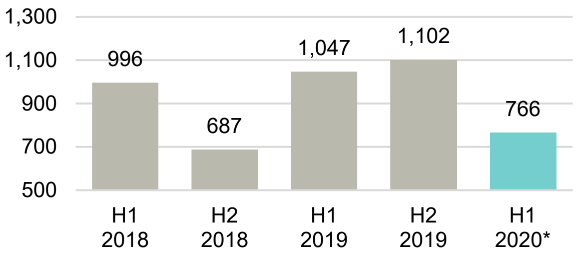
Cash flow statement by main items

(DKK million)	H1 2020	H1 2019	Change
EBIT before one-offs	-193	1,113	-117%
CFFO before one-offs	766	1,047	-27%
Cash flow from one-offs	-37	-	-
CFFO	729	1,047	-30%
Net investments	-240	-345	-30%
Free cash flow	489	702	-30%
Acquisitions etc.	-293	-318	-8%
Share buy-backs	-197	-264	-25%
Other financing activities	143	254	-44%
Cash flow for the period	**142**	**374**	**-62%**

In the first half-year, cash flow from operating activities (CFFO) before EPOS one-offs, decreased by 27% to DKK 766 million. The decline was first and foremost driven by the significant drop in operating profit, but CFFO was less severely impacted than profits – primarily due to working capital improvements, including strong efforts to collect cash. Over the coming months, we expect to see an impact on CFFO of the low revenue level in the second quarter.

Financial review

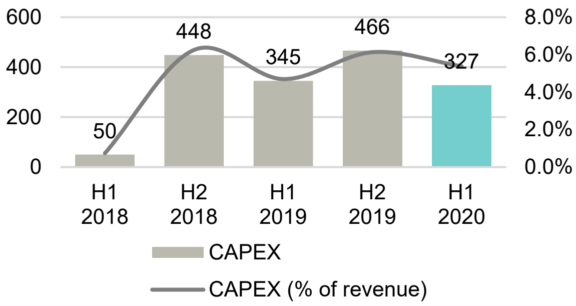
Cash flow from operating activities (CFFO) – DKK million



** Before EPOS one-offs.*

Our net investments in tangible and intangible assets (CAPEX) amounted to DKK 327 million, which is a minor decrease of 2% on last year. CAPEX spent in the reporting period primarily relates to the ongoing expansion of our headquarters in Denmark and to leasehold improvements in our hearing aid retail business, and overall, CAPEX has been limited since mid-March.

CAPEX – DKK million



Net investments in other non-current assets amounted to DKK 87 million driven by the settlement of a loan in connection with an acquisition in France in the beginning of the year. Consequently, reported free cash flow before acquisitions and divestments decreased by 30% to DKK 489 million.

Cash flow from acquisitions and divestments decreased by 8% to DKK -293 million. From the onset of the year, we continued to see attractive acquisition opportunities in all parts of our business, which we pursued and completed in line with our plans. However, since the outbreak of coronavirus, the number of acquisitions has been very limited.

Share buy-backs have been – and remain – suspended since 15 March. Prior to the suspension, the Group had bought back shares worth DKK 197 million, and after other financing activities of DKK 143 million, net cash flow for the period was DKK 142 million.

Balance sheet

(DKK million)	H1 2020	FY 2019	Change
Lease assets	1,785	1,937	-8%
Other non-current assets	13,871	12,947	7%
Inventories	1,936	1,852	5%
Trade receivables	2,518	3,209	-22%
Cash	919	792	16%
Other current assets	1,038	1,061	-2%
Total assets	**22,067**	**21,798**	**1%**
Equity	7,449	7,645	-3%
Lease liabilities	1,831	1,964	-7%
Other non-current liabilities	3,697	3,763	-2%
Trade payables	643	652	-1%
Other current liabilities	8,447	7,774	9%
Total equity and liabilities	**22,067**	**21,798**	**1%**

Total assets amounted to DKK 22,067 million as of 30 June 2020, or an increase of 1% compared to the end of last year. This development was mainly driven by the increase in other non-current assets, including goodwill due to the consolidation of EPOS as well as acquisitions.

At the end of the reporting period, the Group's net working capital was DKK 2,508 million, which is a decrease of 23% compared to the end of 2019. While the level of new invoicing dropped significantly following the outbreak of coronavirus, we saw a very limited number of late payments by customers, resulting in a steep decline in trade receivables.

