Arjo – Q1 report 2019

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Agenda

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2. Other business highlights
3. Balance sheet
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6. Q&A

Business update

Q1 2019

Q1 2019 – Summary

Positive start to 2019 with continued strong growth in North America

Continued growth during Q1 2019 - 2% organic growth

- Strong net sales development in North America at 6,4%
- Western Europe declined with -2,7%, driven primarily by a decline in UK
- Rest of World grows by 8,3% - favourable development across markets with stabilized sitation in Australia

Gross margin of 44,1% - in line with Q1 2018

- Unfavourable product mix and continued pressure on rental
- Acare divestment completed end of February

OPEX relative to net sales continues improving

Solid improvement in EBITDA

No restructuring costs during the quarter

Cash conversion is temporarily affected by stock build-up

Overall, solid quarter with growth, good order intake and a strong profit development

Q1 2019
North America

Net sales grew organically by 6,4%

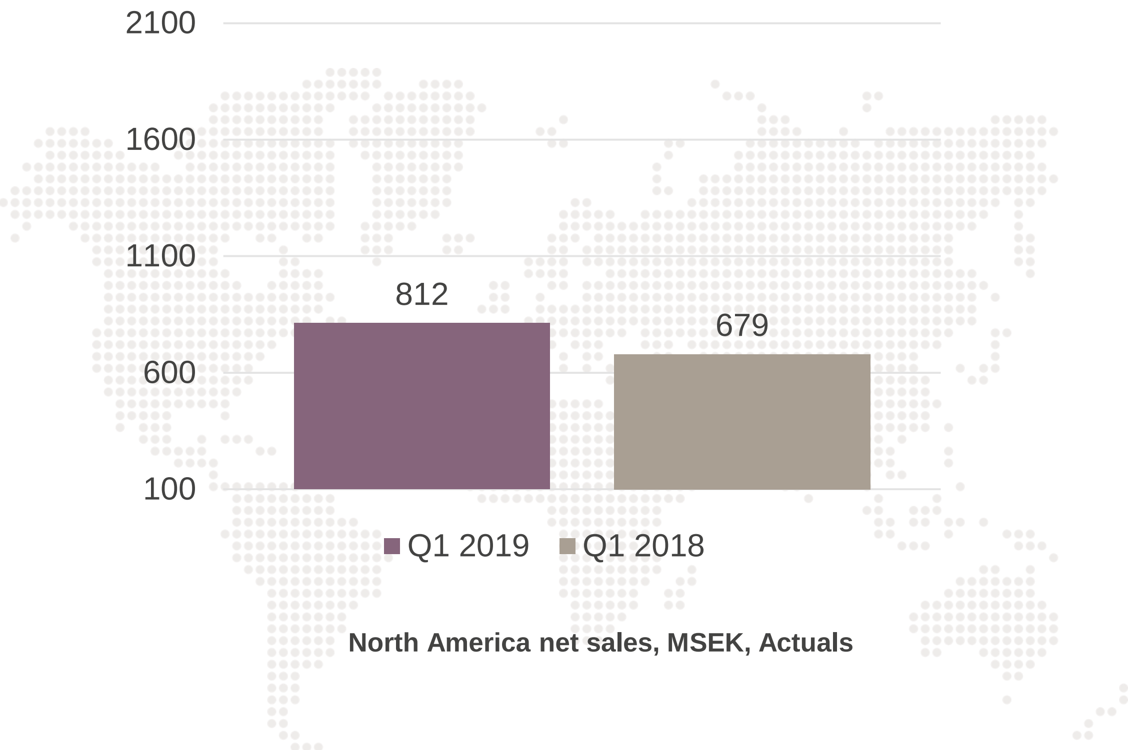
- US continues growth trajectory at 4,2%, with strong back log
- Canada performs exceptionally at 15,5%

Strong growth in Canada

- Positive development in sales across product categories
- Good performance in rental and service

