



Arjo

Capital Markets Day 2019

Agenda

Business update

Joacim Lindoff, CEO & President

Financial overview

Jonas Lindqvist, CFO

US market

Anne Sigouin, President Sales & Service North America



Arjo

Capital Markets Day 2019

Joacim Lindoff, President & CEO

March 12th 2019

arjo

Agenda

- Arjo 2020 and our progress
- Staying relevant for our customers
- Financial progress
- Summary
- Q&A



Arjo 2020

Starting point and plan forward

Arjo in essence – market leading positions across most categories

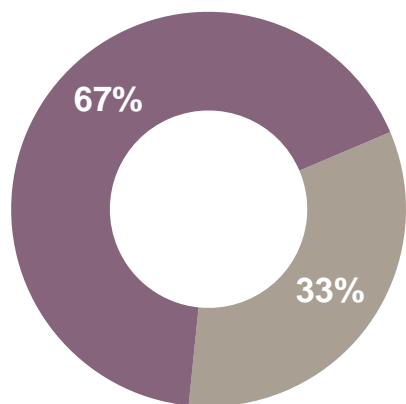
Net sales of
8,2
SEK billion (2018)

Customers in more than
100
countries

5 production sites in
5
countries

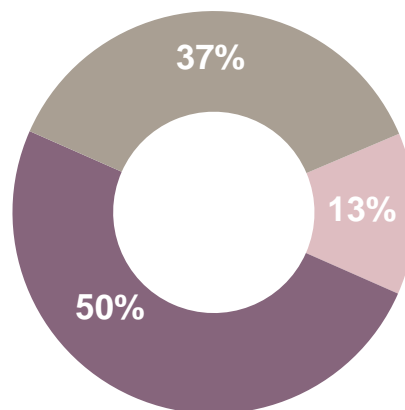
Approx.
6 200
employees

Sales per customer type



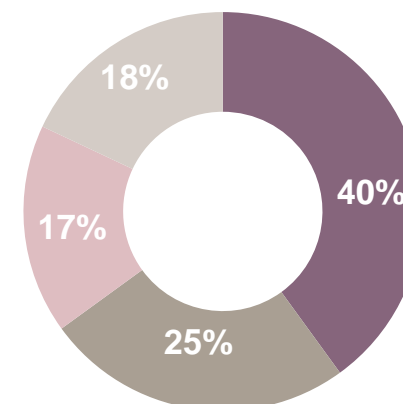
■ Long Term Care ■ Acute Care

Sales per geography



■ RoW ■ WE ■ NA

Sales per revenue type



■ Capital equipment ■ Rental
■ Service ■ Consumables

24%
Patient handling

18%
Therapeutic Surfaces

18%
Medical beds

10%
VTE prevention

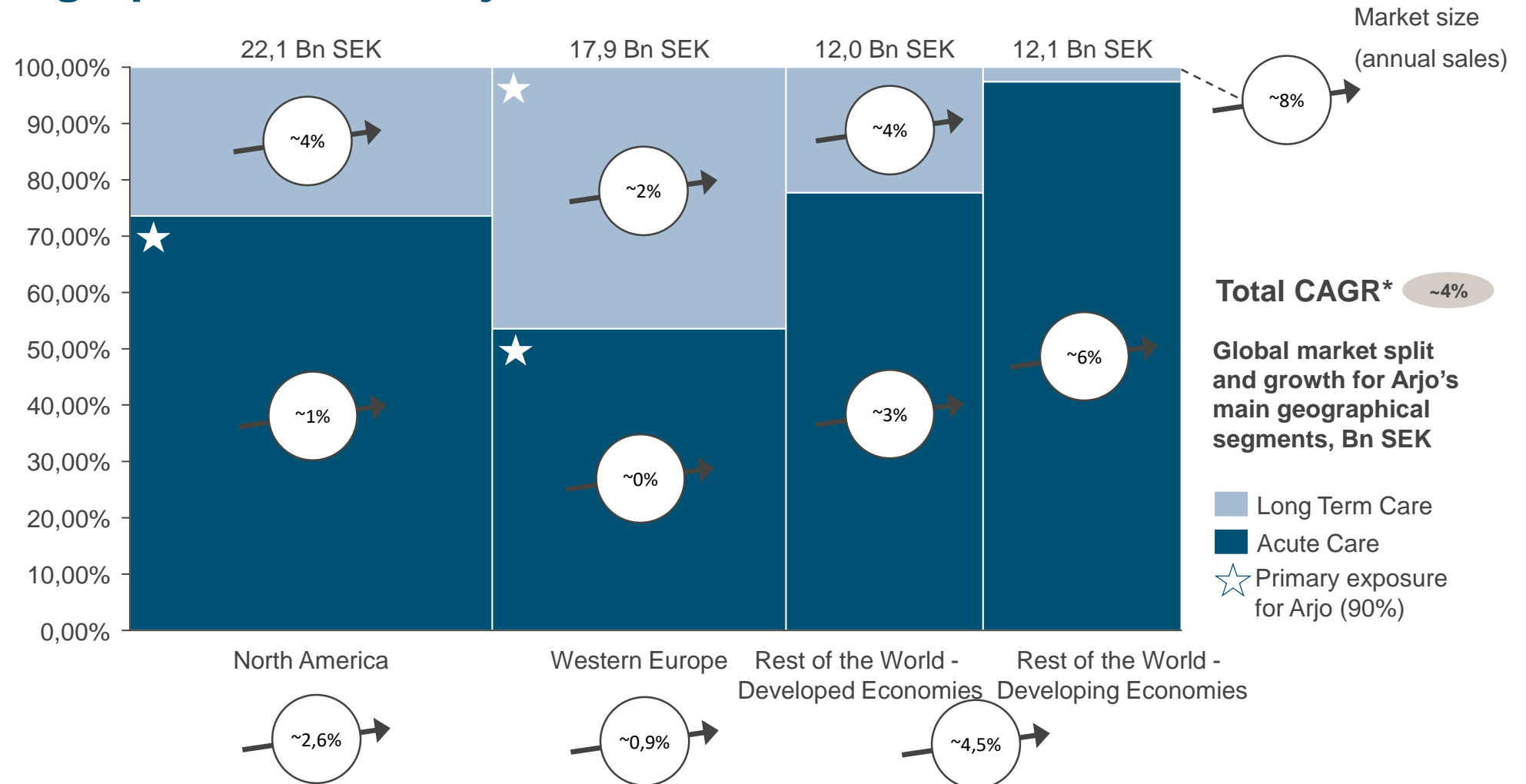
7%
Hygiene

3%
Diagnostics

3%
Disinfection

17%
Service

Long Term Care is growing at roughly twice the pace of Acute Care in the geographies where Arjo is dominant



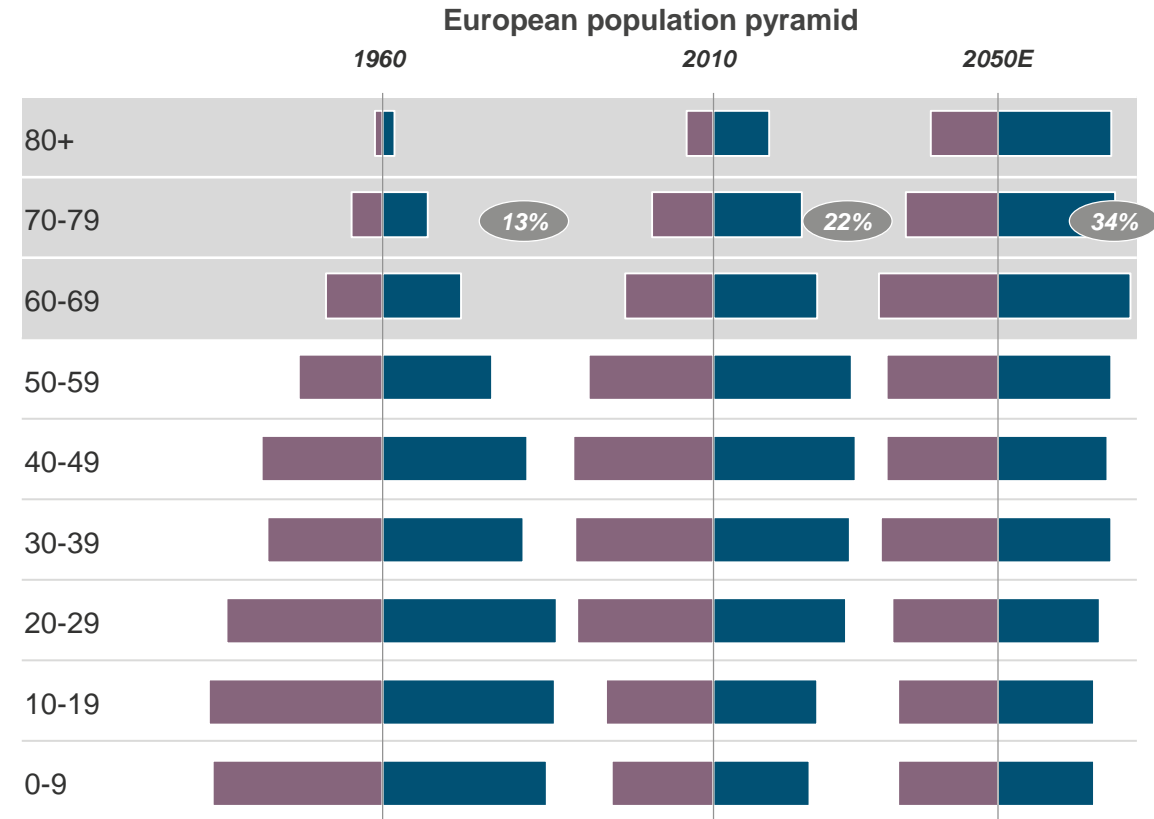
*Huntleigh diagnostics omitted since only Global estimates have been provided. Service included in each segment
 **Comparable Arjo sales in regions - NA 2,0 Bn SEK, W. Europe 2,5 Bn SEK, RoTW 0,8 Bn SEK. 2017 numbers
 Source: Corporate Development & Projects, Local Marketing Functions, Economist

The market growth is driven by a number of factors

Strong growth fundamentals...