Net interest-bearing debt (NIBD), excluding lease liabilities, increased by 5% to DKK 6,558 million. The resulting net gearing multiple (NIBD/EBITDA) was 3.0 as of 30 June 2020 based on normalised, 12-month rolling EBITDA, i.e. excluding the effects of IFRS 16 and the IT incident in the second half of 2019. This is above our initial target range of 1.7-2.2 and reflects the negative impact of coronavirus. The target range was withdrawn on March 15. On a reported basis, the net gearing multiple was 3.9.

As of 30 June 2020, unutilised credit facilities and other available liquidity amounted to around DKK 6.1 billion compared to around DKK 2.1 billion at the beginning of the year. The Group's debt to credit institutions with maturity in 2020, which excludes rolling short-term bank facilities amounted to DKK 1.0 billion compared to DKK 2.0 billion at the beginning of the year.

Compared to the end of 2019, total equity decreased by 3% to DKK 7,449 million of which DKK 9 million is attributable to non-controlling interests and DKK 7,440 million to shareholders of Demant A/S.

Financial review

Share buy-backs amounted to DKK 197 million based on the buy-back of 899,222 shares at an average price of DKK 218.97. With the shareholders' decision at the annual general meeting on 10 March 2020 to cancel 4,595,867 treasury shares, the total number of treasury shares held by the company at 30 June 2020 was 1,025,479, corresponding to 0.4% of the total number of shares outstanding. The company has not bought back additional shares after the reporting period. The total number of shares outstanding was 240,691,168 at the end of the reporting period.

Employees

At the end of the first half-year, Demant had 15,678 employees compared to 15,837 at the beginning of the year and 15,346 at the end of the first half of 2019. As part of the consolidation of EPOS, the number of employees increased by around 400. The decrease in employees since the beginning of the year was mainly driven by a reduction in headcount of approx. 400 at our production facilities in Poland but also by general headcount adjustments of approx. 200 – particularly in North America. In general, we have implemented a stop for net new hirings. The average number of employees in the first half-year was 16,107.

Hedging activities

The material forward exchange contracts in place at 30 June 2020 to hedge against the Group's exposure to movements in exchange rates are shown in the table below.

Material forward exchange contracts as of 30 June 2020

Currency	Hedging period	Average hedging rate
USD	12 months	660
JPY	9 months	6.06
AUD	4 months	455
GBP	9 months	848
CAD	11 months	496
PLN	9 months	169

Events after the balance sheet date

There have been no events that materially change the assessment of this Interim Report 2020 after the balance sheet date and up to today.

Financial review

Update on the effects of coronavirus (mid-August) and outlook

After the reporting period, the strong recovery of the hearing healthcare market has continued. The current revenue level for the Group (including revenue generated by EPOS) represents growth in local currencies of -5% to 5% compared to last year, and the Group is profitable at this level.

Growth in local currencies*	H1	Mid-August	H2 Outlook
Group revenue	-18%	-5% to 5%	5% to 15%
Hearing aid wholesale	-25%	-15% to -5%	
Hearing aid retail	-31%	-10% to 0%	
Hearing Implants	-18%	-20% to -10%	
Diagnostics	-2%	-5% to 5%	
Communications (EPOS)	-	-	
Capacity costs (OPEX)	-4%	-5% to 5%	

** Please note that we have previously disclosed revenue run rates compared to initial expectations. However, the growth rates shown above compare to the corresponding period last year.*

While the recovery has up until now been strong, we see significant uncertainties with regard to the normalisation of the hearing healthcare market and thus of our business:

- In the past few months, the fast recovery of the hearing aid market has primarily been driven by users who were not serviced during the widespread lockdowns and there has been an element of pent-up demand. Meanwhile, uncertainties persist regarding new lead generation at retail level, which could have implications for the pace of normalisation.
- Across the Group, we have significant exposure to developments in large government systems and hospitals – in particular Veterans Affairs (VA) in the US and the National Health Service (NHS) in the UK – and the pace of the recovery in these channels has so far been significantly lower than in most of our other channels, e.g. independent customers. Also, the release of pent-up demand in these systems remains uncertain.
- The pace of the recovery in our CI business is particularly uncertain due to the elective nature of the surgeries. Whether or not pent-up demand due to hospital closures will result in an increased number of surgeries or to extended waiting lists is currently subject to great uncertainty.
- While lockdown restrictions in response to coronavirus have been eased in many countries, local outbreaks continue to pose a risk of reinforced restrictions – not least in our main market, the US. Furthermore, developments in many emerging markets remain uncertain, and the recovery process may be lengthy. This poses a material risk to Diagnostics, which has a meaningful exposure to developments in some of these markets.
- In contrast to the severe impact of coronavirus on our hearing healthcare businesses, our headset business, EPOS, has benefitted from the surge in demand for virtual collaboration tools, which we have seen since the outbreak of coronavirus. The order intake has been strong since the end of the reporting period, and we continue to see a positive development in the markets for enterprise solutions and gaming headsets.
- While we intend to materially ramp up sales and marketing activities to drive sales, significant uncertainties persist when it comes to the actual sales and marketing costs and to the pace of new hirings in the second half-year. Additionally, there is high uncertainty on freight costs.

