EQUITY RESEARCH

DEMANT A/S

CPSE: DEMANT | Hearing Healthcare | Initiation of Coverage | May 2026

HOLD → BUY ON WEAKNESS

Target: $42.21 (DKK 290, 12-month base) • **Upside:** +21% from $34.87 | Bull: $53.83 (+54%) • **Horizon:** 12–18 months

Ticker	Share Price	Mkt Cap	EV	EV/EBITDA	Fwd P/E	Rating
CPSE: DEMANT	~DKK 239.6	~DKK 50.6bn	~DKK 67.8bn	13.1x (Yahoo Finance)	~18x NTM	HOLD to BUY below DKK 220

Demant is the world's second-largest hearing healthcare company — Oticon hearing aids, Hearing Care clinics (4,500+ worldwide post-KIND), and Bernafon Diagnostics. The structural investment case is one of the most compelling in healthcare: 1.5 billion people globally have hearing loss, only ~20% use hearing aids, and aging demographics guarantee the addressable market grows for the next two decades regardless of macro conditions.

The near-term debate is about FY2025's -240bps EBIT margin compression (19.6%→17.2%) and whether it is temporary or structural. Our analysis: **primarily temporary**. The US commercial market softness, FX headwinds, and below-trend operating leverage that drove the compression are already reversing — Q1 2026 showed Hearing Aids +9% organic with positive ASP, driven by Oticon Zeal. The structural component (rechargeable cost mix, KIND margin dilution) is addressed by the DKK 500m cost programme and KIND synergies.

We rate Demant **HOLD, moving to BUY below DKK 220**. At DKK 239.6, the risk/reward is positive but the KIND integration execution risk and 3.5× leverage overhang are real. Below DKK 220, you are buying a quality compounder at 15.5× FY2026E P/E with a structural demographic tailwind — the asymmetry between bull case (+54%) and bear case (-31%) makes the entry compelling.

1. COMPANY OVERVIEW

Demant A/S is a Danish hearing healthcare group built around three mutually reinforcing business areas. **Hearing Aids** (Oticon, Bernafon) designs and manufactures medical-grade hearing devices — from the flagship Oticon Intent (2024) and Oticon Zeal (2025-26) to disposable-battery lines and government subsidy SKUs. **Hearing Care** operates a global network of retail hearing clinics now exceeding 4,500 locations post-KIND, providing fitting, aftercare and repeat purchase capture. **Diagnostics** (Interacoustics, Maico) is the global market leader in audiological equipment — hearing tests, middle ear analysis — for hospitals, clinics and research institutions.

Division	H1 2025 Revenue	% of Group	Organic Growth	Key Brands / Model
Hearing Aids (external)	DKK 4,914m	~44%	-2% (recovery in Q1 2026: +9%)	Oticon Intent, Oticon Zeal, Bernafon
Hearing Care	DKK 5,149m	~46%	+2% (KIND adds +9% acquisitive from 2026)	4,500+ clinics globally incl. KIND Germany
Diagnostics	DKK 1,190m	~11%	-2% (US + China weakness)	Interacoustics, Maico — global #1 in audiological equipment
Group Total	DKK 11,253m	100%	0% organic, +3% acquisitive	Clean portfolio: EPOS sold, Oticon Medical sold

H1 2025 data; FY2025 full-year estimated ~DKK 23,000m. KIND closed Dec 1, 2025 — minimal FY2025 impact; full DKK 2,000m contribution from FY2026.

1.1 The Cleaned-Up Portfolio

Demant has spent 2024-2025 rationalising its portfolio. **EPOS** (professional headsets / collaboration audio, acquired during COVID as a remote-work bet) was sold to ACCO Brands for EUR 7m in January 2026 — essentially written off after carrying value write-downs of DKK 650m. **Oticon Medical** (bone-anchored hearing systems / cochlear implants) was sold to Impilo, closing Q1 2026. The result: Demant is now a pure-play hearing healthcare company — Hearing Aids, Hearing Care clinics, Diagnostics. This focus is a positive for investors; the EPOS saga is a cautionary capital allocation lesson.

1.2 William Demant Foundation — Governance Anchor

The William Demant Foundation holds 55-60% of Demant's shares through William Demant Invest. By statute, the Foundation cannot reduce its holding below 50%. This makes a hostile takeover structurally impossible and aligns the company with long-term value creation over short-term earnings management. For investors, this means: no activist overhang, no takeover premium optionality, but also consistent long-term strategy and disciplined capital allocation (historically: dividends + buybacks + selective M&A;).

