

**Company announcement** no 2020-02

4 February 2020

Annual Report 2019

**Revenue growth of 7% despite significant headwind from IT incident****New flagship products driving 9% underlying organic growth in hearing aid wholesale business****Reported EBIT of DKK 2,151 million with estimated negative impact of IT incident of DKK 550 million****Outlook for 2020: EBIT of DKK 2,650-2,950 million after a negative spill-over effect of IT incident of DKK 100-150 million**

- Consolidated revenue for 2019 amounted to DKK 14,946 million, corresponding to a growth rate of 7%. Organic growth accounted for 4 percentage points, acquisitions for 2 percentage points and exchange rate effects for less than 2 percentage points. Adjusted for an estimated negative revenue impact of the IT incident of DKK 575 million, underlying organic growth for the Group was 8%.
- In Hearing Devices, growth in local currencies amounted to 4%. Reported organic growth in the hearing aid wholesale business was 5% driven by the successful uptake of the new flagship products launched in all brands in the first half-year, including Oticon Opn S and Philips HearLink. Growth was driven by unit growth of 8%, whereas growth in the average selling price (ASP) was -3% after a sequential improvement in the second half-year compared to the first half-year. Adjusted for the estimated negative impact of the IT incident, underlying organic growth for 2019 was 9%. Over the next months, we will further expand our product portfolio when we introduce new rechargeable mid-priced products in all brands.
- Our hearing aid retail business saw growth of 4% in local currencies, all of which was acquisitive growth, whereas the reported organic growth rate was flat. In the US and Australia, we saw negative growth due to the significant negative impact of the IT incident. In the US, we also saw an increasing share of managed care, which reduced the retail ASP, partly offset by positive unit growth. Adjusted for the estimated negative impact of the IT incident, the underlying organic growth rate was 4% driven by good performances in our European markets. Acquisitive growth predominately related to a large acquisition made in the US in the first half of 2018.
- Hearing Implants delivered strong – entirely organic – growth of 21% in local currencies after seeing growth accelerating in the second half-year. Organic growth in our cochlear implants (CI) business was 25% driven by the continued success of our Neuro system. Our bone-anchored hearing systems (BAHS) business delivered organic growth of 18% after significant growth acceleration in the second half-year driven by the new Ponto 4 sound processor launched in June 2019.
- In Diagnostics, growth in local currencies was strong and amounted to 11% of which 10 percentage points were organic growth and 1 percentage point related to acquisitions made during the year. North America, in particular, delivered a strong performance, and growth was furthermore fuelled by tender wins.
- Sennheiser Communications delivered growth of 4%, or an underlying growth rate of 12% measured as sales to external customers. Growth was mainly driven by wireless products in the Mobile Music segment. However, due to unfavourable product mix effects, increased spending on R&D and distribution and very strong comparative figures, Sennheiser Communications' contribution to the Group's operating profit (EBIT) decreased materially by 37% to DKK 66 million. As planned, the announced demerger of the joint venture is expected to be completed during 2020 with financial effect from 1 January 2020.
- For the Group as a whole, we estimate that the IT incident had a total negative financial impact on EBIT in 2019 of DKK 550 million (previously DKK 550-650 million). This number comprises DKK 575 million in lost sales (previously DKK 600-700 million), of which slightly more than half relates to our hearing aid wholesale business and slightly less than half to our hearing aid retail business, and DKK 75 million in direct costs (previously DKK 50 million), which is partly offset by the insurance coverage of DKK 100 million. This estimate is, however, subject to material uncertainty, as we cannot accurately determine the Group's performance, had the IT incident not occurred. For 2020, we expect a negative spill-over effect on EBIT of DKK 100-150 million, primarily due to an impact on sales. The major part of this effect relates to our hearing aid wholesale business, as we have lost time relative to our original plans and, despite

regaining momentum at the end of 2019, we entered 2020 at a lower run rate than anticipated prior to the incident. We also expect some spill-over effect on our hearing aid retail business, specifically relating to Australia where our lead generation has not yet reached a normal level.