New outlook 2020

The Group's outlook for 2020 was withdrawn on 15 March as a direct consequence of coronavirus and, as mentioned above, we still see significant uncertainties when it comes to the normalisation of the hearing healthcare market. However, based on the assumptions listed below, we now expect to generate revenue growth in local currencies of 5-15% in the second half-year (revenue in the comparative period was negatively impacted by the IT incident). This includes revenue generated by EPOS (not consolidated last year).

Outlook assumptions:

- No further widespread lockdowns occurring before the end of the year.
- Sales in the hearing healthcare market will approach normalisation in the fourth quarter of the year.

We expect to see improvements in the Group's EBIT before EPOS one-offs in the second half-year compared to the first half-year, reflecting the expected revenue improvement described above.

EPOS one-offs are expected to negatively impact both the income statement and reported cash flows by DKK 75-125 million in the second half-year. This is solely related to the extraordinary spending on the branding of EPOS.

We maintain the suspension of our share buy-backs, pending more visibility on the pace of market recoveries.

Management commentary

Hearing Devices

Market trends

We estimate that at the beginning of the year, the growth rate of the global hearing aid market was at the high end of our general expectation of 4-6% unit growth. However, the outbreak of coronavirus had a substantial, negative impact on demand in key markets from around mid-March when hearing aid sales started to decline rapidly. At the beginning of May, we estimated that the sales run rate in the global hearing aid market was around 20% of what we would normally expect. Since then, we have seen a recovery towards normalisation in many of the main hearing aid markets, although significant differences persist between geographies and channels. We estimate that the market declined by approx. 30% in the first half of 2020 as a whole.

According to statistics from the Hearing Industries Association (HIA), unit sales in the US declined by 29.7% in the first half-year, with a decline in the commercial part of the US market of 26.4%, and unit sales to Veterans Affairs (VA) declined by 43.5%. As previously announced, the US Food and Drug Administration (FDA) is required to introduce draft legislation to establish a new over-the-counter (OTC) category of hearing aids no later than in August 2020, but the exact timing has not been confirmed officially. As a member of HIA, we monitor and analyse developments closely and are in active dialogue with the FDA. We maintain our view that any impact of the new OTC category will be limited.

For the first half-year, we estimate that unit sales in Europe declined by more than 30%, with the UK, Italy and Spain having experienced the most significant declines. Growth was less impacted in a number of other markets, including Germany, France, Switzerland and Denmark.

In Asia, we saw a mixed picture in the first half-year with significant negative unit growth in Japan but only slightly negative growth in Australia, not least driven by a very strong start to the year. In China, the timing of market lockdowns was somewhat different from what we saw in most other markets as the outbreak of coronavirus peaked earlier in the year, and even though we do not have accurate market statistics, we estimate that the market has now more or less normalised.

There are no reliable industry statistics available on the development of prices in the global hearing aid market, and given the current market environment, we are unable to accurately estimate the development in average selling prices (ASP) on the hearing aid wholesale and retail markets.

Wholesale

In the first half of 2020, sales in hearing aid wholesale declined by 25% in local currencies of which more than -25 percentage points can be attributed to organic growth and less than 1 percentage point to acquisitive growth. Our wholesale business had a strong start to the year with double-digit organic growth driven by a double-digit increase in the ASP and solid unit growth. Growth was driven by our highly competitive product portfolio, including an increasing uptake of Oticon Opn S and Philips HearLink, and we saw strong growth rates in key markets, such as the US, Germany and France.