- ✓ **Improved life time expectancy**
- ✓ **Increased prevalence of chronic diseases**
- ✓ **Enhanced health care access**
 - Welfare trends in emerging markets
 - Investments in healthcare infrastructure

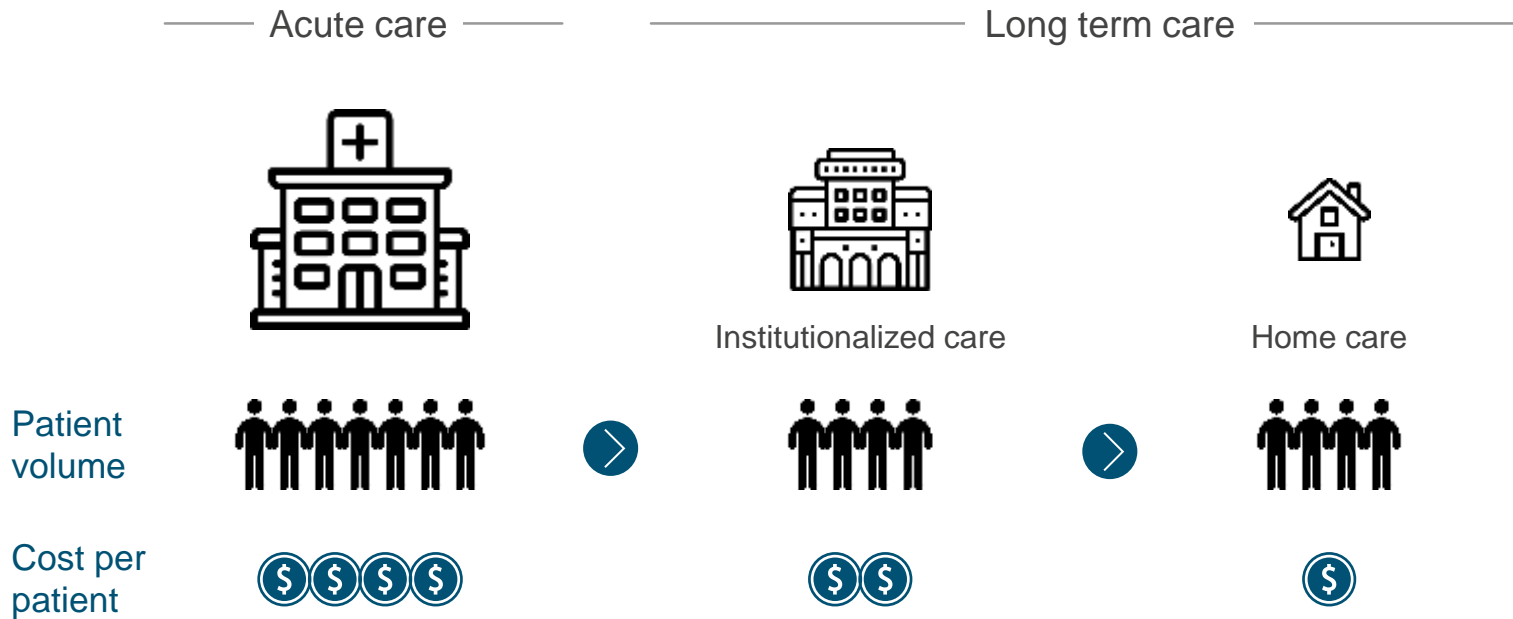
... such as an ageing population



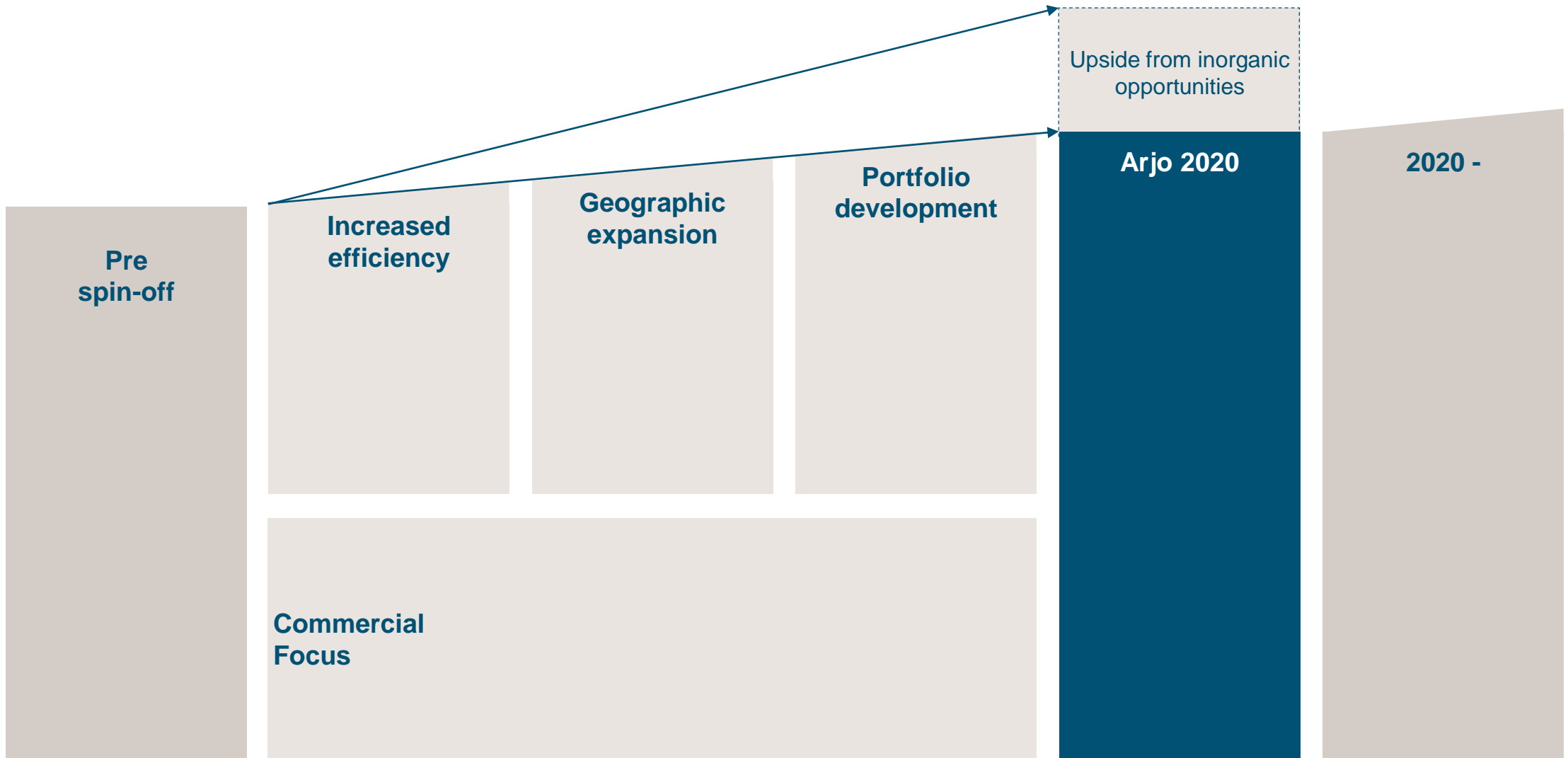
Ageing population and other strong growth fundamentals will drive overall healthcare spend

A need to increase the value of healthcare – more for less

Pressure on healthcare system driving patients towards outpatient / lower acute settings where cost per day are significantly lower



Initiatives for profitable growth – Arjo 2020



A person's hands are shown in the foreground, forming a heart shape with their fingers. The background is a blurred city skyline at sunset, with the sun low on the horizon, creating a warm, golden glow. The person's face is partially visible on the left side of the frame.

