

# Company announcement no 2022-03

## Annual Report 2021

8 February 2022

**Very strong performance in 2021 with 27% organic growth and market share gains in Hearing Healthcare**  
**Strong profitability with EBIT of DKK 3,386 million before one-off items, corresponding to EBIT margin of 18.4%**  
**High cash generation in 2021 with CFFO of DKK 3,275 million, supporting share buy-backs of DKK 3.2 billion**  
**Outlook for 2022: Organic growth of 5-9% and EBIT of DKK 3,450-3,750 million**

“2021 was a great year for Demant. To our satisfaction, we significantly exceeded our original, ambitious expectations and met our most recent outlook for the year by delivering high organic growth – above the market growth rate in our core segment, Hearing Healthcare – and an all-time high operating profit. Thanks to a great effort made by our employees and our customers’ commitment, our solutions and services have reached even more people, especially through the great success of our flagship hearing aids Oticon More and Philips HearLink and the individual counselling provided to users in thousands of hearing care clinics. Our purpose to create life-changing differences through hearing health has once again proved meaningful, and we have made good progress in our sustainability focus areas, diversity and climate action, which we will continue to work on in the future,” says Søren Nielsen, President & CEO of Demant, and concludes:

“The positive development and further normalisation we saw on the hearing aid and diagnostics markets in the second half-year will carry over into 2022. We thus expect to see strong growth in our core business areas, Hearing Care, Hearing Aids and Diagnostics, which also performed well in 2021, and in 2022, we will resume sales of our cochlear implants, and we expect to see growth in Communications. All of this leads us to present ambitious targets for 2022.”

Business area	Revenue (DKK million)			Growth H2 2021 vs H2 2020			Growth FY 2021 vs FY 2020		
	H1 2021	H2 2021	FY 2021	Org.	Acq.	LCY	Org.	Acq.	LCY
Hearing Aids	4,416	4,564	8,980	19%	-1%	18%	34%	-0%	34%
Hereof sales to Hearing Care	-871	-762	-1,633	11%	4%	14%	43%	4%	46%
Hearing Care	3,737	3,816	7,553	10%	4%	13%	34%	4%	38%
Hearing Implants	266	246	512	-13%	0%	-13%	-2%	0%	-2%
Diagnostics	843	980	1,823	17%	1%	18%	25%	1%	25%
<b>Hearing Healthcare</b>	<b>8,391</b>	<b>8,844</b>	<b>17,235</b>	<b>14%</b>	<b>1%</b>	<b>15%</b>	<b>31%</b>	<b>1%</b>	<b>32%</b>
<b>Communications</b>	<b>621</b>	<b>562</b>	<b>1,183</b>	<b>-27%</b>	<b>0%</b>	<b>-27%</b>	<b>-9%</b>	<b>0%</b>	<b>-9%</b>
<b>Group</b>	<b>9,012</b>	<b>9,406</b>	<b>18,418</b>	<b>10%</b>	<b>1%</b>	<b>11%</b>	<b>27%</b>	<b>1%</b>	<b>28%</b>

Unless otherwise indicated, all commentary is based on figures adjusted for net positive one-off items.

- In H2, revenue for the **Group** grew by 11% in local currencies, consisting of 10% organic growth and 1% acquisitive growth. Exchange rate effects were 1%. For FY 2021, growth was 28% in local currencies, consisting of 27% organic growth and 1% acquisitive growth, which is in line with our most recent outlook. Exchange rate effects were -1%. Comparisons are not made to 2019 as our financial performance in 2019 was severely impacted by the IT incident.
- Our **Hearing Healthcare** segment grew by 15% in local currencies in H2, consisting of 14% organic growth and 1% acquisitive growth. Hearing Aids delivered strong growth thanks to the continued success of our flagship products, Oticon More and Philips HearLink, which drove market share gains, particularly in the US. Aided by further tailwind from the hearing healthcare reform in France, Hearing Care also delivered strong performance, and Diagnostics continued to deliver strong results and further cemented its position as market leader. Hearing Implants was significantly impacted by the voluntary field corrective action announced by our cochlear implants business in October.