Since mid-March, our wholesale business has been severely impacted by the outbreak of coronavirus due to the deterioration of market conditions that quickly followed the spreading of the virus. Organic growth in the first quarter of the year was roughly flat, and in early May, sales were at the lowest point. However, following the gradual re-opening of society and easing of restrictions, we have seen strong improvements in sales, mainly driven by sales to independent hearing care professionals, whereas the pace of recovery in certain government channels, including VA and the NHS, was significantly slower. Along with the positive mix effects seen at the beginning of the year, the differences in the pace of recovery between channels drove positive ASP growth of 5% in the first half-year, whereas unit growth declined by 30%.

On the commercial side – and aside from the impact of coronavirus – the strong demand for rechargeable products continued in the first half-year, and with the launch of Oticon Ruby in February where we introduced rechargeability in mid-priced devices, we further increased the competitiveness of our product portfolio. We also continued to broaden the reach of Philips-branded products by introducing rechargeability at additional price points and by rolling out products in new markets. At the beginning of the year, we launched Philips HearLink in China and other Asian markets where we saw strong interest due to the unique combination of leading technology and a well-known consumer brand that is trusted and recognised all over the world. The planned roll-out and sales in this region were delayed by the outbreak of coronavirus, but we saw very good traction in sales towards the end of the reporting period. Earlier this year, our Sonic and Bernafon brands also launched new mid-priced rechargeable products to meet the increasing demand for such solutions.

Management commentary

As mentioned previously, our R&D activities have continued according to plan, and we remain committed to launching innovative solutions to the market with significant benefits for hearing impaired people, including enhanced speech understanding in noise and expansion of rechargeable solutions. Innovation also includes new connectivity solutions based on the Audio Streaming for Hearing Aids (ASHA) specification for Android™ devices and the new Bluetooth Low Energy Audio standard, which was announced earlier this year by Bluetooth Special Interest Group (SIG).

In terms of geographies, we had a strong start to the year in North America with very strong organic growth driven by continued momentum in sales to independent customers and strong sales to a large customer in the US. Since mid-March, however, sales have declined rapidly and significantly due to strict lockdown measures in most of the large states. Following a low point in sales in early May, we saw a significant increase in the activity level of independent hearing care professionals, whereas the re-opening of clinics took place at a much slower pace in other channels, including VA. Towards the end of the reporting period, we saw lockdown measures being reinforced in some parts of the US, and overall, the impact of coronavirus in North America has been more significant than in other regions.

In Europe, we also saw strong growth rates in many countries before the outbreak of coronavirus, but as a result of widespread lockdowns, sales started to deteriorate substantially in mid-March. We saw significant recoveries in most European markets, albeit at varying paces, in the subsequent months, and at the end of the reporting period, sales were close to normal in several markets, including most of the Nordic countries, Germany, Switzerland, France and Italy. However, sales in Sweden and the UK were still significantly below our initial expectations.

The outbreak of coronavirus has also had a severe impact on sales in Asia, but the timing and severity have been somewhat different than what we have seen in Europe and North America. Since the low point early in the year, sales have increased gradually through the first half-year, and organic growth in the reporting period was only slightly negative. The encouraging development was driven by China and South Korea, whereas the recovery process has been somewhat slower in Japan.

In the Pacific region, growth was also negatively impacted by coronavirus, but we saw a positive development towards the end of the reporting period, so organic growth in the first half-year was less negative than in North America and Europe.

Our *Other countries* region saw negative growth in line with overall growth in our wholesale business.

Now in mid-August, revenue growth in local currencies in our hearing aid wholesale business is -15% to -5%, and the increase compared to previous levels is driven by increased sales in almost all geographies and particularly to independent hearing care professionals, whereas sales to VA and the NHS remain at a low level.

Retail

In the first half-year, revenue in our hearing aid retail business declined by 31% in local currencies of which 4 percentage points are attributable to acquisitive growth.

Our retail business had a strong start to the year with strong organic growth before the outbreak of coronavirus, but as was the case with our wholesale revenue, our retail revenue quickly dropped as lockdowns in almost all our markets led to temporary closures of our clinics. As lockdown restrictions were eased, we were able to gradually re-open our clinics and service our users, and we saw a strong uptake in sales towards the end of the reporting period.

In North America, we were slightly behind plans until mid-March when we temporarily closed our retail clinics in response to the outbreak of coronavirus. Even though sales improved towards the end of the reporting period, our retail business has been severely impacted due to its exposure in some of the areas that were hit the hardest by coronavirus and thus lockdowns. Generally, the recovery in North America has been relatively slower than in the rest of the world and, as a result, the negative growth in the first half-year in North America was much more severe than in other regions.

