Arjo – Q2 report 2019

July 18, 2019

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Agenda

1. Business update – Q2 2019
2. Balance sheet
3. Outlook
4. Summary
5. Q&A

Business update

Q2 2019

Q2 2019 – Summary
Strong organic growth and improved outlook for full year

Solid organic growth of 6,5% in Q2 2019
- North America experiences strong growth at 15,8% with high delivery of medical beds
- Growth held back by 1,7% in Western Europe driven by UK sales decline
- Continued healthy development across RoW leads to organic growth of 11,6%

Improved outlook for 2019
- Organic sales growth in 2019 is estimated to reach the high end of the 2-4% interval (previously approx. 3%)

Gross margin of 44,1%
- Unfavorable product mix driven by high deliveries of medical beds in US
- Rental business under pressure in US and in larger markets in Western Europe
- Positive impact from increased Service sales and resource utilization in factories

OPEX relative to net sales continues improving

Continued improvements in EBITDA

Two restructuring activities initiated

Cash conversion of 60,7% (62,4)

Acquisition of equity stake in Atlas Lift Tech after the quarter

Q2 2019
North America

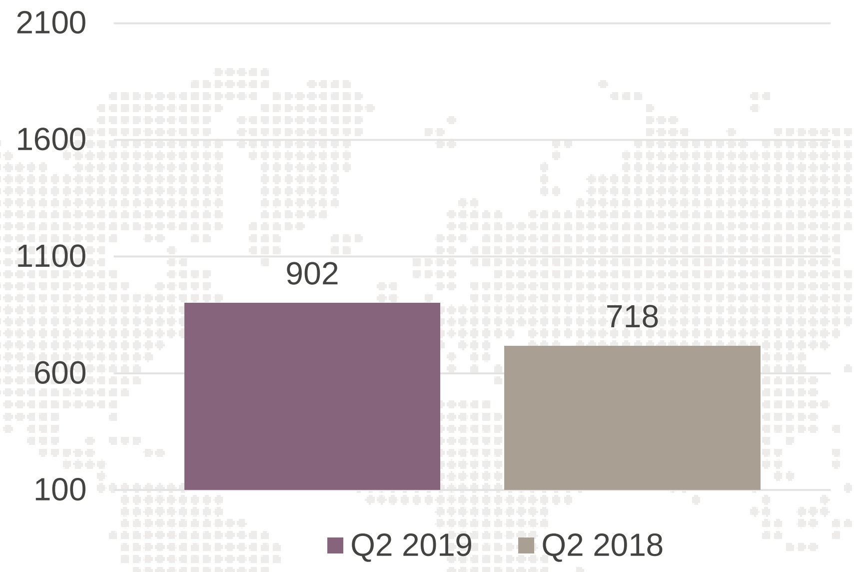
Net sales grew organically by 15,8%

- US continues strong growth at 18,7%, with high delivery of medical beds
- Rental operations under pressure due to lower sales of Critical Care solutions
- LTC initiatives gaining traction

Canada continues growth trajectory

- Good sales development at 3,7% across several product categories and Rental operations

Organizational change initiated in US Rental to drive efficiencies and improve profitability



North America net sales, MSEK, Actuals

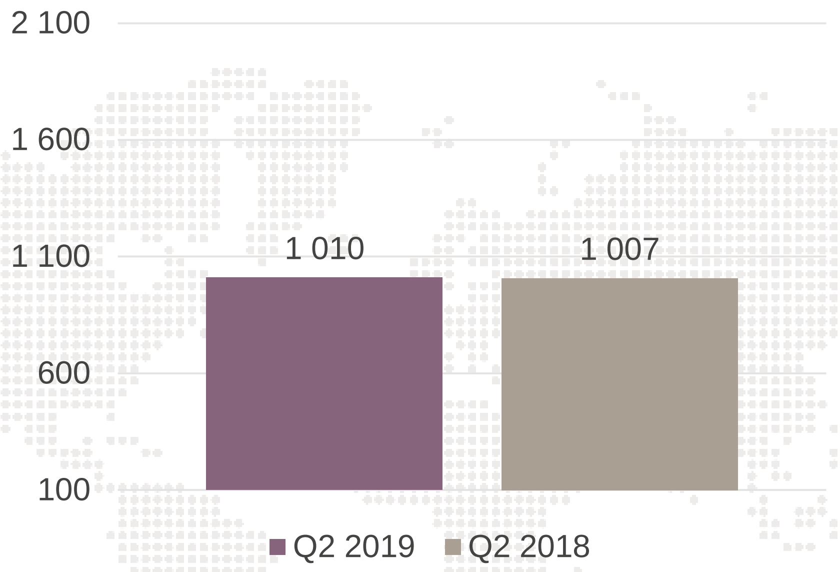
Q2 2019
Western Europe

Slight decline in organic growth

- Net sales declines by 1,7% due to lower sales in UK of -7,3%
- Continental Europe in line with Q2 2018
  - Some decline in Germany and Netherlands
  - France continues to grow
- Rental under pressure with lower capacity utilization in key markets