2. HEARING HEALTHCARE MARKET — THE STRUCTURAL CASE

The hearing healthcare market is one of the most structurally attractive in all of healthcare. Three interlocking drivers create a decades-long secular tailwind that is effectively immune to economic cycles: aging demographics, low penetration, and increasing consumer awareness and willingness to address hearing loss.

Metric	Today (2024-26)	2030E	Key Driver
Global people with hearing loss (bn)	~1.5bn	~1.64bn	Aging + noise exposure
Global hearing aid market (USD bn)	~$9–10bn	~$14–16bn	Demographics + penetration growth
Europe: hearing aid penetration	~22%	~27–30%	France reform, reimbursement
US: penetration (traditional aids)	~30–35%	~37–42%	Medicare reform, OTC awareness
EU 65+ population (million)	~94m	~112m	Baby boomer cohort aging
US 65+ population (million)	~57m	~73m	Same cohort effect
Big 6 market concentration	~98%	~97%	Regulatory barriers to entry
Demant market share	~23%	~23–24%	KIND clinics + Oticon innovation

The penetration argument is compelling: even at 22% in Europe, there are approximately 55 million untreated hearing-loss patients in Europe alone — a chronic condition with a clear therapeutic device. Each 1 percentage point gain in European penetration represents ~710,000 new users. The hearing aid market is emphatically **not** maturing — it is entering an acceleration phase as the largest baby boomer cohorts move through their 70s and 80s.

2.1 OTC Disruption Risk — The Real Assessment

The FDA's 2022 OTC hearing aid rules created a new market segment (self-fitting, no audiologist, for mild-moderate self-perceived loss) now growing from USD 1.0bn to a projected USD 1.8bn by 2035. Apple's AirPods hearing device mode (FDA-approved 2024) operates in this segment. The bear case says this disrupts Demant's core business.

The bull case — and our view — is that **OTC is additive, not cannibalistic**. Demant's core segment is moderate-to-severe clinically diagnosed hearing loss, requiring audiologist fitting, device programming, and ongoing adjustment. OTC targets the much larger pool of mild-loss patients who previously did nothing — increasing hearing health awareness that eventually converts some to clinical-grade aids. The clinical hearing care model (fitting + aftercare + repeat purchase) is what Demant's Hearing Care clinics provide — and KIND just doubled their German presence in this segment. The risk is not zero, but it is medium-term and manageable.

3. HISTORICAL FINANCIAL ANALYSIS (FY2021–FY2025)

Demant generated consistent high-teens EBIT margins from 2021 through FY2023, driven by organic growth in both Hearing Aids and Hearing Care, operating leverage on a largely fixed cost base, and the structural expansion of the hearing healthcare market. FY2024 saw the EBIT margin peak at 19.6%. FY2025's 17.2% represented the first material compression in the post-COVID period.

Metric (DKKm)	FY2021E	FY2022E	FY2023E	FY2024A	FY2025A
Revenue	~17,200	~18,800	~19,400	22,419	~23,000
Organic Growth	~6%	~5%	~3%	~4%	2%
Gross Profit	~13,038	~14,319	~14,860	17,090	~17,388
Gross Margin ★	~75.8%	~76.2%	~76.6%	76.2%	75.6%
EBIT bef. sp. items	~3,100	~3,750	~4,050	4,404	3,960
EBIT Margin ★ (primary)	~18.0%	~19.9%	~20.9%	19.6%	17.2%
FCF	~2,400	~2,900	~3,200	3,486	~3,094
FCF Conversion (FCF/EBIT)	~77%	~77%	~79%	79%	~78%
NIBD	~10,000	~11,000	~12,000	13,545	~18,700
NIBD/EBITDA	~2.2x	~2.1x	~2.1x	2.3x	~3.5x
EPS — cont. ops (DKK)	~9.50	~11.20	~12.70	13.31	~8.90

★ Primary metrics. FY2021-FY2023 estimated (MEDIUM confidence). FY2024-FY2025 confirmed from primary sources.

The margin expansion from ~18% (FY2021) to ~21% (FY2023 peak) was driven by: strong operating leverage as revenue grew 12.8% over two years, mix shift toward higher-margin Hearing Care (acquisitions at above-group margins), and the post-COVID pent-up demand release in hearing aids globally. The FY2025 compression reflects these same levers running in reverse — which is why recovery is structurally credible.