Kindred Healthcare order of around 100 MSEK

- Partnership includes capital goods (medical beds and PIP as a first phase), clinical services, after market and training of key personnel



Q1 2019
Western Europe

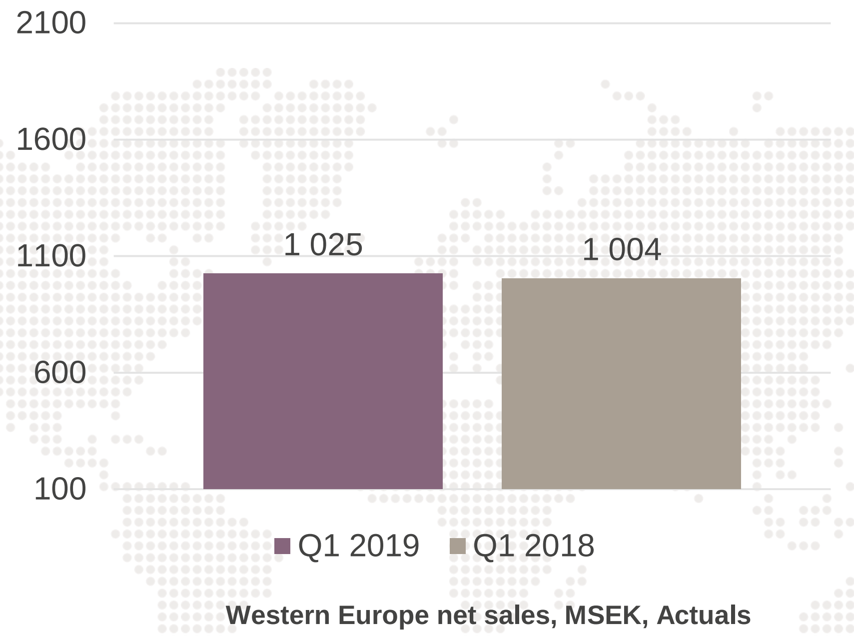
Growth somewhat held back

- Net sales declined by 2,7% mainly related to decrease in UK
- In addition, a number of markets in Continental Europe experience a softer quarter, but solid full year plans intact
- Good performance in France

UK down due to Brexit and lower Rental sales

- NHS investments in capital goods lower due to Brexit, affecting entire industry – Arjo affected by approx. 20 MSEK
- Decline compared to a strong Q1 2018
- Measures in place to ensure UK customers not affected by Brexit uncertainties impacting stock level

ASP in Rental business under pressure, especially in UK



Q1 2019
Rest of the World

Net sales in Rest of World increases by 8,3% organically

- Australia stabilizes – performance in line with a strong Q1 2018. Growth expected for FY2019
- Several markets performing well, incl. Singapore, New Zealand, India