Commercial focus

US represents a large growth opportunity

US turnaround plan

- US rental stabilisation
- US LTC sales force investment
- Service focus

The complete Arjo offering in mature markets

- Local commercial plans
- Product registrations and launches
- LTC focus

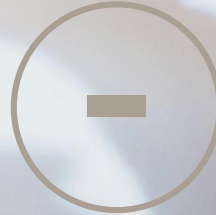
Increased service and consumable sales

Increased efficiency

Continuous margin improvements from key initiatives impacted by external factors



- Factory utilization through higher volumes
- Increased sales of consumables and services
- Procurement management – direct & indirect purchasing
- Portfolio optimization – i.e. Acare divestment and product development
- Optimized value chain by harmonizing internal processes – i.e. S&OP
- Supply chain efficiencies
- Rental operational excellence



- Price pressure
 - Customer consolidation
 - Increasing competition
 - Budget constraints – more for less
- Currency volatility in 2019 – i.e. transaction effects
- Fluctuations in raw material costs



Geographic expansion

Capitalize on underpenetrated markets

Development of own sales structures in China, Japan, LatAm

Continued development of sales structures in India and Africa

Development of distribution markets in CEE and SEA

Supported by product registrations



Portfolio development

Product portfolio optimization

– R&D gross spend approx. 2.5 – 3.0% of revenue

**Portfolio plans
to match
competence &
capacity**

**Portfolio
optimization
through**
- Modularization
- Life cycle
management

**Product
development**
Continuous
improvements vs.
Revitalization

**Partnerships
and M&A**



Inorganic growth
Solid pipeline for inorganic opportunities

**Bolt-on
acquisitions**

**Product and channel-
related acquisitions**

**Major
acquisitions**

Our commitment to sustainability – The Arjo Way

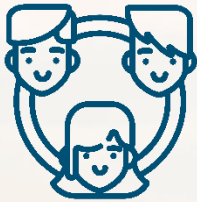
Materiality analysis conducted during 2018



Compliance



Product safety



Diversity



Resource utilization



Arjo is operating under one global management system

- taking proactive measures to ensure compliance with relevant regulations



US Food and Drug Administration (FDA)

- FDA require compliance with the Quality System Regulations
- Demonstrated by Arjo's recent MDSAP certification
- Readiness for FDA inspections by FDA Mock audits



Health Canada Medical Device Regulation

- Health Canada require compliance to the Canadian Medical Device Regulations
- Demonstrated by Arjo's recent MDSAP certification



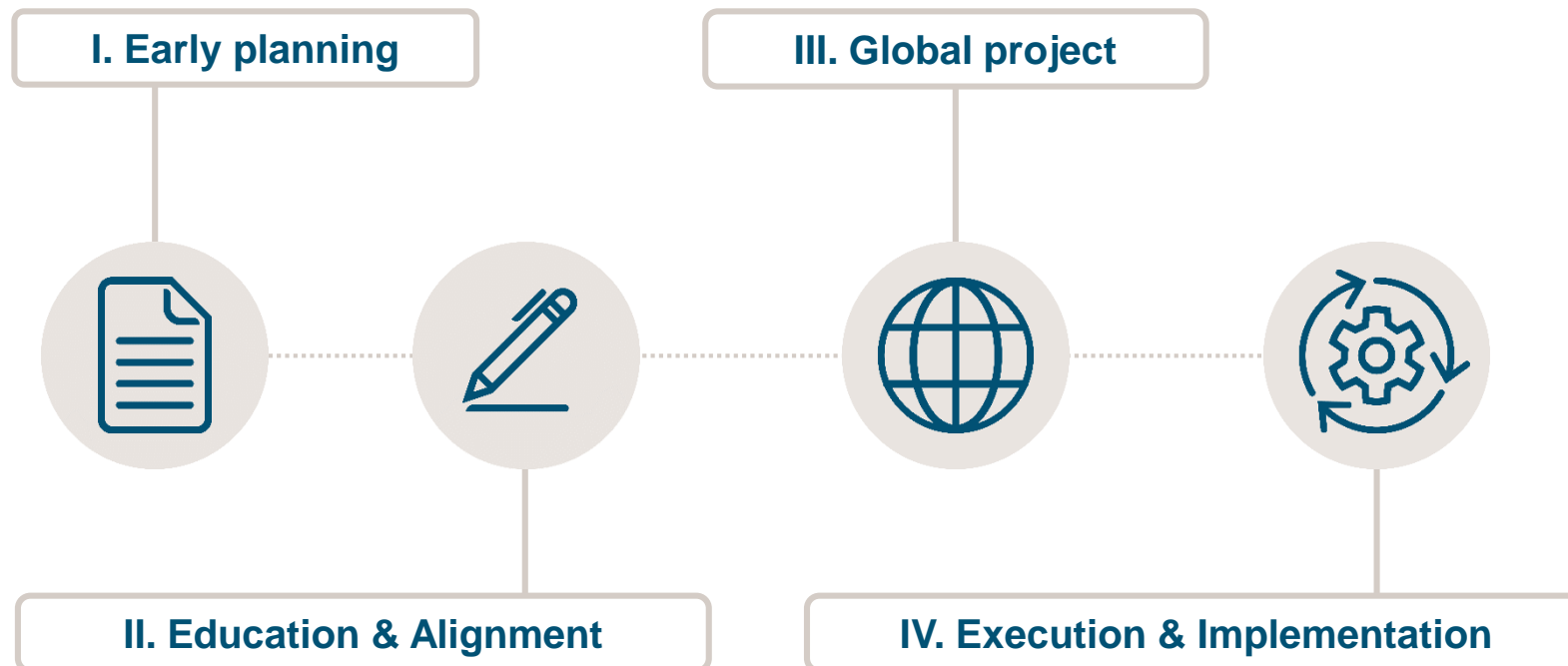
EU Medical Device Regulation (MDR)

- Authorities and Notified Bodies require compliance with EU's Medical Device Directive – May 2020
- Demonstrated by ISO 13485 and CE certification
- Project to implement the new EU MDR regulation



Well prepared for the new MDR

Provides competitive advantage for Arjo



- **Big undertaking for all MedTech companies**
- **Managed as a global project with limited added resources**
- **Early planning and well prepared**
 - project team appointed
 - assessed impact on portfolio
 - clinical evidence
 - training and implementation
- **Limited cost impact**
- **Resulting in potential inorganic opportunities**

A strong start on our journey towards the first basecamp

Becoming an
independent company
2017

Today

Arjo 2020 – “Back
to profitable growth”
2018 – 2020

“First basecamp”
2020

The most trusted
partner in improving
the quality of care
by **predicting** and
preventing accidents
and injuries

Delivered on our financial targets for 2018

Arjo's
mid-term
financial
targets

- Organic sales CAGR: 2-4%
- Reported EBITDA CAGR: >10%
- Cash conversion: >70%

2018

Sales Growth

Organic sales of 3%



Profitability growth

EBITDA growth of 18,4%

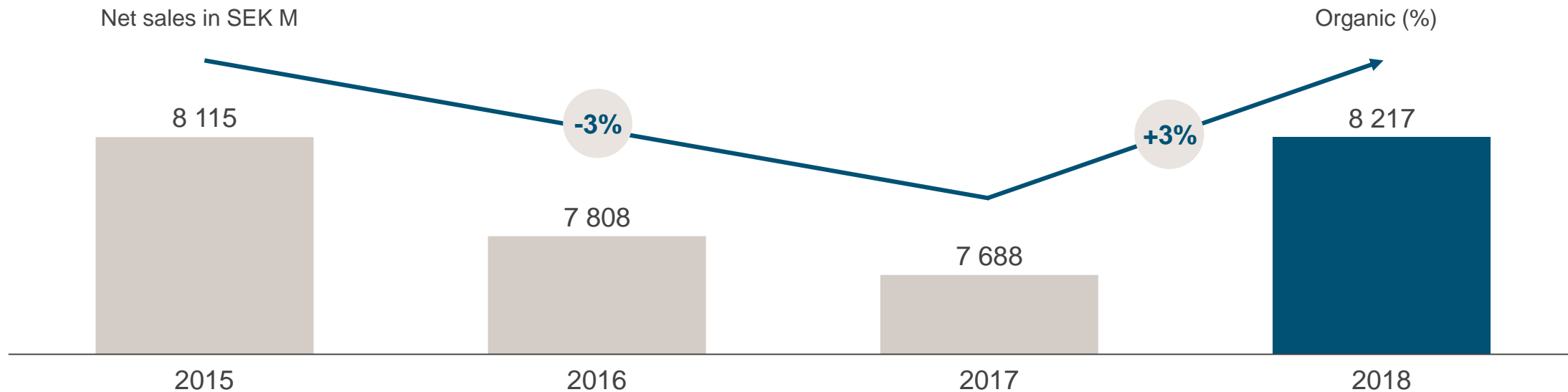


Cash conversion

Cash conversion of 84,0 %



2018 – A strong start and back to growth



- We have set a clear direction with our Arjo 2020 plan, leading to positive results
- 100% focus on Arjo's operations and opportunities as a standalone company
- Highly engaged organization with high momentum
- Strong performance in a number of our markets, i.e. US Turnaround
- Acheiving our financial targets already in 2018

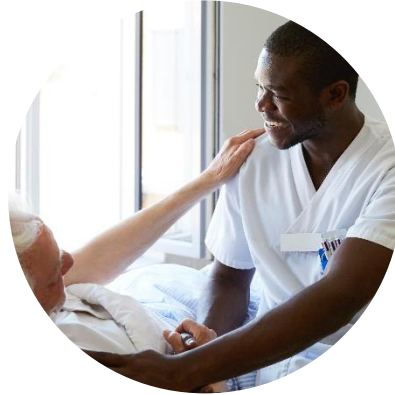
Staying relevant for our customers

Global trends provide opportunities to the MedTech industry



Demographics

An aging population, increasing patient population with more comorbidities



Pressure on the healthcare system

"More-for-less"



