Arjo – Q3 report 2019

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arjo

Agenda

1. Business update – Q3 2019
2. Other business highlights
3. Balance sheet
4. Outlook
5. Summary
6. Q&A

Business update

Q3 2019

Q3 2019 - Summary

Stable growth and continued focus on efficiency measures

Solid sales development across all regions leads to organic growth of 4,7%

- North America grows by 5,4% after continued strong performances in US and Canada
- Net sales in Western Europe increased by 2,3% despite significant UK decline
- RoW sees overall solid development and delivers 11,1% growth

Gross margin of 41,5%

- Negative currency effects in quarter – gross margin affected by -2,1 percentage points
- Challenges within rental and negative sales development in UK due to Brexit uncertainties
- Positive developments in Patient Handling and service

Restructuring activities in UK intensified – estimated FY savings increased to 30 MSEK

- Rental efficiency program in US starting to give effect

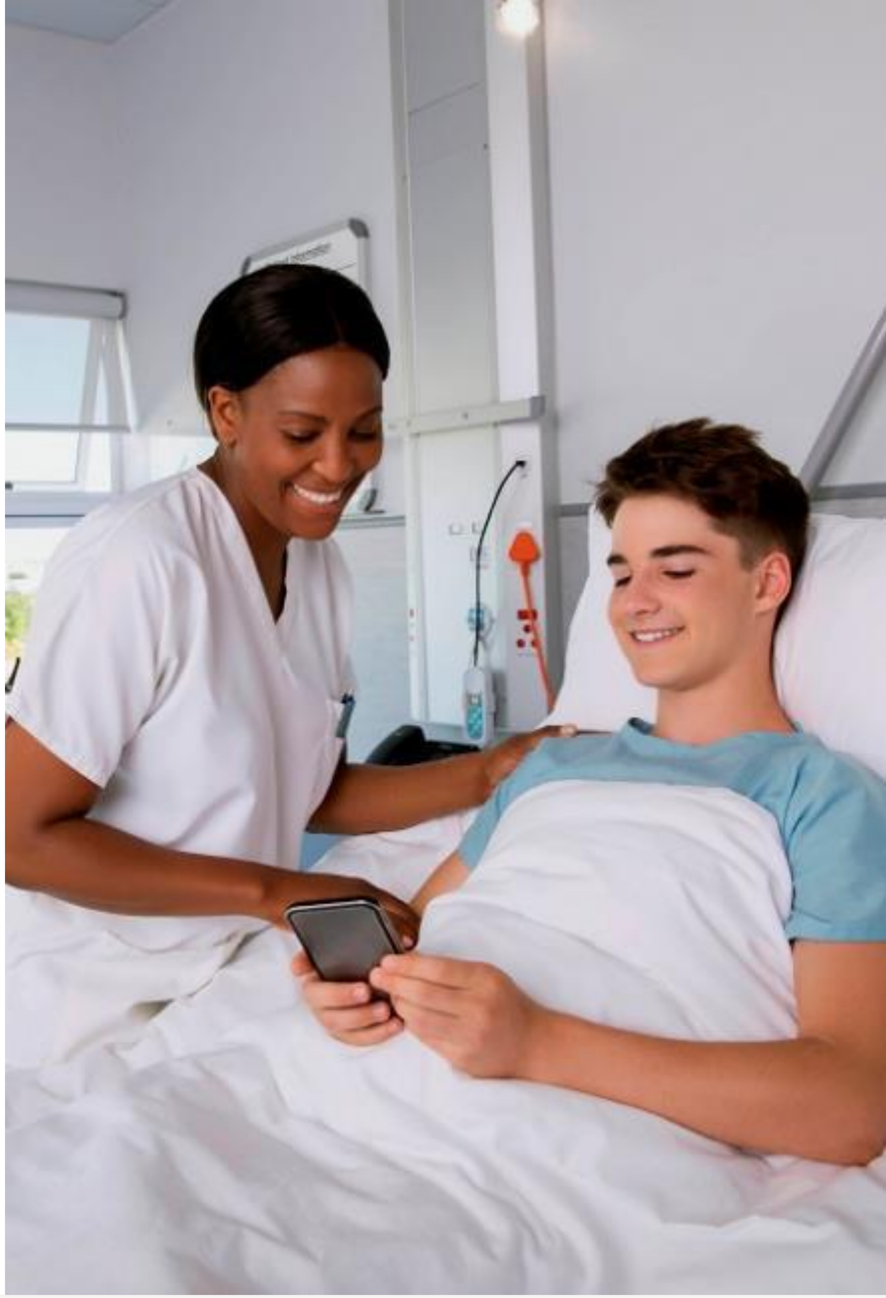
OPEX relative to net sales continues improving