In Europe, we saw strong organic growth in the first months of the year, which was partly due to weak comparative figures as a result of the introduction of the French hearing healthcare reform last year, and partly due to strong performances in a number of other markets. Market lockdowns across the region halted sales from mid-March, but since the low point in sales in early May, we have seen significant recoveries in many European markets, including Denmark, Switzerland, France and Poland. Sales in the UK are still significantly below our original expectations.

Management commentary

Performance in the Pacific region in the first two months of the year was in line with expectations, as we delivered solid organic growth in Australia despite the anticipated spill-over effect of last year's IT incident. The outbreak of coronavirus had a significant impact on sales, but the subsequent recovery was encouraging, and in the first half-year as a whole, our retail businesses based in the Pacific region saw the smallest impact of coronavirus of all our retail business.

Now in mid-August, revenue growth in local currencies in our hearing aid retail business is -10% to 0%, and the increase compared to previous levels is primarily driven by increased sales in a number of our European markets, whereas the recovery in our North American retail business is slower.

Hearing Implants

Sales in Hearing Implants declined by 18% in local currencies in the first half-year.

After a slow start to the year due to lower-than-expected sales in France and the timing of tender sales, the activity level in our cochlear implants (CI) business dropped to almost zero from around mid-March, as elective surgeries were postponed due to the fact that hospitals prioritised coronavirus treatment. While sales improved from a low point in early May, recovery towards the end of the reporting period was slow, and despite support from tender sales, our CI revenue declined by 34% in local currencies in the first half-year. In spite of the severe impact of coronavirus, we have maintained our commitment to drive innovation, and in the first half-year, we launched a new connectivity solution to be used in the Neuro 2 sound processor that makes it possible to stream sound from a variety of communication and entertainment devices by means of the Oticon Medical Streamer. At the end of March, we submitted our final application for pre-market approval of the Neuro system in the US to the FDA, and the reviewing process is progressing according to plan.

Sales in our bone anchored hearing systems (BAHS) business declined by 3% in local currencies in the first half-year. The momentum from the second half of last year carried over into 2020, and we saw exceptionally strong organic growth rates at the beginning of the year driven by the uptake of the Ponto 4 sound processor. The growth momentum was, however, interrupted by the outbreak of coronavirus, which had a severe negative impact, but we have seen an encouraging recovery since the low point in early May driven, in particular, by sound processor upgrade sales, and for the first half-year as a whole, we recorded positive organic growth rates in Australia, Denmark and France.

Now in mid-August, revenue growth in local currencies in Hearing Implants is -20% to -10%, and the increase compared to previous levels is driven by continued recovery in BAHS, whereas sales in CI continue to be more muted.

Diagnostics

In Diagnostics, revenue declined by 3% in local currencies in the first half-year, with almost -3 percentage points being attributable to organic growth and close to 1 percentage point to acquisitions. Despite the negative growth, we were able to gain market share from an already strong position.

In the first few months of the year, we saw strong, broad-based organic growth across product segments, brands and geographies with US as the primary driver. As the coronavirus spread across the globe, our existing pipeline provided some support, as sales lead times are relatively long, and the impact was therefore less severe than for the rest of our hearing healthcare businesses. Towards the end of the reporting period, revenue from new orders started to increase again in most developed markets, while sales to a number of emerging markets remained muted.

Now in mid-August, revenue growth in local currencies in Diagnostics is -5% to 5% driven by growth in sales in Europe and Asia.

Communications (EPOS)

EPOS, our premium audio and video solutions business for enterprises and gamers, was fully consolidated into the Group with financial effect from 1 January 2020. Revenue in the first half-year was DKK 546 million, corresponding to significant double-digit growth. After a soft start to the year where supply chain headwinds hampered sales, EPOS managed to exploit a surge in demand for headsets following the outbreak of coronavirus, which led to a significant increase in the use of headsets and virtual collaboration tools. As a result of continued high demand, EPOS still saw some level of back orders at the end of the reporting period.

The trend where more and more people work remotely seems to continue beyond mid-August. We are thus ready for some busy months where we will leverage our global reach and premium positioning to drive growth while further establishing the EPOS brand in the marketplace.

Management statement

We have today discussed and approved this Interim Report 2020 for Demant A/S.

Interim Report 2020 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 2020 has not been audited or reviewed by our auditors.

In our opinion, Interim Report 2020 gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2020 as well as of the results of our activities and cash flows for the first six months of 2020.