Innovation and digitalization

To drive productivity



Shift in healthcare

Move from Acute to Long Term Care

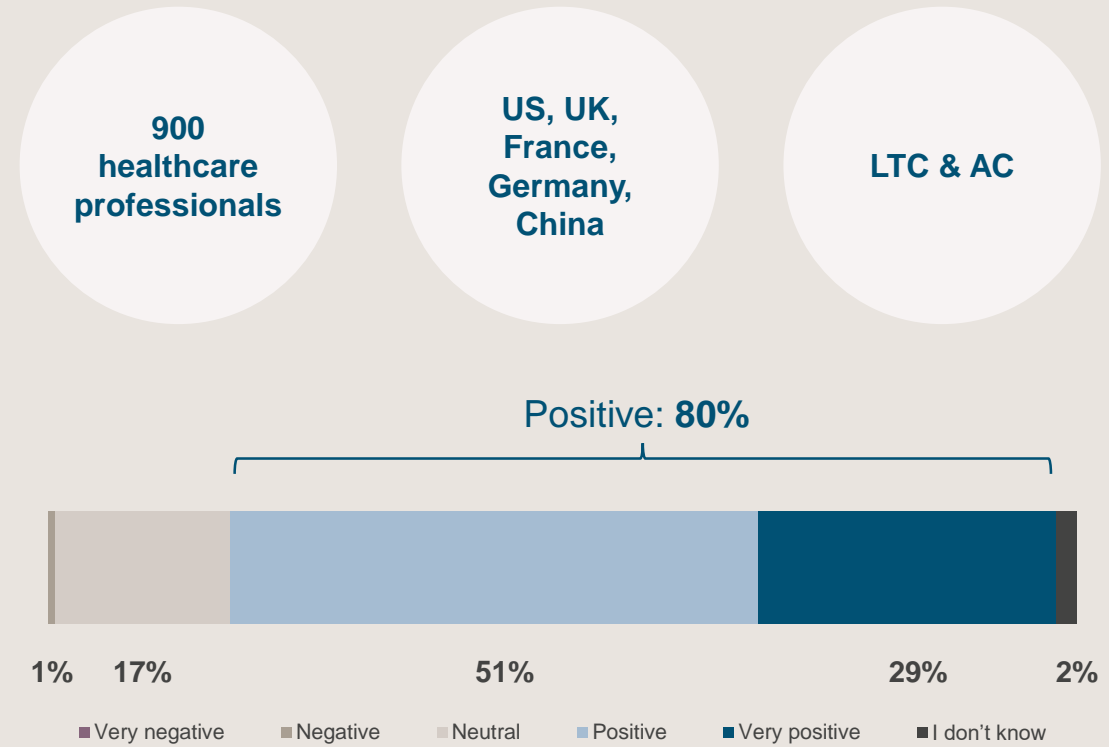
Value based healthcare

New business and payment models

Partnerships and data driven services & connectivity

Growing Long Term Care segment

What is our customers' perception?



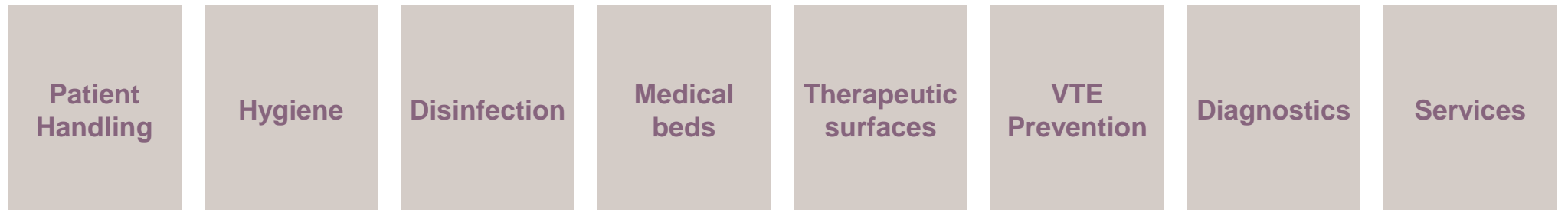
- High quality
- Professional
- Trustworthy
- Safe

A complete offering that matches customer needs

Customer challenges

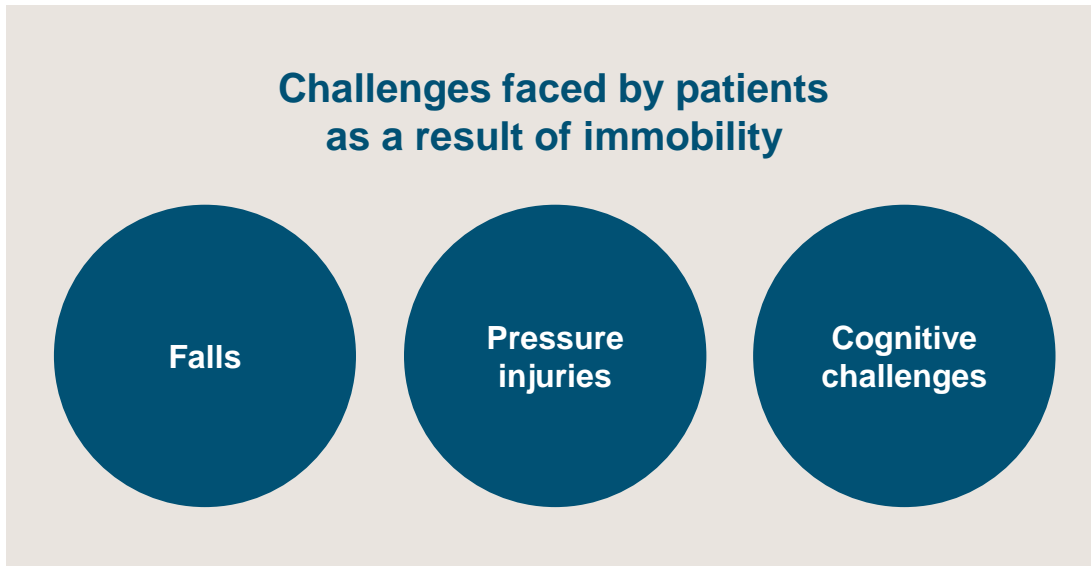


Arjo product categories

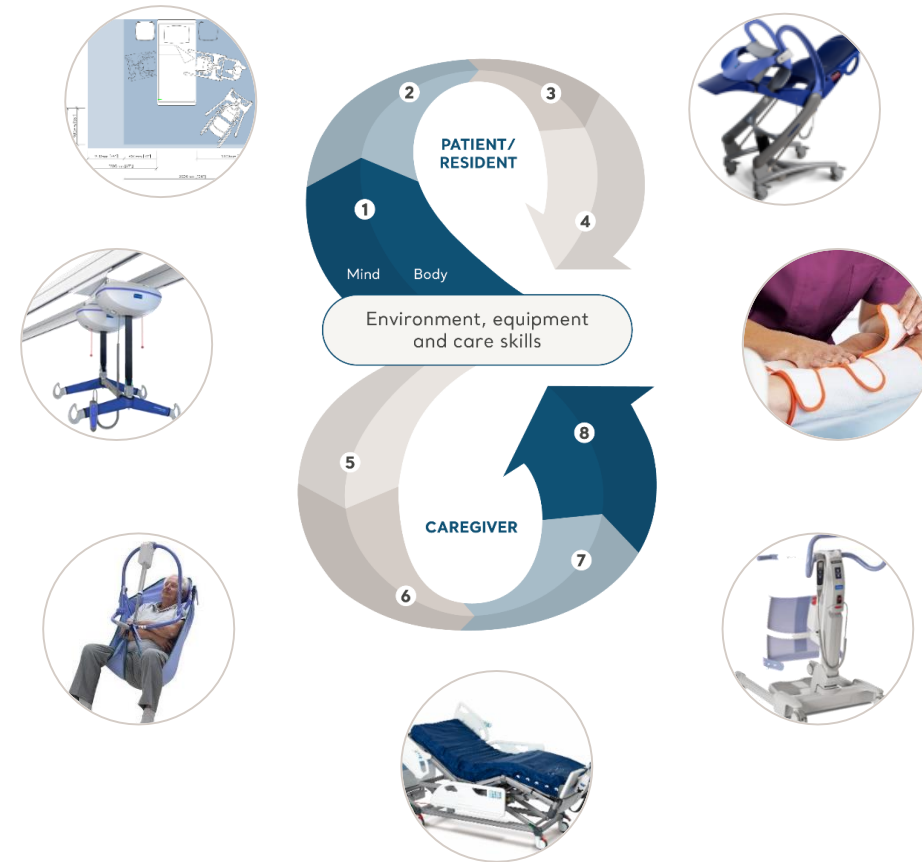


Mobility focus

Arjo's role in reducing challenges related to immobility



Arjo's holistic solution



The number of dementia patients worldwide is growing by ~10 M annually
- creates an opportunity for Arjo to provide customer distinctive value



Arjo products portfolio
that is dementia friendly

Dementia design guidelines
for all portfolio plans



Internal knowledge and expertise



Care skills for safe
patient handling and
hygiene of dementia
patients and residents

Outlook 2019

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.