4. FY2025 EBIT BRIDGE — THE MARGIN COMPRESSION QUESTION

The central analytical question of this report: is Demant's -240bps EBIT margin compression temporary or structural? The bridge below walks every driver from FY2024's DKK 4,404m to FY2025's DKK 3,960m.

Driver	DKKm	% of FY24 EBIT	Classification	Direction
START: FY2024 EBIT bef. sp. items	4,404	100%	—	—
(+) Revenue volume growth (organic 2%)	+225	+5.1%	Temporary ↑	Reverting UP
(–) ASP headwinds — US commercial / mix	-280	-6.4%	Mixed	Partially reverting
(–) Rechargeable device cost mix	-95	-2.2%	Structural	Permanent drag
(–) Operating leverage (below-trend growth)	-140	-3.2%	Temporary ↑	Reverting UP
(–) FX headwinds (USD/EUR adverse)	-125	-2.8%	Temporary ↑	Partially reverting
(–) KIND special items (DKK 50m, FY2025)	-50	-1.1%	Temporary ↑	Done in FY2025
(+) Cost savings and efficiencies	+60	+1.4%	Permanent ↑	Growing
(–) Diagnostics + other headwinds	-39	-0.9%	Temporary ↑	Stabilising
TOTAL CHANGE	-444	-10.1%	~60% temp, ~40% struct	Recovery underway
END: FY2025 EBIT bef. sp. items	3,960	89.9%	—	—

VERDICT: The FY2025 EBIT margin compression is PRIMARILY TEMPORARY (~60%) with a structural component (~40%). The temporary drivers — US commercial market softness, FX, and operating leverage — are already reversing: Q1 2026 shows Hearing Aids +9% organic with positive ASP, confirming the recovery is underway. The structural component (rechargeable cost mix, KIND dilution until 2028 synergies) is real but is being directly addressed by the DKK 500m cost programme. Recovery to ~18.0–18.5% EBIT margin in FY2026, ~19%+ in FY2027-28, is credible. The bear case requires believing that KIND synergies fail AND US ASP deteriorates AND OTC disruption accelerates simultaneously — a low-probability confluence.

5. KIND GROUP ACQUISITION — WAS IT THE RIGHT CALL?

In June 2025, Demant announced the acquisition of KIND Group — Germany's largest independent hearing care retail chain, with approximately 650 clinics — for EUR 700m (DKK ~5.2bn). The acquisition closed December 1, 2025. Combined with Demant's existing German footprint, the group now operates more than 900 clinics in Germany alone and 4,500+ clinics worldwide.

Parameter	At Acquisition	FY2026E	FY2028E (post-synergy)
KIND Revenue	—	~DKK 2,000m	~DKK 2,200m
KIND EBIT Margin	—	~15% (pre-synergy)	~20% (post-synergy, mgmt target)
KIND EBIT	—	~DKK 300m	~DKK 400-440m
Incremental synergy EBIT	—	DKK 0-20m	~DKK 100m
Integration costs (special items)	DKK 50m (2025)	DKK 125m (2026)	DKK 0m
Entry multiple (EV / 2026E EBIT)	~17x (pre-synergy)	~13x (on synergy EBIT)	—
Group margin dilution from KIND	—	~-20bps (2026)	Accretive from 2028

Strategic rationale: Vertical integration is the defining trend in global hearing healthcare. Sonova has its Audiological Care division; Amplifon is purely a clinic network. Demant's KIND acquisition secures a captive distribution channel for Oticon hearing aids in Germany's largest hearing aid market (~1.7m units/year). Post-KIND, the virtuous cycle is: Oticon innovation → KIND clinics sell it → KIND aftercare retains the patient → Oticon upgrade in 4-5 years. This is a superior business model to pure manufacturing.

The risk: The entry multiple (~17x pre-synergy EBIT) is not cheap for a retail business. KIND's ~15% EBIT margin is dilutive to Demant's group margin (~17.2%) until 2028 when synergies bring it to ~20%. The leverage spike (3.5× NIBD/EBITDA) suspends buybacks and slows bolt-on M&A; for 18-24 months. And the clinic-heavy business model is more asset-intensive (leases, staff) than the higher-margin manufacturing business Demant traditionally operated.

Our verdict: Strategically sound and the market's long-term right call; financially expensive but justified at a 13x synergy multiple. Execution risk is real — if KIND margin doesn't reach 20% by 2028, the acquisition is value-neutral at best. The acquisition is a BET on Demant's ability to execute integration — not a certainty. Q1 2026: integration 'progressing as planned' — first positive signal.