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, 17 August 2020

Executive Board:

Søren Nielsen
President & CEO

René Schneider
CFO

Board of Directors:

Niels B. Christiansen
Chairman

Niels Jacobsen
Deputy Chairman

Thomas Duer

Casper Jensen

Benedikte Leroy

Anja Madsen

Jørgen Møller Nielsen

Lars Rasmussen

Consolidated income statement

(DKK million)	H1 2020	H1 2019	Full year 2019
Revenue	6,078	7,350	14,946
Production costs	-1,932	-1,649	-3,621
Gross profit	**4,146**	**5,701**	**11,325**
R&D costs	-618	-552	-1,120
Distribution costs	-3,492	-3,661	-7,421
Administrative expenses	-388	-415	-851
Share of profit after tax, associates and joint ventures	466	40	118
Other operating income	-	-	100
Operating profit (EBIT)	**114**	**1,113**	**2,151**
Financial income	21	21	41
Financial expenses	-109	-140	-281
Profit before tax	**26**	**994**	**1,911**
Tax on profit for the period	95	-227	-444
Profit for the period	**121**	**767**	**1,467**
Profit for the period attributable to:			
Demant A/S' shareholders	119	763	1,462
Non-controlling interests	2	4	5
	121	**767**	**1,467**
Earnings per share (EPS), DKK	0.50	3.12	6.00
Diluted earnings per share (DEPS), DKK	0.50	3.12	6.00

Consolidated statement of comprehensive income

(DKK million)	H1 2020	H1 2019	Full year 2019
Profit for the period	**121**	**767**	**1,467**
Items that have been or may subsequently be reclassified to the income statement:			
Foreign currency translation adjustments, subsidiaries	-146	32	131
Foreign currency translation adjustments, associates reclassified to income statement	-	-	-14
Value adjustments of hedging instruments:			
Value adjustments for the period	14	-41	-101
Value adjustments transferred to revenue	22	45	91
Tax on items that have been or may subsequently be reclassified to the income statement	-9	-1	7
Items that have been or may subsequently be reclassified to the income statement	**-119**	**35**	**114**
Items that will not subsequently be reclassified to the income statement:			
Actuarial gains/losses on defined benefit plans	-	-	-55
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	**-**	**-**	**-45**
Other comprehensive income	**-119**	**35**	**69**
Comprehensive income	**2**	**802**	**1,536**
Comprehensive income attributable to:			
Demant A/S' shareholders	-	798	1,531
Non-controlling interests	2	4	5
	2	**802**	**1,536**

Consolidated balance sheet

(DKK million)	30 June 2020	30 June 2019	31 Dec. 2019
Assets			
Goodwill	8,759	7,519	7,826
Patents and licences	16	27	21
Other intangible assets	535	484	508
Prepayments and assets under development	222	184	221
Intangible assets	**9,532**	**8,214**	**8,576**
Land and buildings	869	856	887
Plant and machinery	224	231	240
Other plant, fixtures and operating equipment	339	351	372
Leasehold improvements	412	375	427
Prepayments and assets under construction	241	103	135
Property, plant and equipment	**2,085**	**1,916**	**2,061**
Leased assets	1,785	1,938	1,937
Investments in associates and joint ventures	715	920	963
Receivables from associates and joint ventures	235	154	182
Other investments	16	16	16
Other receivables	531	609	598
Deferred tax assets	757	566	551
Other non-current assets	**4,039**	**4,203**	**4,247**
Non-current assets	**15,656**	**14,333**	**14,884**
Inventories	1,936	1,777	1,852
Trade receivables	2,518	3,047	3,209
Receivables from associates and joint ventures	69	163	178
Income tax	81	100	106
Other receivables	581	439	521
Unrealised gains on financial contracts	27	14	13
Prepaid expenses	280	272	243
Cash	919	614	792
Current assets	**6,411**	**6,426**	**6,914**
Assets	**22,067**	**20,759**	**21,798**