Committed to deliver another year of healthy growth

- Brexit
- Investment levels in Australia
- Traction on implemented key initiatives
- Order intake & backlog for delivery 2019
- Execution of first breakthrough order in US

~ 3%

organic growth 2019

Reported EBITDA
CAGR: >10%

Cash conversion: >70%

Summary

Summary

- 2018 has been a year with high engagement in the organisation providing solid results
- It's a journey and we have a clear direction to continue driving profitable growth
- Our Arjo 2020 initiatives are showing results and we are setting a foundation for a successful future
- 2019 is another important year in continuing to build a strong Arjo





Financial overview

Capital Markets Day 2019

Jonas Lindqvist, CFO

March 12th 2019

Agenda

- Balance sheet
- Currencies
- Financial focus 2019



Delivered on our financial targets for 2018

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2018

Sales Growth

Organic sales of 3%



Profitability growth

EBITDA growth of 18,4%



Cash conversion

Cash conversion of 84,0 %



Balance sheet

Balance sheet

Solid capital control

	Ac rates	Ac rate
<u>Assets,</u>	Dec	Dec
<u>MSEK</u>	2018	2017
Intangible assets	6 946	6 634
Tangible fixed assets	1 153	1 134
Financial assets	448	334
Inventories	1 117	1 104
Accounts receivables	1 802	1 898
Other current receivables	635	434
Cash and cash equivalents	961	672
Assets held for sale	74	0
Total Assets	13 136	12 210

	Dec	Dec
<u>Equity & liabilities,</u>	2018	2017
<u>MSEK</u>		
Shareholders equity	5 427	5 074
Long-term financial liabilities	2 900	5 131
Provisions for pensions, interest-bearing	27	61
Other provisions	301	256
Short-term financial liabilities	2 771	90
Accounts Payable	458	541
Other non-interest bearing liabilities	1 208	1 057
Liabilities held for sale	44	0
Total equity & liabilities	13 136	12 210

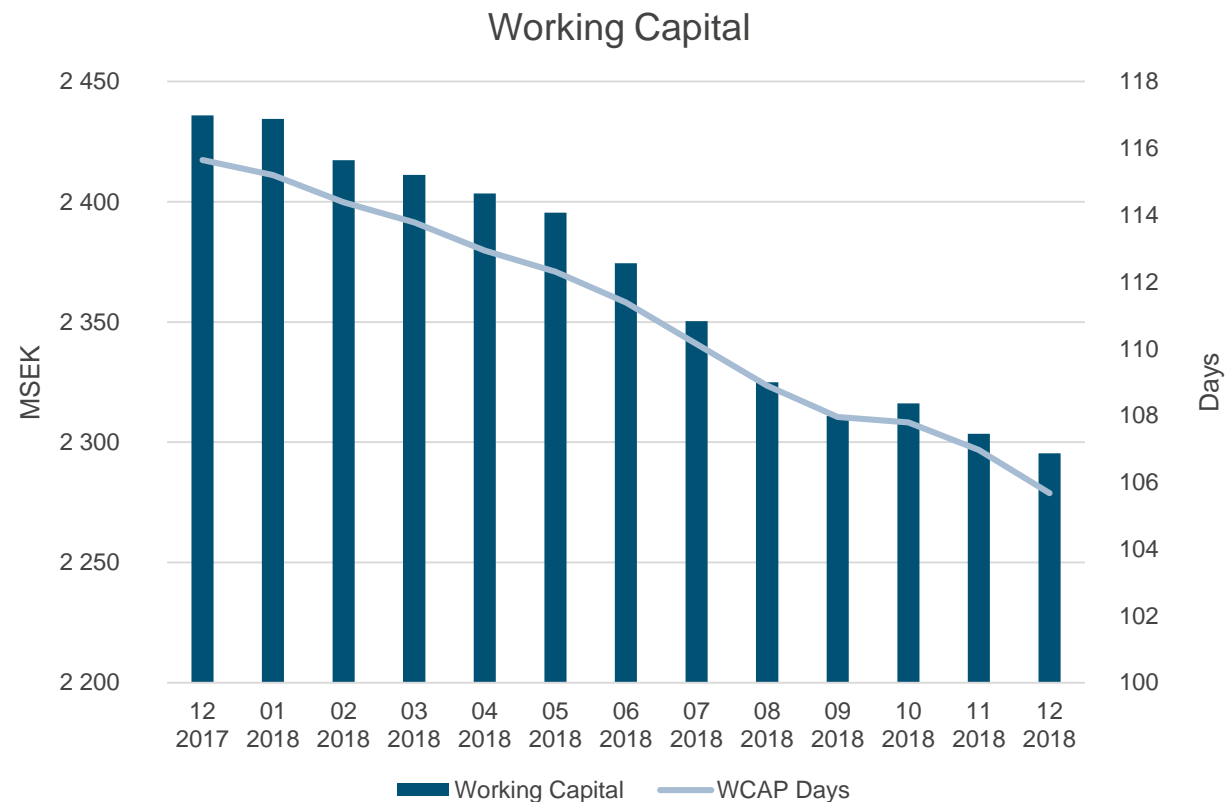
Business growth while
maintaining capital control

Working capital release

Somewhat improved organic
net debt

Working capital

Decreased working capital and working capital days

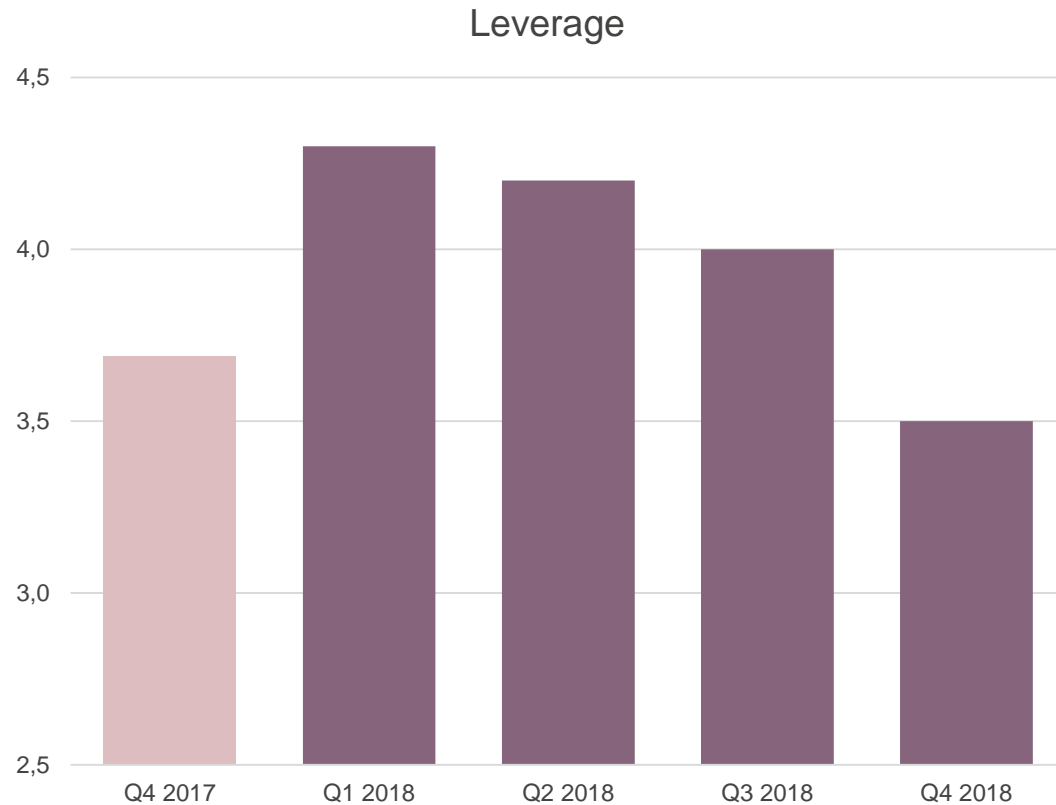


Successful initiatives to lower working capital

- Accounts receivables

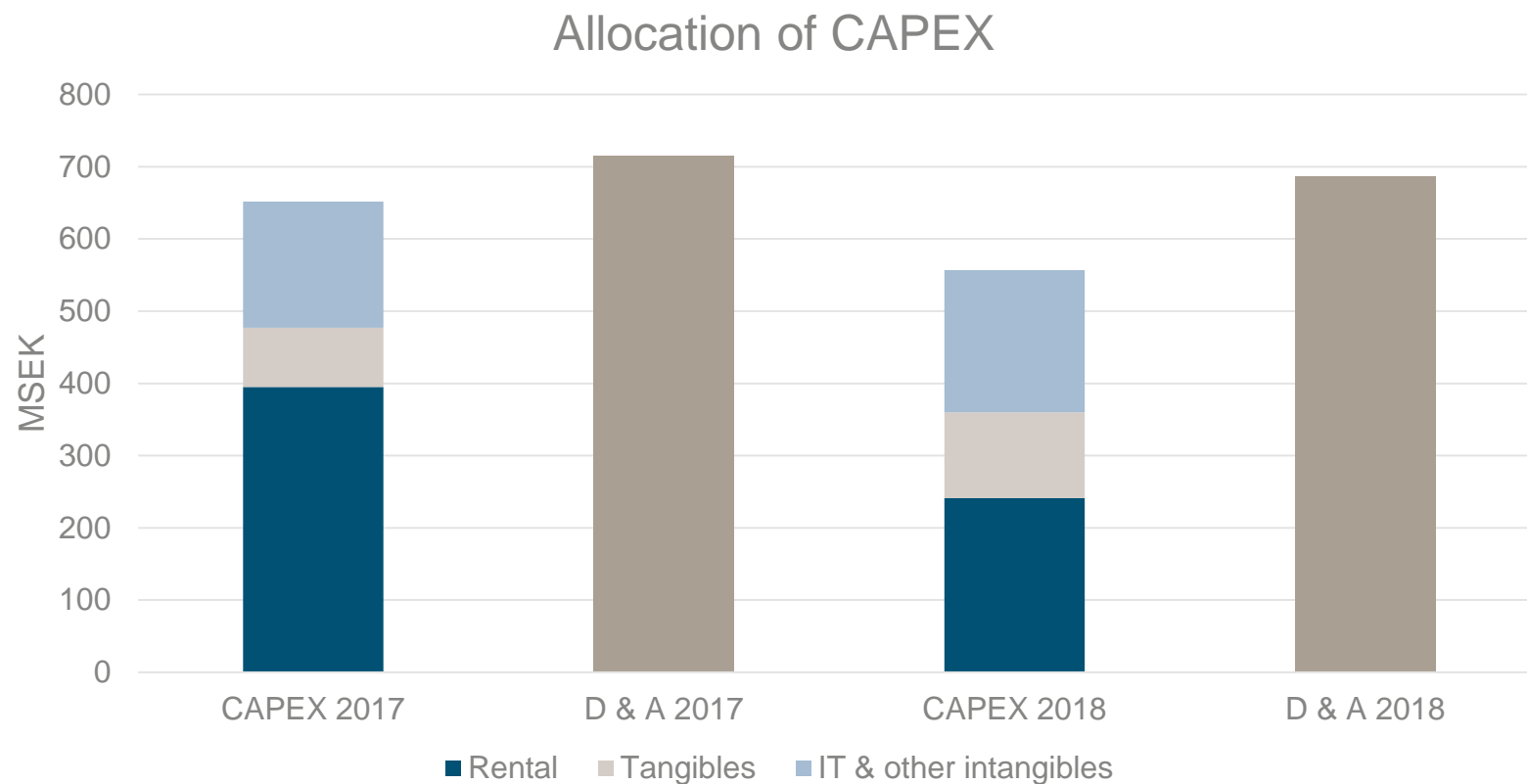
Leverage (Net Debt / EBITDA)