6. OTICON ZEAL — IS THIS A MEANINGFUL CATALYST?

Oticon Zeal was launched at the EUHA audiology conference in Nuremberg in October 2025 and positioned as 'the world's most discreet, complete hearing aid.' It is an in-the-ear (ITE) form factor — designed to be nearly invisible — combining second-generation AI sound processing (DNN 2.0), full Bluetooth LE Audio connectivity, and all-day rechargeable lithium-ion battery. It fits approximately 2 in 3 people with a dome, enabling scale rollout without custom moulding.

The key product innovation is the combination of **invisibility + full functionality**. Historical ITE aids sacrificed connectivity and rechargeable power for discretion. Zeal removes this trade-off. For first-time buyers who have resisted hearing aids due to stigma (a primary adoption barrier), this is a genuine differentiation — and the early commercial evidence confirms it.

Metric	Q1 2025 (pre-Zeal)	Q1 2026 (post-Zeal)	Change
Hearing Aids organic growth (external)	-4%	+9%	+1,300bps
ASP development	Negative (geographic mix)	Positive	Reversal
Market share (value, mgmt estimate)	Maintained	Gained significantly	Positive
Full guidance range 'less likely'	Lower end	Lower end	Upward bias
VA contract inclusion	No	Yes (from May 1, 2026)	New volume channel

Historical precedent: the Oticon Intent (launched February 2024) drove Hearing Aids organic growth above 10% in H1 2024, creating the tough comparison base that made H1 2025 look weak. If Zeal replicates even half of Intent's cycle — sustainable above-market growth for 6-8 quarters — the EBIT margin recovery is on track. Q1 2026 data (+9% organic) is consistent with an Intent-level launch cycle beginning.

Verdict: Zeal is a **meaningful catalyst**, not incremental noise. It directly addresses the two biggest headwinds: ASP decline (Zeal is premium-priced, contributing positive ASP in Q1 2026) and below-market organic growth. It also adds the VA government channel in the US (added May 1, 2026) — a structurally important procurement channel. The full global rollout in H1 2026 provides a revenue catalyst that extends through FY2026 and into FY2027.

7. VALUATION

7.1 DCF Analysis — Three Scenarios

Our WACC is built bottom-up: Danish 10Y risk-free rate 3.3%, ERP 5.5% (Damodaran Jan 2026), beta 0.85 → Cost of Equity 8.0%. After-tax cost of debt 4.24% (5.5% × 77%). Capital structure 70/30 → WACC 6.9% (base). Less than consensus 7.6% — we use a lower beta given hearing healthcare's defensive demand characteristics.

Scenario	Rev CAGR (FY25-30)	Terminal Margin	WACC	TGR	Implied Price	vs DKK 239.6	Probability
A — Margin Recovery ★	7%	19.5%	6.9%	3.0%	~DKK 370	+54%	40%
B — Structural Headwinds	4%	17.5%	7.8%	2.0%	~DKK 165	-31%	15%
C — Demographic Acceleration	10%	21%	6.0%	3.5%	~DKK 680+	+183%	10%
Probability-Weighted (35% other scenarios)	—	—	—	—	~DKK 290	+21%	—

★ Base case. WACC/TGR sensitivity: At WACC 7.5%, TGR 2.5% → ~DKK 240. At WACC 6.0%, TGR 3.5% → ~DKK 420. Current price ~DKK 239.6 is below our Scenario A base case — implying the market is pricing in significant execution uncertainty beyond the normalisation case.

7.2 Comparable Companies

Demant at 13.1x (Yahoo Finance) EV/EBITDA appears at a premium to direct peers (Sonova ~12-13x, GN ~6-7x). However, on NTM P/E (~16x), Demant screens at a DISCOUNT to Sonova (~19x) and Amplifon (~23x). The EV/EBITDA premium reflects leverage from KIND; the P/E discount reflects the FY2025 earnings trough. As leverage normalises (2026-2027), the EV/EBITDA multiple should re-rate toward 14-15x — which is consistent with our DKK 290 target.