EBITDA before exceptional items increased by 26,6%

EBIT before exceptional items amounted to 125 MSEK (132)

- Adjusted for currency effects, it amounts to 159 Mkr, an improvement of 20%

Cash conversion of 109,5% - good position to exceed FY target



Q3 2019
North America

Net sales grew organically by 5,4%

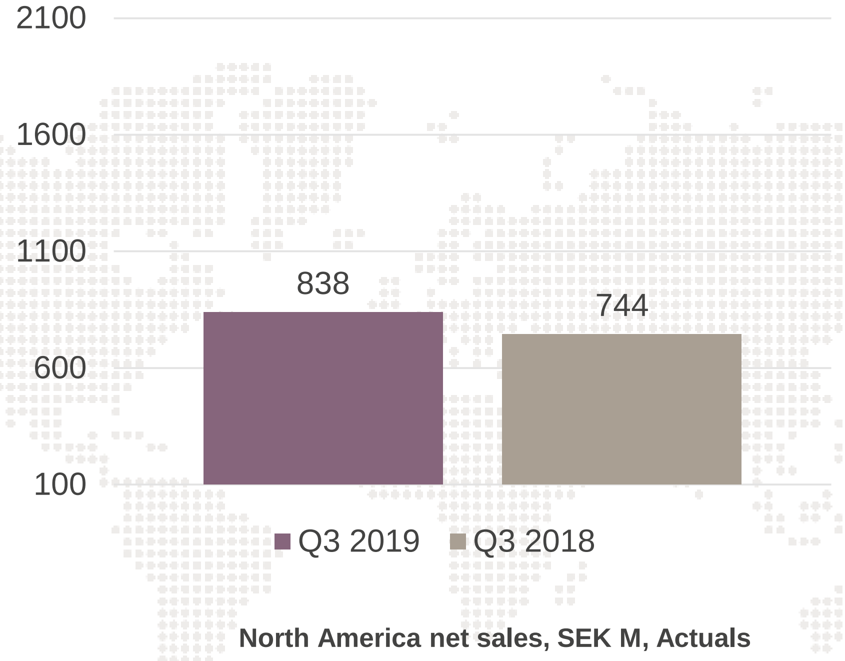
- US again sees solid sales development with organic growth of 5,6%
- Patient Handling continues to perform well

Canada sees continued growth

- Positive development across all categories and within rental

Efficiency program in US starting to show results

- FY effects of 30 MSEK starting in Q4

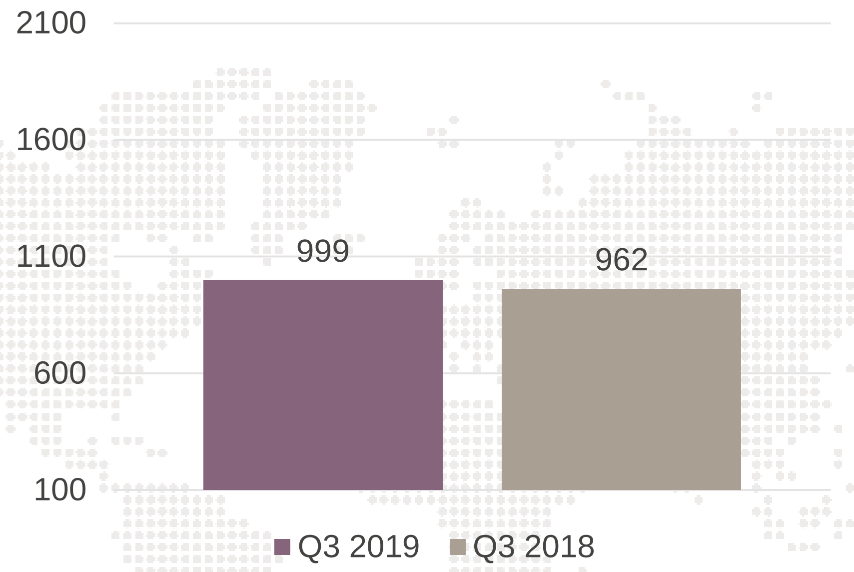


Q3 2019
Western Europe

Organic growth despite UK setbacks
- Net sales increased by 2,3%
- With exception of UK, region sees solid growth of 8,8%
- Good development in France, Germany and Netherlands

Continued decline in UK
- Decline driven by sustained low NHS investments in capital goods due to Brexit
- Negative impact of -13,9% (-37 MSEK)