Leverage reductions during 2018



Striving to lower leverage to below 3.0

Depreciation and amortization of non-acquired assets



Currencies

Translation and transaction effects

	2018	2019 estimates
Translation effects	39	N/A
Transaction effects	77	-20
Total	116	-20

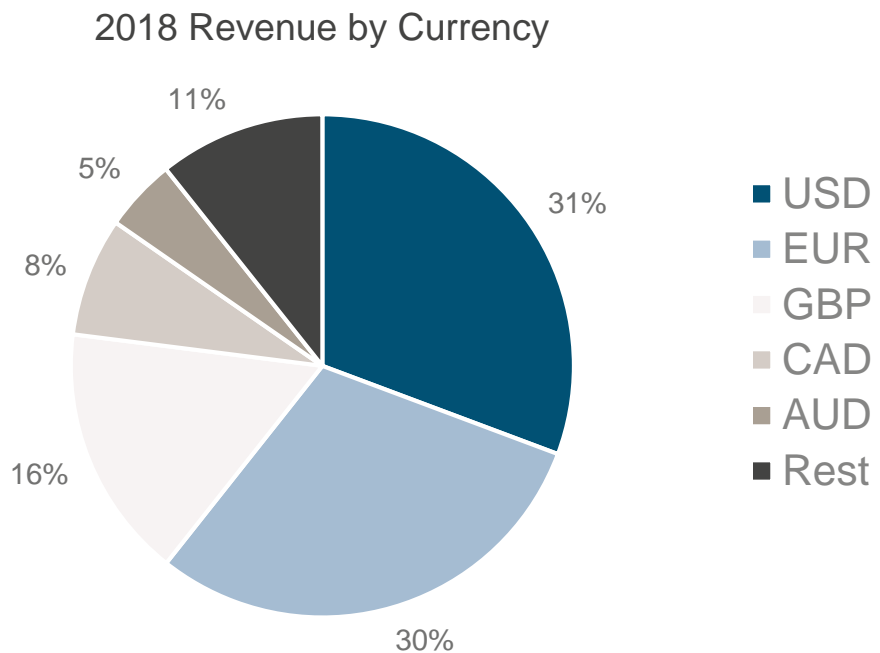
Two forms of exchange rate impact Arjo

- Translation effects
- Transaction effects

Arjo's strategy for foreign exchange hedging

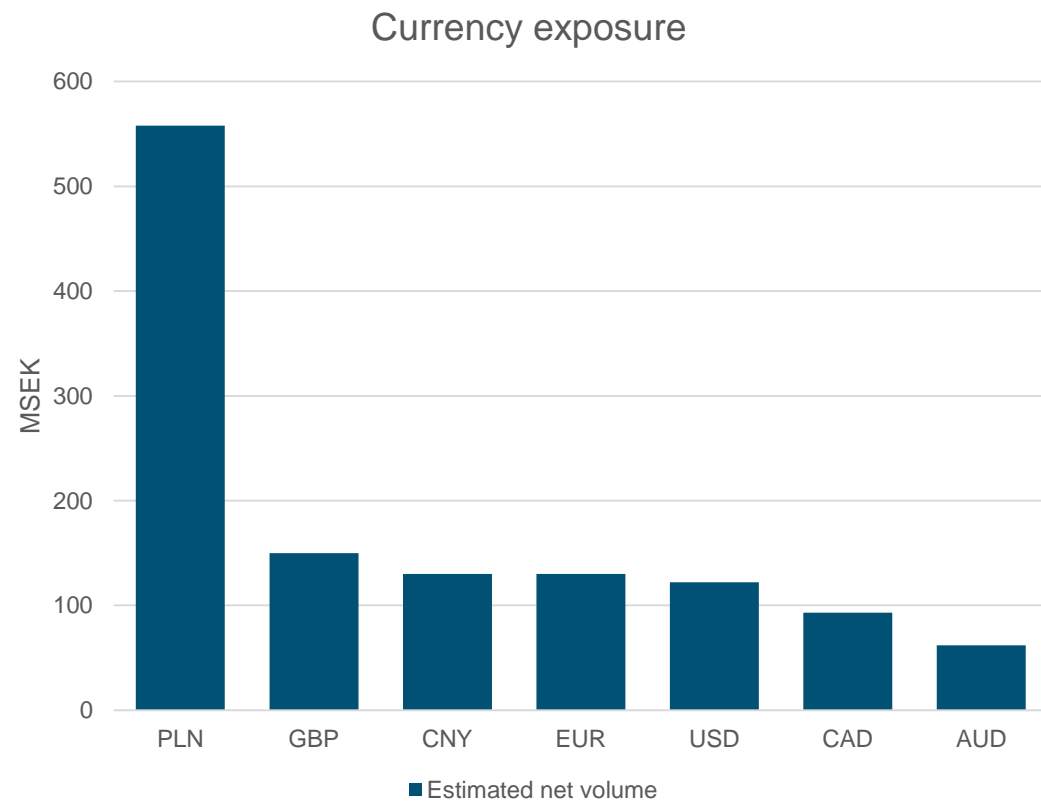
- Minimize impact on transactional flows involving production units and strategic sales units
-

Translation effects 2018



Translation effect vs 1712, MSEK	Q4	FY2018
Gross Profit	+53	+134
Opex	-33	-90
Restructuring/other	-4	-5
EBIT	+16	+39

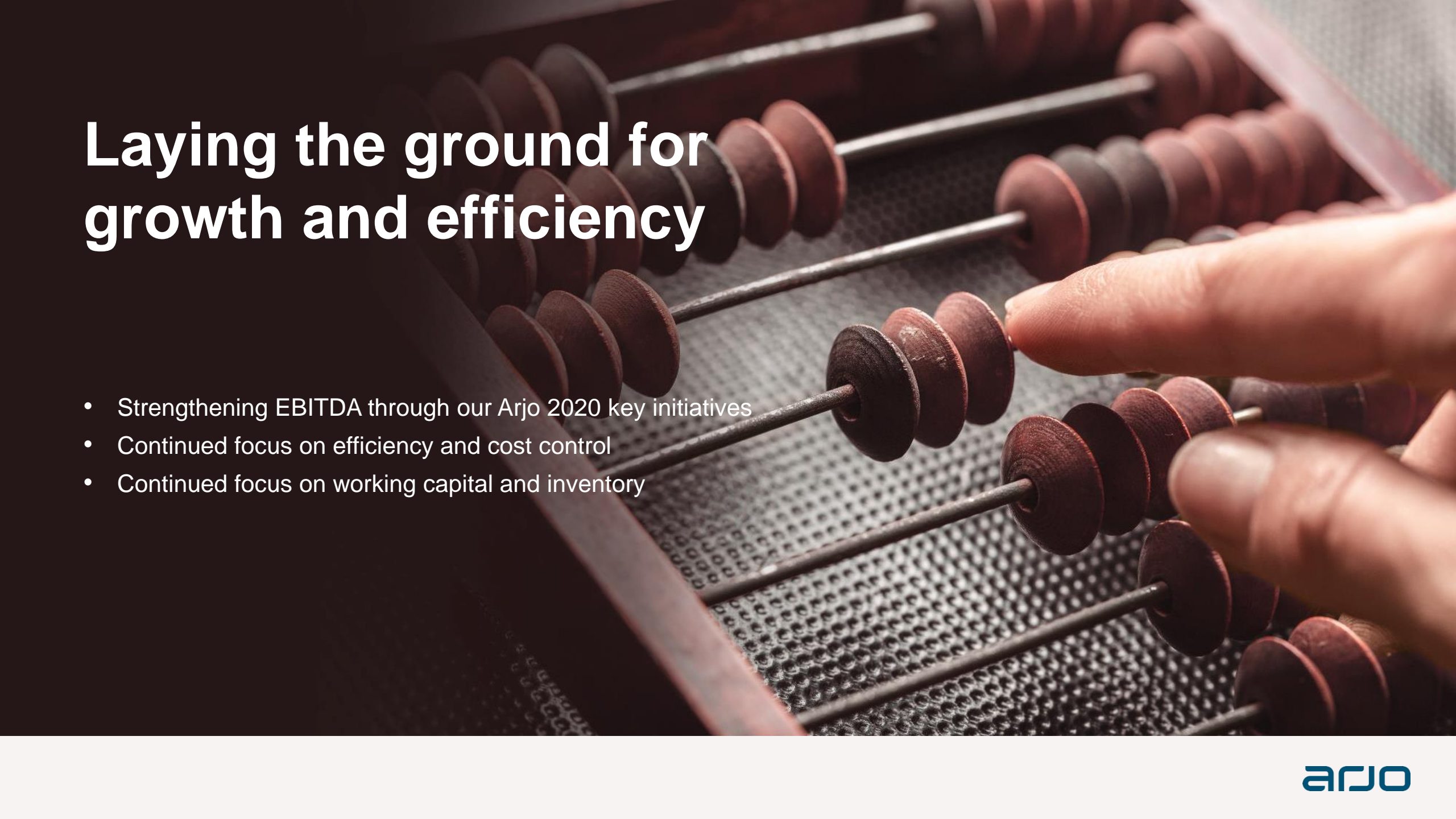
Transaction effects & a sensitivity analysis