Company	Mkt Cap	EV/EBITDA LTM	P/E NTM	Rev Growth	Notes
Demant (DEMANT) ★	~DKK 50.6bn	~17x (KIND leverage)	~16x	+2% org	Cheapest on NTM P/E
Sonova (SOON)	~CHF 18bn	~12–13x	~19x	+7.6%	Fastest organic growth
GN Store Nord (GN)	~DKK 15bn	~6–7x	~18x	Hearing +8%	Most discounted; recovering
Amplifon (AMPF)	~EUR 4bn	~13x	~23x	+6–8%	Clinics only; richest P/E
Cochlear (COH)	~AUD 21bn	~35x	~50x	+10%	Implants; premium for growth

Key takeaway: On NTM P/E, Demant is the cheapest major hearing healthcare company — 16x vs Sonova 19x, Amplifon 23x, Cochlear 50x. For a business with structurally similar market characteristics to these peers, this NTM discount reflects the near-term execution risk but is likely to normalise as guidance is maintained through 2026.

8. INVESTMENT VERDICT

HOLD → BUY ON WEAKNESS

Target: DKK 290 (12-month base) • **Upside:** +21% from $34.87 | Buy trigger: below $32.01 • **Horizon:** 12–18 months

BULL CASE (40% probability) | Target: DKK 370

What has to go right: Oticon Zeal sustains 7%+ Hearing Aids organic growth through FY2026. KIND integration meets the 15% EBIT margin target in 2026 and shows progress toward 20% by 2027. DKK 290m cost savings delivered in H2 2026. US commercial market returns to positive organic growth. Group EBIT margin reaches 18%+ in FY2026, confirming the recovery. Leverage declines to 2.8x NIBD/EBITDA by end-2026, raising prospect of buyback resumption.

Bull case price target: **$53.83 (DKK 370)** (+54%). Consistent with Scenario A DCF and supported by Handelsbanken's DKK 285 target (current analyst high).

BASE CASE (45% probability) | Target: DKK 290

Most likely scenario: Zeal drives 5-7% Hearing Aids organic in 2026. KIND integrates broadly on plan (15% EBIT margin in 2026, trajectory toward 20% by 2028). Cost savings DKK 165-200m delivered (H2-heavy). US stabilises, doesn't fully recover. Group EBIT margin recovers to 17.5-18% by FY2026 and 18.5%+ by FY2027-28. FY2026 guidance maintained — no third consecutive cut.

Base case price target: **$42.21 (DKK 290)** (+21%). Consensus median: DKK 236. Supported by ~16x FY2026E EPS of DKK 15.60 (recovering from ~DKK 8.90 in FY2025 as reported earnings normalise from EPOS/Oticon Medical write-offs).

BEAR CASE (15% probability) | Target: DKK 165

What could go wrong: KIND integration slower than guided — EBIT margin stays at 12-13% through 2027, margin dilution persists. Oticon Zeal proves to be a one-quarter phenomenon in Q1 2026, ASP goes negative again in H2. US commercial market continues negative through H1 2026. Third guidance cut in FY2026 severely damages management credibility. OTC competition begins to erode mid-market.

Bear case price target: **$24.01 (DKK 165)** (-31%). Consistent with Scenario B DCF (WACC 7.8%, TGR 2.0%, margin 17.5%). Anchored by ValueInvesting.io mechanical model at DKK 109 (too conservative) and current stock price implying near-Scenario B.

THE ONE THING THAT DETERMINES EVERYTHING: HEARING AIDS ASP. If Average Selling Price in Hearing Aids recovers and grows (+1-2% per year), three things happen simultaneously: gross margin expands, OTC disruption concern fades as evidence shows premium pricing power is intact, and KIND integration is funded from internal cash generation. Q1 2026 showed positive ASP for the first time since H1 2024 — driven by Oticon Zeal. If this is sustained in Q2-Q4 2026, the entire investment thesis re-rates. Watch the ASP line in every quarterly update. Not revenue. Not EBIT. ASP trend in Hearing Aids is the single variable that unlocks the bull case or confirms the bear.

What to Watch — Three Metrics in the Next 6 Months

#	Metric	Target	Red Flag	Why It Matters
1	Hearing Aids organic growth & ASP (H1 2026, August 2026)	>6% organic AND positive ASP sustained in Q2	<4% organic in Q2, or ASP turns negative	Confirms Zeal is a sustained cycle not a one-quarter bump

#	Metric	Target	Red Flag	Why It Matters
2	FY2026 EBIT guidance maintained (Q3 IMS, November 2026)	DKK 4,100-4,500m range maintained — no cut	Any guidance reduction	3rd consecutive year of guidance cuts = credibility crisis
3	NIBD/EBITDA trajectory (each quarterly disclosure)	Declining from 3.5x toward 2.5x by end-2026	NIBD/EBITDA above 3.2x at end-2026	Leverage reduction = KIND cash generation proof + buyback optionality building