Efficiency measures in UK intensified - FY effects of 30 MSEK
- Previously communicated 20 MSEK



Western Europe net sales, SEK M, Actuals

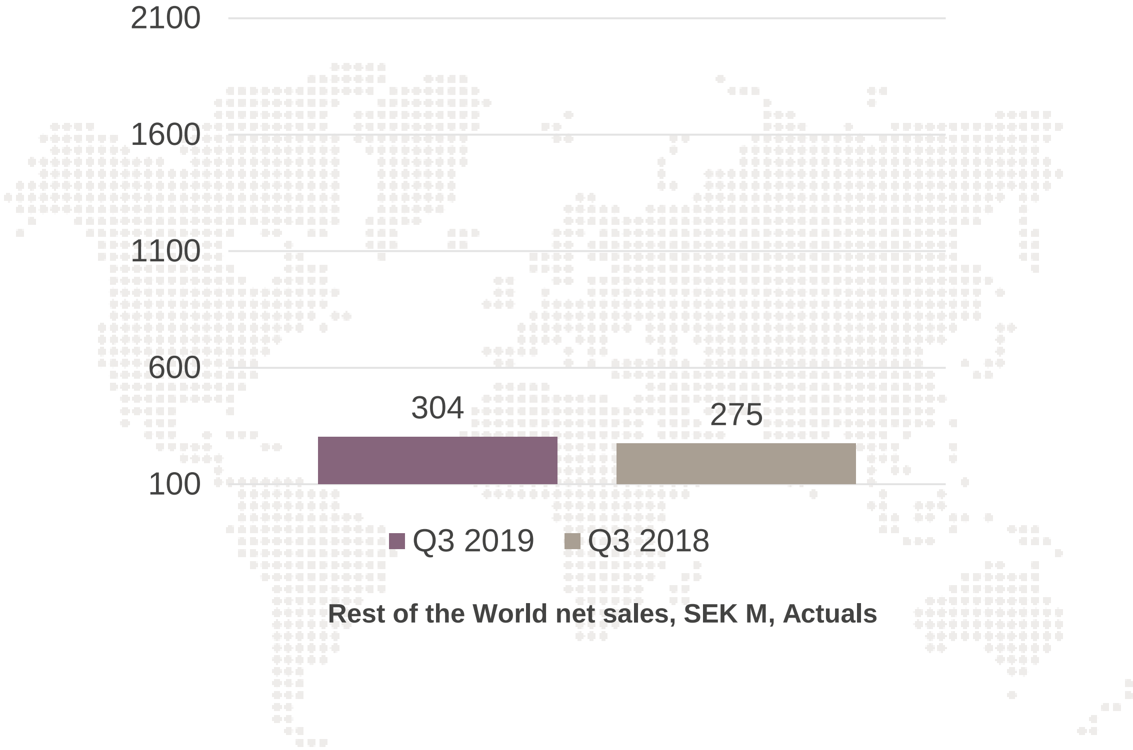
Q3 2019
Rest of the World

Net sales increased by 11,1% organically

- Overall solid development across region
- Australia sees strong organic growth with good outlook for FY

Investments in sales organizations and distributor markets continue to provide results

- Several countries and regions demonstrating solid trajectory in quarter, especially Eastern Europe and Africa



Rest of the World net sales, SEK M, Actuals

Profit development – Q3 2019

Gross margin of 41,5% (43,8) in Q3

- Negative currency effects – gross margin affected by -2,1 percentage points
- Challenges within Rental and UK decline impacts total profitability
- US growth and Service has positive effect

OPEX development relative to net sales continues to improve

EBITDA before exceptional items increased by 26,6% to 381 MSEK (301)

Restructuring costs of 36 MSEK in Q3 – FY expected at 50 MSEK in 2019

EBIT before exceptional items amounted to 125 MSEK (132)

- Adjusted for currency effects, it amounts to 159 MSEK, an improvement of 20%

MSEK	Q3 2019	Q3 2018	Jan-Sep 2019	Jan-Sep 2018	FY 2018
Net sales	2 141	1 981	6 461	5 910	8 217
Gross profit	888	868	2 793	2 620	3 662
Gross margin, %	41,5	43,8	43,2	44,3	44,6
EBITDA*	381	301	1 215	903	1 312
EBITDA-margin*, %	17,8	15,2	18,8	15,3	16,0
EBIT	89	111	422	336	493
EBIT*	125	132	458	414	649

