

## Company announcement no 2020-08

17 June 2020

### Update on the effects of coronavirus

**Hearing healthcare market conditions improving due to gradual re-opening of society**  
**Group revenue run rate (including EPOS) currently 50-60% of initial expectations**  
**Outlook for 2020 still withdrawn due to continued uncertainty about the pace of recovery**

In recent weeks, coronavirus lockdown restrictions have been eased in many countries, including the main hearing healthcare markets, and as society has gradually begun to re-open, the ability to service users has also increased. The hearing healthcare market conditions have thus improved since the beginning of May when we published our interim management statement, but market conditions differ significantly across countries and business areas. The fundamental drivers of demand for hearing healthcare products and services remain unchanged, and we have not seen any signs of material changes in the users' willingness to seek help and support during the gradual re-opening of society. We still believe that we will see pent-up demand for hearing healthcare products and services materialise, and it may well spill over into 2021, but the timing and magnitude remain uncertain.

#### Business activities

As governments have eased coronavirus restrictions, the demand for hearing healthcare solutions has increased gradually in recent weeks, and the Group's revenue run rate (including EPOS) is currently 50-60% of our original expectations (30% at the beginning of May) – however with significant differences across countries and business areas.

In our hearing aid wholesale business, the revenue run rate has increased to currently 60-70% of our original expectations (20% at the beginning of May). Following the ease of restrictions, market conditions have improved significantly in a number of European markets, including most of the Nordic countries, Germany and Switzerland. In France, Spain and Italy, the pace of the initial recovery has been slower, and in the UK, the activity level remains very low. In the US, we see significant differences in the activity level from one state to the other. Generally, the activity level of independent audiologists has increased significantly, but in other channels, including VA (Veterans Affairs), the increase is taking place at a much slower pace. In Asia, we continue to see the activity level in China approaching normalisation, but in other parts of the world, including South America, the hearing healthcare market is still severely impacted by coronavirus.

Since the beginning of May, we have also seen an increase in the revenue run rate in our hearing aid retail business, and the run rate is currently 40-50% of our original expectations (20% at the beginning of May). As a result of the improved market conditions, we have started to re-open clinics in almost all the markets we operate in, but the increase in revenue is slower than in the wholesale business due to the timing of invoicing.

In Hearing Implants, the revenue run rate is currently 30-40% of our original expectations (20% at the beginning of May). We have seen some improvements in both business areas, but our bone anchored hearing systems (BAHS) business is improving faster than our cochlear implants (CI) business.

In Diagnostics, the revenue run rate is currently 60-70% of our original expectations (60% at the beginning of May). Overall, the number of new orders has increased in recent weeks, but sales in a number of emerging markets are still severely impacted.

In Communications (EPOS), the revenue run rate is still around 120% compared to our original plan (120% at the beginning of May) due to continued strong demand for headsets driven by the increased usage of virtual collaboration tools. Fulfilling the demand for headsets remains key to us, but due to short-term production limitations, the level of backorders is still significant.

## **Other matters**

Thanks to an increased production output, we have seen improvements in the gross profit margin since the low point at the beginning of May, but we will continue to experience headwind until our production output normalises fully. As we resume commercial activities and ramp up business operations as a result of the improved market conditions, OPEX is approaching normalisation faster than revenue, and the run rate is currently 75-85% of our initial plans (60% at the beginning of May). We expect the operating profit before one-offs related to the EPOS consolidation to be negative in the first half-year.

Although we have so far only seen a very limited number of delayed payments by customers, we do expect to recognise some level of write-downs on receivables in the first half-year. As previously communicated, we have extended our available credit facilities considerably since the beginning of the year, and despite our expectations of a significant decrease in our cash flow generation in the coming months, we do not foresee any short- to medium-term liquidity challenges.

## **Outlook for 2020**

The Group's outlook for 2020 was withdrawn on 15 March as a direct consequence of coronavirus. While restrictions due to lockdowns have been eased in many markets in recent weeks, we still lack visibility when it comes to the pace of the ongoing recovery towards normalisation of the hearing healthcare market – especially in some of our main markets. Consequently, we are still not able to provide a financial outlook for 2020.

We maintain the suspension of share buy-backs, pending a better overview of the financial implications of the current situation.

As soon as we are able to properly assess the impact of coronavirus on the hearing healthcare market and the derived impact on our own business, we will release an updated outlook for 2020, and we will publish any material new information as it becomes available. Our Interim Report 2020 is scheduled for publication on 17 August 2020.

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Demant will host a conference call on 17 June 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 58992666#. A presentation for the call will be uploaded on [www.demant.com](http://www.demant.com) shortly before the call.

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