- In **Communications**, growth in H2 was -27% in local currencies, all of which was organic growth. This was due to high comparative figures and a slowdown in sales that began in Q2 and continued into Q3, but momentum improved in the remainder of H2, particularly in Enterprise Solutions. Compared to H1, sequential growth was -10%, which is in line with our most recent expectations.
- The Group realised a **gross margin** of 75.8% in H2, corresponding to growth of 3.3 percentage points, despite having incurred additional costs related to the dynamic supply chain situation, which impacted the gross margin negatively by an estimated 0.5 percentage point in H2.
- The Group's **OPEX** grew by 15% in local currencies in H2, consisting of 14% organic growth and 1% acquisitive growth, reflecting a normalisation of the cost base, substantial sales growth and temporary cost savings realised in the comparative period, including support from government schemes related to coronavirus.
- For H2, **EBIT** for the Group amounted to DKK 1,748 million before net positive one-off items, corresponding to an EBIT margin of 18.6% driven by increased profitability in Hearing Healthcare, which delivered an EBIT margin of 20.6%, whereas Communications realised EBIT of DKK -78 million, which was on par with our most recently announced expectations. The Group's EBIT for FY 2021 thus amounted to DKK 3,386 million before one-off items, which is also in line with our most recent outlook.
- The previously announced **one-off items** had a net positive impact on the Group's EBIT of DKK 59 million in H2 and in FY 2021. The one-off items had no impact on CFFO and FCF, but the divestment of FrontRow Callypso LLC had a positive impact of DKK 161 million on the Group's net cash flow.
- Cash flow remained strong in H2, with **CFFO** of DKK 1,764 million and **FCF** of DKK 1,291 million before net cash spent on acquisitions and divestments, totalling DKK 141 million.
- In line with our most recent outlook, **share buy-backs** amounted to DKK 3.2 billion. The Group's **gearing** (NIBD/EBITDA) was 2.0 at the end of the year, which is at the low end of our medium- to long-term target of 2.0-2.5.

## OUTLOOK FOR 2022

Our outlook for 2022 is summarised in the table below:

Metric	Outlook for 2022
Organic growth	5-9%
Acquisitive growth	1% based on revenue from acquisitions completed as of 7 February 2022
FX growth	2% based on exchange rates as of 7 February 2022 and including the impact of hedging
EBIT	DKK 3,450-3,750 million
Effective tax rate	22-23%
Gearing	Gearing (NIBD relative to EBITDA) in line with medium- to long-term target of 2.0-2.5
Share buy-backs	At least DKK 2.5 billion

The outlook is based on the following key expectations:

- The hearing healthcare market to normalise, resulting in unit growth in the hearing aid market of 4-6% and additional growth due to the release of some pent-up demand, albeit with significant differences between individual markets and channels. Such differences will not least be driven by different comparative bases going into 2022. Due to changes in geography and channel mixes, we expect ASP growth in the hearing aid market to be slightly more negative in 2022 than the normal 1-2% annual decline.
- Growth in the French hearing aid market to be negative in 2022 following the extraordinary demand in 2021, which we estimate benefitted the Group's revenue by DKK 300 million and EBIT by DKK 150 million. We do not expect this benefit to recur.
- The market for enterprise and gaming headsets and video solutions to grow in line with the estimated structural growth level of around 12%.
- Both segments, Hearing Healthcare and Communications, to gain market share in 2022, but Communications to realise double-digit negative organic revenue growth in Q1 2022 due to very high comparative figures.

- Supply chain situation to remain dynamic throughout the year and to result in higher-than-normal component costs and freight charges with an impact that is roughly similar to the impact in 2021, but with no material disruption to sales activities.
- The Group's OPEX base to see no benefit from temporary cost savings in 2022, which we estimate amounted to DKK 150-200 million in H1 2021.
- Sales of new cochlear implants to be resumed in Q3 2022 and to be gradually ramped up.
- Communications to realise a slightly negative EBIT in 2022.

## CHANGES TO REPORTING STRUCTURE

Starting with our next Interim Management Statement to be published on 3 May, we will going forward report revenue and growth rates by business area, by segment and for the Group as a whole in our interim management statements. Growth rates will be reported for Q1 and Q3, respectively, and split by organic, acquisitive and exchange rate growth. As a consequence, our next interim reports and annual reports will include growth rates for Q2 and Q4, respectively. The purpose of these changes is to further enhance transparency in the Group's financial performance and enable easier comparison to peers.