- The Group's gross profit margin was 75.8%, or a decrease of 1.6 percentage points compared to 2018, which can primarily be attributed to the IT incident and secondarily to a significant increase in sales of rechargeable products. Year-over-year, capacity costs grew by 12% of which 7 percentage points were organic due to increased R&D efforts initiated during 2018 and higher distribution costs, particularly in our hearing aid retail business. However, on a sequential basis, growth in the second half-year was slightly less than 3% compared to the first half-year. Reported EBIT for the Group amounted to DKK 2,151 million, which was in the middle of our latest guidance range of DKK 2,000-2,300 million. The decrease of 15% compared to reported EBIT last year is due to the significant negative impact of the IT incident. The corresponding EBIT margin was 14.4% compared to 18.2% in the same period last year. Adjusted for the estimated impact of the IT incident, EBIT amounted to DKK 2,701 million.
- Adjusted for the effect of IFRS 16 and a one-off effect related to the demerger of Sennheiser Communications, cash generation was strong and cash flow from operating activities (CFFO) increased by 17% to DKK 1,976 million driven by net working capital improvements, higher dividends received and lower tax payments. Free cash flow before acquisitions decreased by 2% to DKK 1,165 million. Share buy-backs amounted to DKK 946 million for the year. As at the end of 2019, net interest-bearing debt excluding lease liabilities (NIBD) amounted to DKK 6,221 million, and our gearing multiple was 2.0 measured as NIBD relative to normalised EBITDA adjusted for the impact of IFRS 16 and the IT incident. On a reported basis, our gearing multiple was 2.4 and thus temporarily exceeded our target range of 1.7-2.2 as a direct consequence of the IT incident.
- As a result of the consolidation of EPOS (previously Sennheiser Communications) with financial effect from 1 January 2020, we will realise several one-offs with an estimated combined positive EBIT effect of DKK 200-400 million. These will be recognised as special items in the Group's EBIT. The one-offs will have a negative effect on our cash flow of DKK 100-200 million. These one-off effects are not included in our outlook for the year.
- Outlook for 2020:
  - We expect to generate organic sales growth significantly above the market growth rate partly due to the negative impact in 2019 of the IT incident. This excludes sales growth related to the consolidation of EPOS. Based on exchange rates as of 3 February 2020 and including the impact of exchange rate hedging, we expect an exchange rate effect of slightly below 1% on revenue in 2020. Based on revenue from acquisitions completed as of today, we expect growth from acquisitions of 1%.
  - We expect an EBIT of DKK 2,650-2,950 million after the negative spill-over effect from the IT incident of DKK 100-150 million. The results generated by EPOS (excluding positive one-offs of DKK 200-400 million) is an integrated part of our outlook for 2020.
  - We expect to generate solid growth in CFFO and in the free cash flow before acquisitions (excluding negative EPOS-related one-offs of DKK 100-200 million) as a result of the expectation of higher EBIT. We will spend the free cash flow after acquisitions on buying back shares, while observing our aim to maintain a gearing multiple of 1.7-2.2 measured as NIBD relative to normalised EBITDA (adjusted for the impact of IFRS 16).

*"2019 was a very eventful year for the Demant Group. We executed many successful product launches and introduced new brands, which reflects our commitment to develop and drive growth through a multi-business strategy. I commend the technological achievements and initiatives of all our business activities to the benefit of our many customers and users. I am particularly satisfied with the impressive growth in Hearing Implants and Diagnostics and the Group's ability to deliver decent revenue growth. That being said, I regret to see our financial results being hampered by the IT incident in autumn, which impacted our ability to perform and do what we do best, namely delivering life-changing hearing health to millions of people. But I'm proud of how our global organisation handled the severe consequences of the incident and kept focused on minimising the impact for customers, so we are more than ready for a very productive 2020,"* says Søren Nielsen, President & CEO of Demant.

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Demant will host a conference call on 4 February 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 65532074#. A presentation for the call will be uploaded on [www.demant.com](http://www.demant.com) shortly before the call.

*Further information:*

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	2019	2018	2017	2016	2015	Change 2018-2019
<b>Key figures, DKK million</b>						
Revenue	14,946	13,937	13,189	12,002	10,665	7%
Gross profit	11,325	10,784	10,026	9,030	7,895	5%
Gross profit – adjusted*	11,325	10,825	10,064	9,102	7,895	5%
R&D costs	1,120	1,009	919	839	763	11%
EBITDA	3,110	2,978	2,742	2,346	2,203	4%
Amortisation and depreciation etc.	959	446	404	404	325	115%
Operating profit (EBIT)	2,151	2,532	2,338	1,942	1,878	-15%
Operating profit (EBIT) – adjusted*	2,151	2,652	2,504	2,130	1,902	-19%
Net financial items	-240	-164	-111	-101	-69	46%
Profit before tax	1,911	2,368	2,227	1,841	1,809	-19%
Profit for the year	1,467	1,830	1,759	1,464	1,439	-20%
<b>Financial ratios</b>						
Gross profit margin	75.8%	77.4%	76.0%	75.2%	74.0%	-
Gross profit margin – adjusted*	75.8%	77.7%	76.3%	75.8%	74.0%	-
EBITDA margin	20.8%	21.4%	20.8%	19.5%	20.7%	-
Profit margin (EBIT margin)	14.4%	18.2%	17.7%	16.2%	17.6%	-
Profit margin (EBIT margin) – adjusted*	14.4%	19.0%	19.0%	17.7%	17.8%	-
Earnings per share (EPS), DKK	6.00	7.32	6.84	5.53	5.30	-18%
Return on equity	19.5%	25.7%	24.0%	21.5%	23.7%	-

*Earnings per share (EPS) is per share of nominally DKK 0.20.*

*\*Adjusted for costs related to the 2016-2018 restructuring programme.*