Most relevant currencies – in pairs:
PLN/GBP, USD/GBP, CNY/GBP, EUR/GBP

Currency	2019 estimates: effect of +/- 5% change (MSEK)
PLN	+/- 22
GBP	+/- 6
CNY	+/- 5
EUR	+/- 5
USD	+/- 5
CAD	+/- 4
AUD	+/- 2

Financial focus 2019



Laying the ground for growth and efficiency

- Strengthening EBITDA through our Arjo 2020 key initiatives
- Continued focus on efficiency and cost control
- Continued focus on working capital and inventory



US market

Capital Markets Day 2019

Anne Sigouin, President North America Sales & Service

March 12th 2019

Agenda

- The US market
- Arjo US in brief
- The US turnaround
- Summary



The US market

Market for reduced mobility & age-related health challenges



**US Health Care Expenditure
is 2x of comparable country¹**



**Macro trends show
aging population and
increase obesity issue²**



**Highly Complex and
Ever Evolving Market**

US Health Care – the “land of busyness”



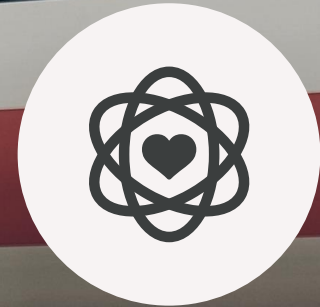
Speed of Business



Customer
Experience



Performance



Value Creation

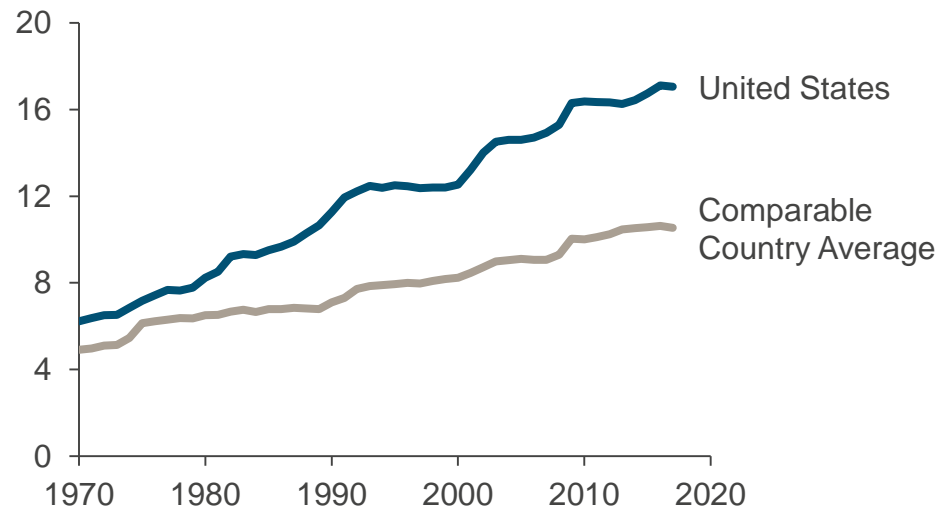


Speed of Business

Rising health care costs in the US are driving record growth of mergers & acquisitions

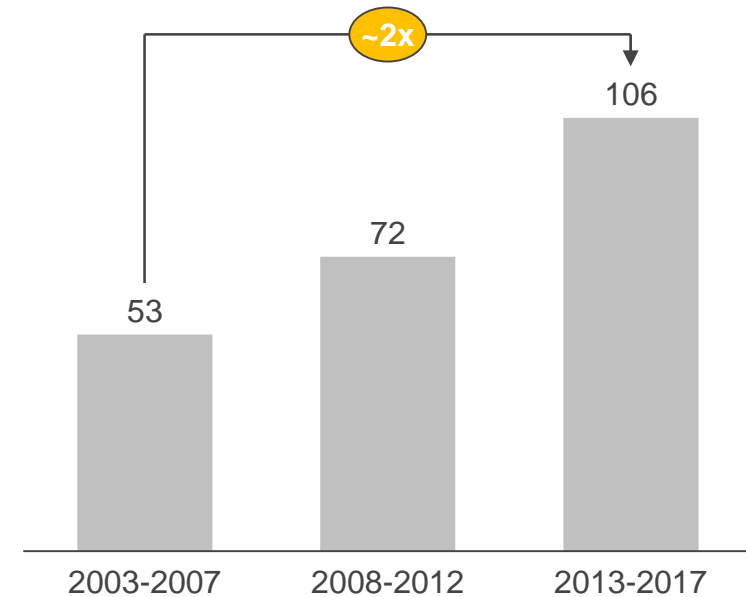
Health care costs continue to rise ...

Health Care expenditure as % of GDP, 1970-2017¹



... Forcing consolidation of hospitals and health systems

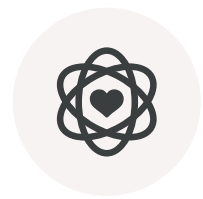
Average annual M&A Transactions (#)²



Sources: 1. Health Care costs in the US = Sawyer & Cox, "How does health spending in the US compare to other countries?" 2. Consolidation of hospitals and health systems = Jacqueline LaPointe, "Hospital Merger and Acquisition Deals Got Bigger in 2018".

Customer Experience, Performance, and Value Creation

Standards for care are increasing in the US



**Patients are
becoming consumers**



**Hospitals are improving
quality indicators**



**Customers are delivering
a higher standard of care**

Arjo US in brief

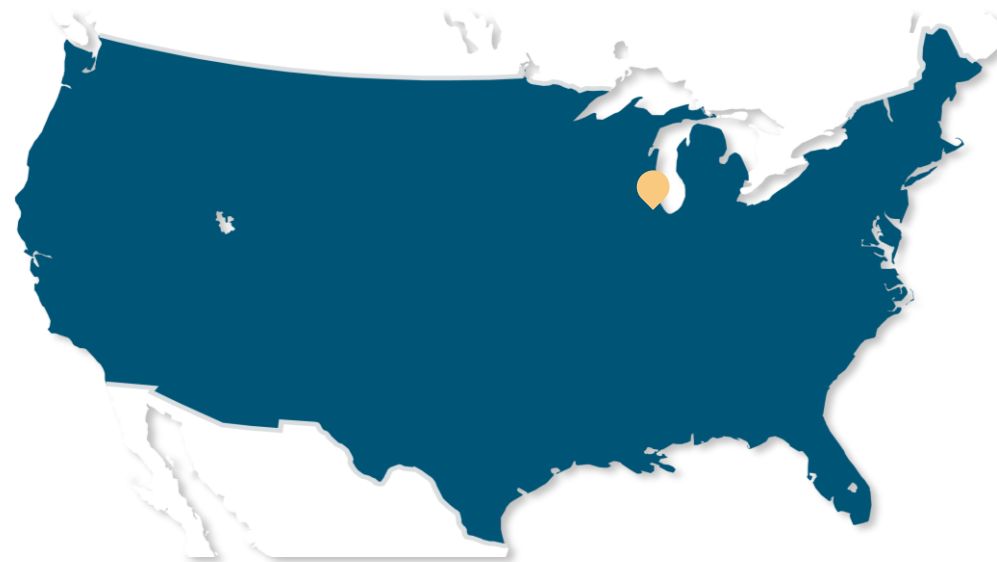
Arjo US at a glance...

2 390

2018 net sales (SEK m)
North America

29%

US as % of Arjo



760+

US employees

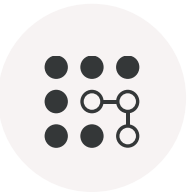
56

Rental depots

170+

Customer facing
representatives

US head office
location **Addison**
Illinois 



The Value of Arjo in the “Land of Busyness”

Customer pain points – where we can make a difference

Operational



- Limited staff to get patients out of bed: **33%**
- Difficulty turning immobile patients: **25%**
- Staff injuries during patient transport: **25%**

Patient Care



- Patient Falls: **50%**
- Pressure Ulcers: **25%**
- Patient Infections: **25%**

Financial



- Support Staff Salary: **50%**
- Decreasing budget / reimbursement: **17%**
- Increased cost of supplies: **17%**

US turnaround plan

What happened in 2018?