Consolidated balance sheet

(DKK million)	30 June 2020	30 June 2019	31 Dec. 2019
Equity and liabilities			
Share capital	48	49	49
Other reserves	7,392	7,535	7,587
Equity attributable to Demant A/S' shareholders	**7,440**	**7,584**	**7,636**
Equity attributable to non-controlling interests	9	12	9
Equity	**7,449**	**7,596**	**7,645**
Borrowings	2,427	1,252	2,512
Lease liabilities	1,425	1,536	1,546
Deferred tax liabilities	321	232	314
Provisions	298	231	283
Other liabilities	276	180	203
Deferred income	375	485	451
Non-current liabilities	**5,122**	**3,916**	**5,309**
Borrowings	5,959	5,986	5,513
Lease liabilities	406	423	418
Trade payables	643	546	652
Payables to associates and joint ventures	-	-	3
Income tax	157	206	66
Provisions	77	15	38
Other liabilities	1,677	1,473	1,521
Unrealised losses on financial contracts	21	29	43
Deferred income	556	569	590
Current liabilities	**9,496**	**9,247**	**8,844**
Liabilities	**14,618**	**13,163**	**14,153**
Equity and liabilities	**22,067**	**20,759**	**21,798**

Consolidated cash flow statement

(DKK million)	H1 2020	H1 2019	Full year 2019
Operating profit (EBIT)	114	1,113	2,151
Non-cash items etc.	364	472	966
Change in receivables etc.	357	-347	-527
Change in inventories	-54	-144	-218
Change in trade payables and other liabilities etc.	-42	63	174
Change in provisions	62	5	46
Dividends received	20	118	183
Cash flow from operating profit	**821**	**1,280**	**2,775**
Financial income etc. received	11	14	25
Financial expenses etc. paid	-109	-139	-280
Realised foreign currency translation adjustments	-1	-1	1
Income tax paid	7	-107	-372
Cash flow from operating activities (CFFO)	**729**	**1,047**	**2,149**
Acquisition of enterprises, participating interests and activities	-293	-318	-603
Investments in and disposal of intangible assets	-85	-84	-195
Investments in property, plant and equipment	-246	-255	-571
Disposal of property, plant and equipment	4	4	10
Investments in other non-current assets	-104	-163	-329
Disposal of other non-current assets	191	153	274
Cash flow from investing activities (CFFI)	**-533**	**-663**	**-1,414**
Repayments of borrowings	-97	-55	-90
Proceeds from borrowings	1,180	387	1,647
Change in short-term bank facilities	-717	142	-352
Repayment of lease liabilities	-221	-217	-446
Dividends to non-controlling interests	-2	-3	-5
Share buy-backs	-197	-264	-946
Cash flow from financing activities (CFFF)	**-54**	**-10**	**-192**
Cash flow for the period, net	**142**	**374**	**543**
Cash and cash equivalents at the beginning of the period	792	248	248
Foreign currency translation adjustments of cash and cash equivalents	-15	-8	1
Cash and cash equivalents at the end of the period	**919**	**614**	**792**
Breakdown of cash and cash equivalents at the end of the period:			
Cash	919	614	792
Cash and cash equivalents at the end of the period	**919**	**614**	**792**

Acquisition of enterprises, participating interests and activities in H1 2020 includes loans of DKK 123 million (DKK 32 million in H1 2019) classified as other non-current assets, which have been settled as part of acquisitions without cash payments.

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	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-2	-2
Equity at 30.06.2020	**48**	**-112**	**6**	**7,498**	**7,440**	**9**	**7,449**

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 1.1.2019	**50**	**-88**	**-13**	**7,101**	**7,050**	**9**	**7,059**
Comprehensive income for the period:							
Profit for the period	-	-	-	763	763	4	767
Other comprehensive income:							
Foreign currency translation adjustments, subsidiaries	-	32	-	-	32	-	32
Value adjustments of hedging instruments:							
Value adjustments for the period	-	-	-41	-	-41	-	-41
Value adjustments transferred to revenue	-	-	45	-	45	-	45
Tax on other comprehensive income	-	-	-1	-	-1	-	-1
Other comprehensive income	**-**	**32**	**3**	**-**	**35**	**-**	**35**
Comprehensive income for the period	**-**	**32**	**3**	**763**	**798**	**4**	**802**
Share buy-backs	-	-	-	-264	-264	-	-264
Capital reduction through cancellation of treasury shares	-1	-	-	-1	-	-	-
Other changes in equity	-	-	-	-	-	-1	-1
Equity at 30.06.2019	**49**	**-56**	**-10**	**7,601**	**7,584**	**12**	**7,596**