*Demant will host a conference call on 8 February 2022 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 89626182#. A presentation for the call will be uploaded to [www.demant.com](http://www.demant.com) shortly before the call.*

### *Further information:*

Søren Nielsen, President & CEO

Phone +45 3917 7300

[www.demant.com](http://www.demant.com)

### *Other contacts:*

René Schneider, CFO

Mathias Holten Møller, Head of Investor Relations

Trine Kromann-Mikkelsen, VP Corporate Communications and Relations

## Key figures and financial ratios

(DKK million)	H2 2021	H2 2020	Change	FY 2021	FY 2020	Change
<b>Hearing Healthcare</b>						
Revenue	8,844	7,631	16%	17,235	13,163	31%
Organic growth	14%	2%		31%	-13%	
Gross margin	77.5%	74.5%		77.0%	73.6%	
Operating profit (EBIT)	1,826	1,425	28%	3,508	1,211	190%
EBIT margin	20.6%	18.7%		20.4%	9.2%	
<b>Communications</b>						
Revenue	562	760	-26%	1,183	1,306	-9%
Organic growth	-27%	-		-9%	-	
Gross margin	48.2%	52.9%		48.3%	50.3%	
Operating profit (EBIT)	-78	81	-196%	-122	102	-220%
EBIT margin	-13.9%	10.7%		-10.3%	7.8%	
<b>Group</b>						
<b>Income statement</b>						
Adjusted revenue*	9,406	8,391	12%	18,418	14,469	27%
Revenue	9,376	8,391	12%	18,388	14,469	27%
Adjusted gross margin*	75.8%	72.5%		75.2%	71.5%	
Gross margin	75.0%	72.1%		74.8%	70.4%	
EBITDA	2,374	1,949	22%	4,536	2,578	76%
EBITDA margin	25.3%	23.2%		24.7%	17.8%	
Adjusted operating profit (EBIT)*	1,748	1,506	16%	3,386	1,313	158%
Adjusted EBIT margin*	18.6%	17.9%		18.4%	9.1%	
Operating profit (EBIT)	1,807	1,416	28%	3,445	1,530	125%
EBIT margin	19.3%	16.9%		18.7%	10.6%	
Net financial items	-99	-106	-6%	-202	-194	4%
Profit for the period	1,345	1,013	33%	2,528	1,134	123%
<b>Balance sheet</b>						
Total assets	24,860	21,927	13%	24,860	21,927	13%
Net interest-bearing debt (NIBD)	9,150	7,135	28%	9,150	7,135	28%
Equity	7,981	8,279	-4%	7,981	8,279	-4%
<b>Cash flow statement</b>						
Adjusted cash flow from operating activities (CFFO)*	1,764	1,944	-9%	3,275	2,710	21%
Cash flow from operating activities (CFFO)	1,764	1,892	-7%	3,275	2,621	25%
Investment in property, plant and equipment, net	339	251	35%	542	493	10%
Free cash flow	1,291	1,534	-16%	2,525	2,023	25%
Share buy-backs	1,387	-	n.a.	3,200	197	1,524%
<b>Other key figures</b>						
Return on equity	31.3%	25.7%		30.7%	14.3%	
Equity ratio	32.1%	37.8%		32.1%	37.8%	
Gearing (NIBD/EBITDA)	2.0	2.8		2.0	2.8	
Earnings per share (EPS), DKK	5.76	4.18	38%	10.70	4.68	129%
Free cash flow per share (FCFPS), DKK	5.56	6.40	-13%	10.75	8.44	27%
Price earnings (P/E) ratio	58.8	57.6	2%	31.3	51.4	-39%
Share price, end of period, DKK	335.10	240.60	39%	335.10	240.60	39%
Average number of shares outstanding, million	234.82	239.78	-2%	234.82	239.78	-2%
Market capitalisation	77,117	57,718	34%	77,117	57,718	34%
Average number of employees	17,817	16,203	10%	17,500	16,155	8%
Scope 1 & 2 CO <sub>2</sub> e emissions (tonnes)	-	-		30,555	23,115	32%
CEO remuneration ratio	-	-		35	36	
Gender diversity, all employees (women/men)	-	-		62/38%	60/40%	
Gender diversity, management (women/men)	-	-		43/57%	42/58%	
Gender diversity, Board of Directors (women/men)**	-	-		40/60%	40/60%	

\* Adjusted for one-off items in 2020 and 2021.

\*\* Shareholder-elected members.