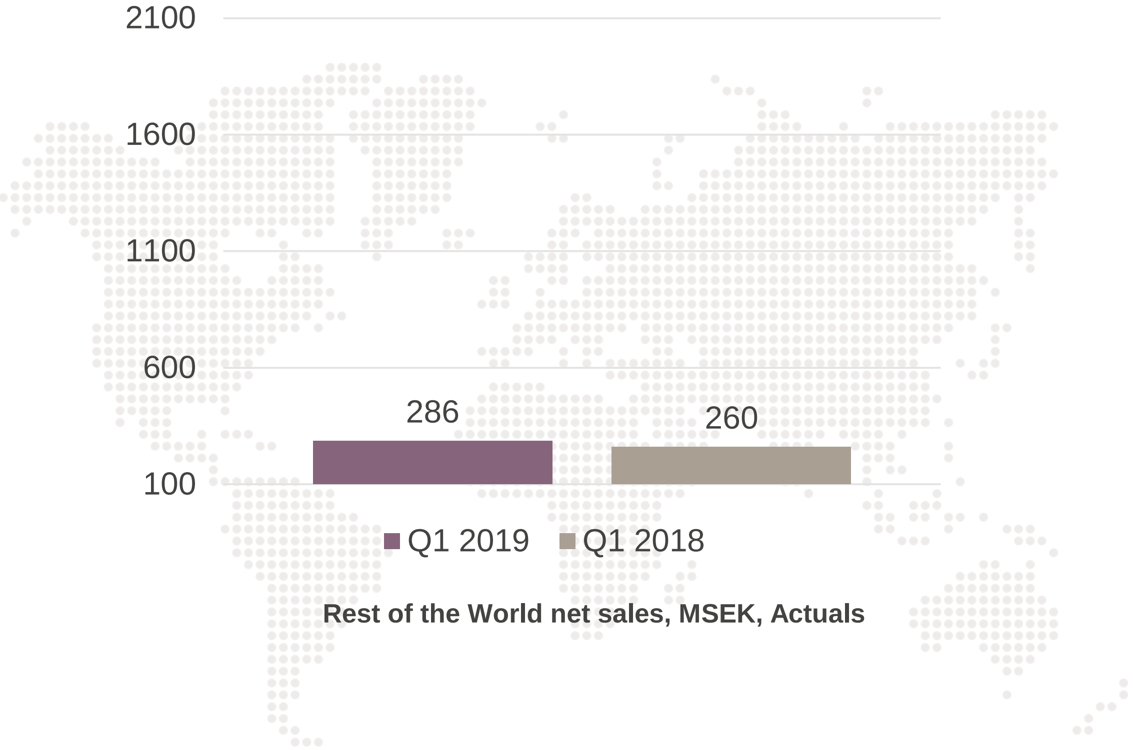
Geographic expansion plans show results

- Investments in sales organization i.e. Japan sets foundation for growth

Good traction in many distributor markets, albeit from low levels

Acare divestment completed end of February – slightly delayed

- Impact of -80 MSEK on net sales and 25 MSEK positive on EBIT for full year



Profit development – Q1 2019

Gross margin of 44,1% (44,1) in Q1

- Somewhat unfavorable product mix, with high VTE hardware deliveries and low rental profitability
- Improved resource utilization in production has positive impact
- Acare divestment completed on February 28 - somewhat later than planned
- In comparable currencies, Gross margin would be 1%-point higher

OPEX development relative to net sales continues to improve

EBITDA amounts to 413 MSEK (249)

- Improvement of 66%, including IFRS 16
- Excluding IFRS 16, EBITDA is at 328 MSEK, an improvement of 32%

No restructuring costs in Q1

MSEK	Q1 2019	Q1 2018	Rolling 12 months	FY 2018
Net sales	2 123	1 943	8 397	8 217
Gross profit	937	856	3 743	3 662
Gross margin, %	44,1	44,1	44,6	44,6
EBITDA	413	249	1 344	1 180
EBITDA-margin, %	19,5	12,8	16,0	14,4
EBIT	168	83	578	493

Currency effects

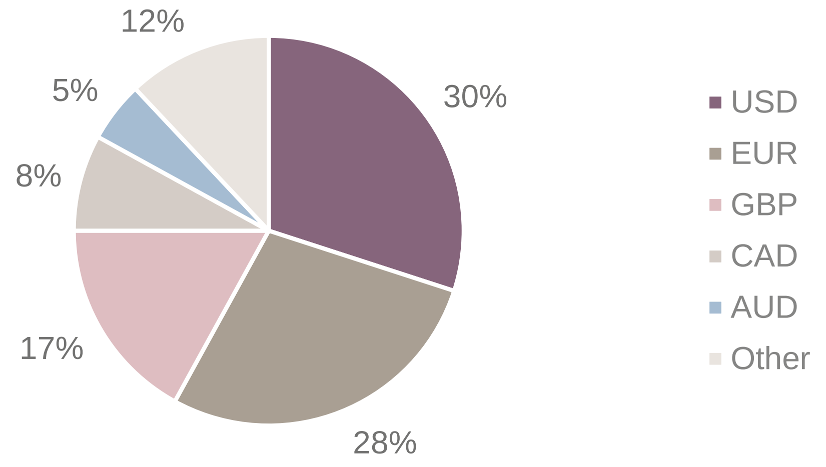
Q1 2019 vs. Q1 2018

- Translation effect: +42 MSEK
- Transaction effect: -1 MSEK

Transaction effects impact on gross margin -1 MSEK

The Swedish krona weakened against our main currencies in the first quarter of 2019