*Before exceptional items

Currency effects

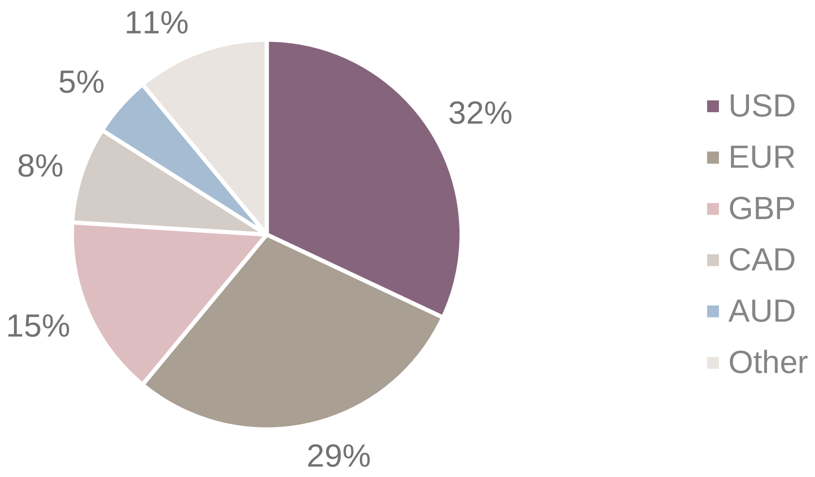
<u>**Q3 2019 vs. Q3 2018**</u>

Currency effects had a significant impact on the margin in the quarter of -2,1 percentage points

Translation effects affected the gross margin negatively by 1 percentage point

Hedging revaluations had a negative impact of 24 MSEK on gross profit

Revenue by currency, Q3 2019



Translation effect Q3 2019 vs Q3 2018, MSEK	
Net Sales	83
COGS	-70
Gross profit	13
OPEX	-23
EBIT*	-10

*Before exceptional items

Balance sheet

Balance sheet

Stable situation and continued strong balance sheet

- Equity ratio of 40,8% (42,0)
  - Excluding IFRS 16 – Equity ratio of ~44,5%
- IFRS 16 impacted total assets with ~SEK 1,2 Billion

Working Capital

- Decrease in accounts receivables
- Focus on inventory is showing results

Cash balance

- Normalized after repayment of bank loans

Cash flow (C/F)

Cash flow before changes to working capital

- Positive development, 11,9% increase of cash flow before changes to working capital excluding effects of IFRS 16

Working capital decreased in the quarter

- Decrease in receivables by 104 MSEK, continued focus on collection paying off
- C/F-effect from inventory reduction is 1 MSEK

Investment activities

- Net investments in primarily Rental fleet and IT
- Investment in Atlas LiftTech

Cash conversion well above target at 109,5% (71,4%)

- A significant improvement with potential to exceed 2019 target

MSEK	Q3 2019	Q3 2018	Jan-Sep 2019	Jan-Sep 2018	FY 2018
Operating profit	89	111	422	336	493
Cash flow before changes to working capital	243	143	903	575	882
Change in working capital	136	57	-89	82	109
Cash flow from operations	379	200	814	657	991
Cash flow from investing activities	-186	-294	-591	-578	-717

Outlook 2019

Outlook 2019

- Organic sales growth for 2019 is expected to reach the high end of the 2-4% interval
- Operating expenses are expected to continue to decline slightly as a percentage of sales in 2019

Summary

Summary

Positive sales development across all regions leads to stable organic growth at 4,7%

- North America sees continued growth trajectory after solid performance in both US and Canada
- Western Europe grows organically despite significant net sales decline in UK
- RoW maintains solid growth and investments in own sales organizations and distributors continue to deliver results

Gross margin at 41,5%

- Gross margin negatively impacted by three main areas
  - Currency effects, continued challenges within rental and decline in UK due to Brexit
- Continued growth in US and good development within Service has positive effect

Activities to improve situation in UK intensified in quarter, while US program starts showing results

Cash conversion shows strong indication of exceeding FY year target

Well equipped to meet the high activity level in the fourth quarter for a strong finish to the year

- Confident in reaching previously communicated organic growth target of high end of the 2-4% interval for FY 2019

Q&A

Forward looking information

This document contains forward-looking information based on the current expectations of Arjo's management. Although management deems that the expectations presented by such forward-looking information are reasonable, no guarantee can be given that these expectations will prove correct. Accordingly, the actual future outcome could vary considerably compared with what is stated in the forward-looking information, due to such factors as changed conditions regarding business cycles, market and competition, changes in legal requirements and other political measures, and fluctuations in exchange rates.

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with people in mind