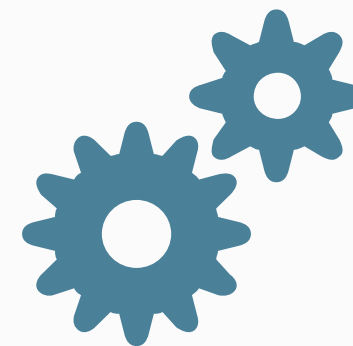
Clear objective, focus and a changed mindset is driving growth



CLEAR DIRECTION



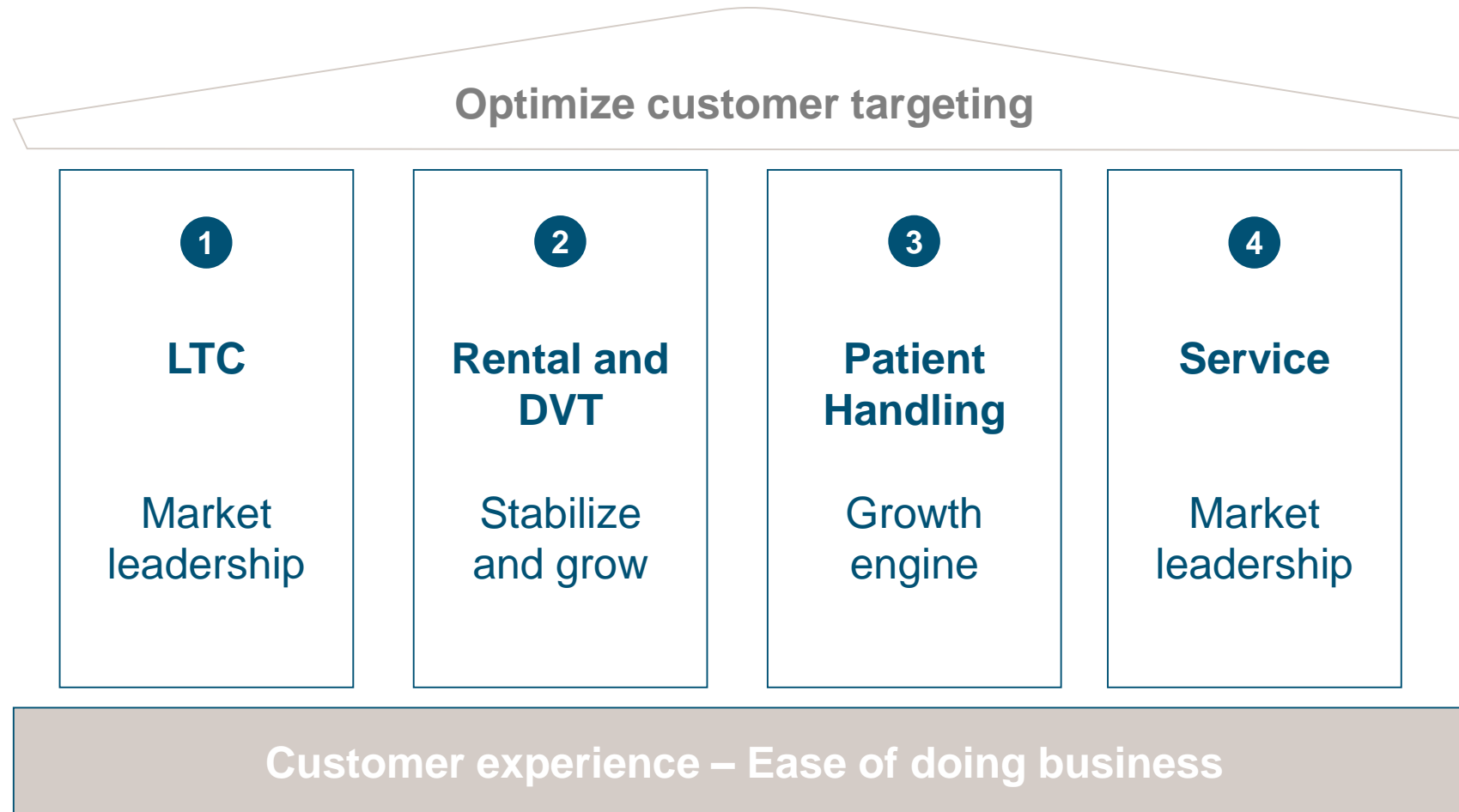
GOVERNANCE

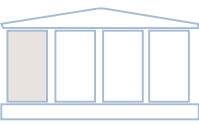


EXECUTION

CULTURAL SHIFT

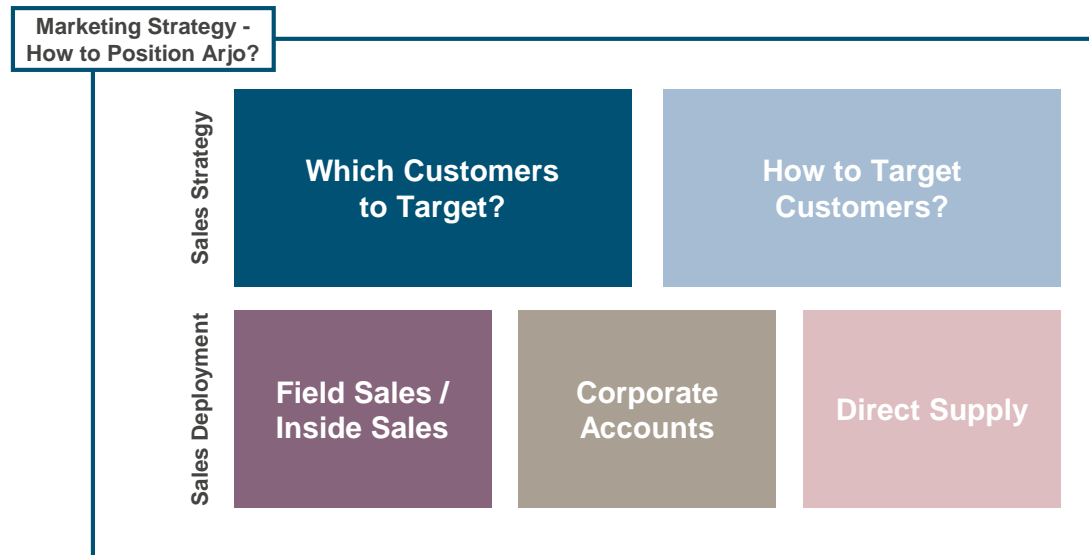
Key components of US turnaround plan





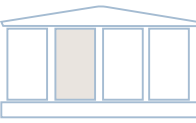
2018 was highly focused on setting the foundation for LTC Sales

LTC plan consists of one key framework ...



... with a clear execution plan

- 1 Leverage our large historic installed base
- 2 Secure chain agreement
- 3 Expand reach through partnerships
- 4 Execute / follow up on key predictive indicators



High focus on executing Rental and DVT objectives continue to ensure a clear path of stability and growth



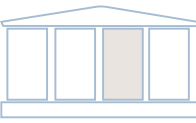
**Increase Share
of Wallet in
Arjo Accounts**



**Acquire new
business in both
categories**



**Adapt offering based
on customers
requirements**



Leverage strong product and solutions portfolio to grow Patient Handling and Mobility segment



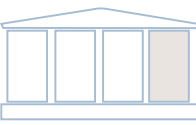
Increase penetration of our broad portfolio



Maximize our solutions for early mobility

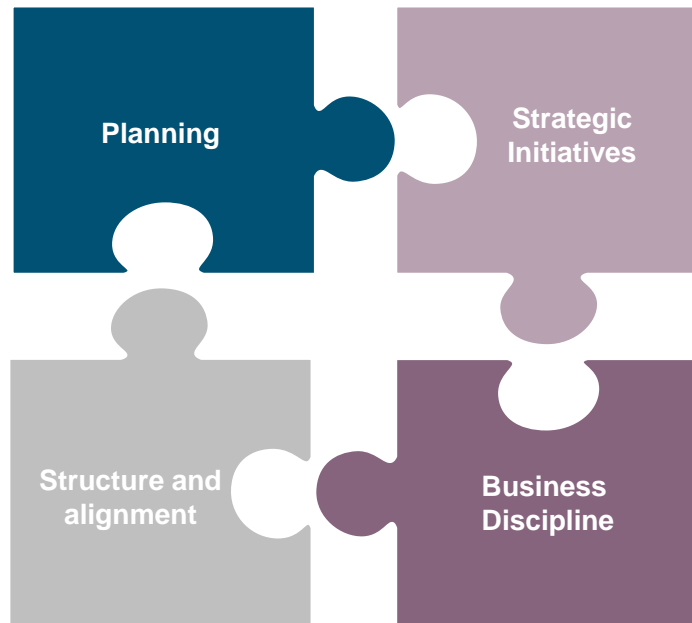


Explore New Revenue Opportunities



Recently started implementing the Service Growth Plan with aim to transform the service business and set Arjo US up for growth

Service Growth Plan consists of four key pieces ...



... Set to deliver growth and profitability

Growth being delivered by strategic initiatives;

- 1 Increase capture rates of own install base
- 2 Selling service at Point-Of-Sales
- 3 Targeted approach on National Accounts/GPOs/AMC

Delivered by improved structure, better planning and business discipline

Summary

Summary

- 1 Market remains a great opportunity for Arjo US**
- 2 A strong plan has been put in place to capitalize on the opportunity, execution on 6 distinct topics**
- 3 We are hitting the major milestones in our plan**
- 4 Track performance closely and course correct if needed but overall direction is set**

arjo

with people in mind