Revenue by currency, Q1 2019



Translation effect vs 1803, MSEK	Q1
Gross Profit	42
OPEX	-43
Restructuring/other	0
EBIT	-1

Other business highlights

IFRS 16 impact on Q1

Arjo is primarily affected by leasing of premises and cars

- The leasing portfolio contains approximately 2,500 contracts

EBITDA impact

- IFRS-impact 85 MSEK in Q1
- EBITDA including IFRS16 is 413 MSEK
- Excluding IFRS 16, EBITDA is 328 MSEK

Cash flow from operations amounts to 180 MSEK including IFRS 16

- IFRS 16 impact is 76 MSEK
- Excluding IFRS 16, Cash flow amounts to 104 MSEK

IFRS 16 impact Q1 2019 MSEK	**Net impact**
COGS	2
Gross profit	**2**
OPEX	1
EBIT	**3**
Financial net	- 9
Profit before tax	**- 6**
EBIT	**3**
Add back Amortization	-
EBITA	**3**
Add back Depreciation	82
EBITDA	**85**
Financial lease contracts from 2018	51
New leasing contracts IFRS 16	1 188
Total lease liability Mar 31, 2019	**1 239**

Other business highlights

Acare divestment finalized

- Divestment finalized on February 28, somewhat later than planned

Dementia accreditation received for 3 products

- Dementia is a significant and growing issue in healthcare

Queen’s Award for Innovation

- Recognition for Huntleigh’s new range of Digital Handheld Dopplers

Balance sheet

Balance sheet

Continued strong balance sheet

- IFRS 16 impacted total assets with ~SEK 1,2 Billion
- Equity ratio still 41% despite IFRS 16
  - Excluding IFRS 16 – Equity ratio ~45%

Working Capital increased

- Inventory build up due to coming orders in Q2, Brexit and normal seasonal increase

Cash balance

- Reduction of cash according to plan
- Commercial paper program in Dec 2018 used to repay bank loans in Q1

Cash flow

Cash flow before changes to working capital

- Increased operating profit

Working capital negative in the quarter

- Inventory build-up
- Payment of accruals and liabilities

Investing activities

- Increased rental investments of 110 MSEK (47) are the main driver

Cash conversion decreased

- Main driver is the increased Working Capital
- We are confident to reach set target

MSEK	Q1 2019	Q1 2018	FY 2018
Operating profit	168	83	493
Cash flow before changes to working capital	353	253	882
Change in working capital	-173	15	109
Cash flow from operations	180	268	991
Cash flow from investing activities	-186	-108	-717

Outlook 2019

arjo

Outlook 2019

- Organic sales growth for 2019 is expected to be in line with the 2018 level of approximately 3%.
- Operating expenses are expected to continue to decline slightly as a percentage of sales in 2019.

Summary

Summary

Continued growth in Q1 at 2%

- Continued strong development in North America and strong order intake sets foundation for positive development
- Confident in our full year plans in Continental Europe – growth will pick up during the remainder of the year
- Decline in UK – continued uncertainties
- RoW shows positive results in several markets with continued growth potential

Gross margin at 44,1%

- Q1 2019 gross margin in line with Q1 2018
- Impacted by unfavorable product mix and pressure on Rental

Continued good cost control and OPEX down as percentage of net sales in line with plan

Solid improvements in EBITDA

Confident in reaching previously communicated organic growth target of 3% for FY 2019

- Positive profitable net sales development and good order intake sets strong foundation
- Continued uncertainties in UK – monitored closely
- Continued implementation of Arjo 2020 plans with strong commercial focus in US and other key markets

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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