Note 1 – Acquisition of enterprises and activities

(DKK million)	Fair value on acquisition North America	Europe/ Asia	H1 2020	H1 2019
Intangible assets	6	8	14	15
Property, plant and equipment	-	19	19	10
Other non-current assets	1	19	20	61
Inventories	3	39	42	2
Current receivables	3	117	120	19
Cash and bank debt	4	36	40	28
Non-current liabilities	-1	-22	-23	-23
Current liabilities	-8	-193	-201	-17
Acquired net assets	**8**	**23**	**31**	**95**
Goodwill	114	883	997	270
Acquisition cost	**122**	**906**	**1,028**	**365**
Carrying amount of non-controlling interests on obtaining control	-1	-228	-229	-50
Fair value adjustment of non-controlling interests on obtaining control	-	-456	-456	-
Contingent considerations and deferred payments	-39	-12	-51	-19
Acquired cash and bank debt	-4	-36	-40	-28
Cash acquisition cost	**78**	**174**	**252**	**268**

On 1 January 2020, the ownership structure of Sennheiser Communications A/S was changed through a demerger whereby Demant A/S obtained full control of the Gaming and Enterprise Solutions segments, and German Sennheiser electronic GmbH & Co KG ("Sennheiser KG") obtained control of the Mobile segment. The purchase price for the Gaming and Enterprise Solutions segments was DKK 477 million. The demerger is based on a cash-free split of ownership.

On 2 January 2020, Demant A/S acquired an additional interest in Audilab SAS, which is a large retail network of hearing aid clinics in France. Thus, Demant A/S is now the direct owner of 95% of the shares in Audilab SAS.

The Group´s other acquisitions in the first half-year of 2020 primarily consist of retail acquisitions in Europe and North America. In respect of all 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 the first half-year, a few adjustments were made to the preliminary recognition of acquisitions made in 2019. These adjustments were made in respect of payments made, contingent considerations provided as well as net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 1 million (DKK 0 million in the first half of 2019). In relation to acquisitions with final recognition before 2019, adjustments were made in the reporting period 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 456 million (DKK 0 million in the first half of 2019), and adjustments of contingent considerations

Note 1 – Acquisition of enterprises and activities

made via the income statement of DKK 6 million (DKK 1 million in the first half of 2019) are recognised under *Distribution costs* for acquisitions and DKK 5 million are recognised in *Share of profit after tax, associates and joint ventures* for associates and joint ventures.

Of the total acquisition costs in the reporting period, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 51 million (DKK 19 million in the first half of 2019). 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 53 million (DKK 19 million in the first half of 2019) for acquisitions. Contingent considerations decreased by DKK 1 million in respect of exchange rate adjustments and decreased by DKK 41 million in respect of payments for acquisitions. As of 30 June 2020, contingent considerations totalled DKK 127 million (DKK 155 million as of 30 June 2019).

The acquired assets include contractual receivables amounting to DKK 100 million (DKK 12 million in the first half of 2019) of which DKK 1 million (DKK 0 million in the first half of 2019) was thought to be uncollectible at the date of acquisition. Of total goodwill in the amount of DKK 997 million (DKK 270 million in the first half of 2019), DKK 40 million (DKK 111 million in the first half of 2019) can be amortised for tax purposes. Transaction costs in connection with acquisitions made in 2020 amounted to DKK 0 million (DKK 1 million in the first half of 2019) and were recognised under *Distribution costs*.

The above-mentioned fair values of acquisitions made in the first half of 2020 and in the first half of 2019 are not considered final until 12 months after takeover.

Revenue and profit after tax generated by the acquired enterprises since our acquisition in 2020 amount to DKK 590 million (DKK 34 million in the first half of 2019) and DKK 17 million (DKK 1 million in the first half of 2019), respectively. Had such revenue and profit been consolidated on 1 January 2020, we estimate that consolidated pro forma revenue and profit after tax would have been DKK 6,086 million (DKK 7,369 million in the first half of 2019) and DKK 121 million (DKK 768 million in the first half of 2019), respectively. Without taking synergies from our core business into account, we believe that these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises.

As part of our ordinary activities, we have made acquisitions in the period between the balance sheet date and publication of this Interim Report 2020. We are in the process of calculating their fair values. Acquisition costs are expected to relate primarily to goodwill.

Note 2 – Accounting policies and estimates

This Interim Report 2020 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 2020 are the same as the accounting policies used for our Annual Report 2019 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 2020. The amendments, revised standards and interpretations have not had a significant effect.

The following new standards or amendments have not yet been endorsed by the EU:

- IFRS 16 and Covid-19: The amendment is due to Covid-19 and relates to rent reductions or deferrals.

The impact on the consolidated financial statements has not yet been determined. It is expected that the EU will endorse the amendments in the second half of 2020, and the Group will hereafter assess the impact.