UK held back by low NHS investments due to Brexit

- Low NHS investments in capital goods continue across industry
- As before YoY organic decline expected
- Organizational change proposed in the UK to realign business to current market shape and size



Western Europe net sales, MSEK, Actuals

Q2 2019
Rest of the World

Rest of World increases net sales by 11,6% organically

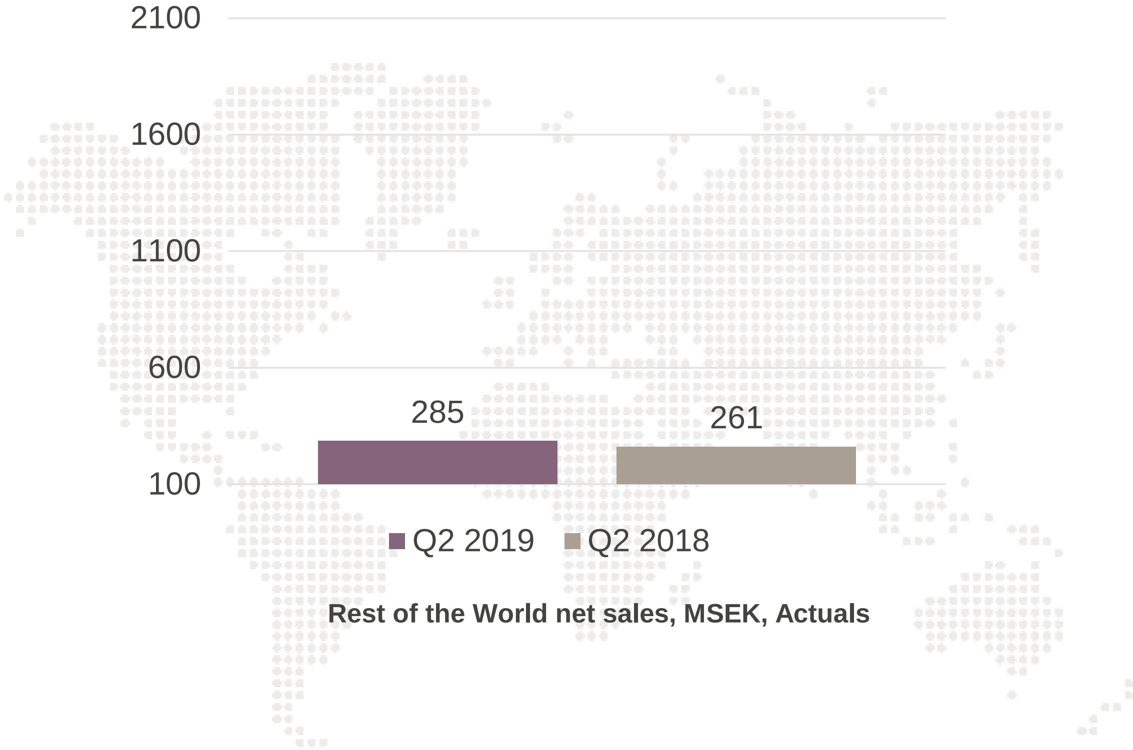
- Several markets performing well, incl. Japan, India and South Africa
- Some decline in Australia, but strong order intake sets foundation for growth during 2019

Geographic expansion plans show results

- Investments in sales organizations continues to show results in number of markets, such as Japan and LatAm

Continued traction in several distributor markets

- Africa, Eastern Europe and South East Asia show strong growth



Rest of the World net sales, MSEK, Actuals

Profit development – Q2 2019

Gross margin of 44,1% (45,1) in Q2

- Unfavorable product mix, with high deliveries of medical beds with lower gross margins
- Rental operations under pressure
  - In Western Europe, average sales price and volume pressures impact rental operations
  - In US, margins are under pressure due to significantly lower placement of high spec Critical Care solutions
- Strong Service sales and resource utilization in production has positive impact

OPEX development relative to net sales continues to improve

EBITDA amounts to 421 MSEK (303)

- Improvement of 38,8%, including IFRS 16
- Excluding IFRS 16, EBITDA is at 336 MSEK, an improvement of 10,5%

No restructuring costs in Q2, but two restructuring activities initiated

MSEK	Q2 2019	Q2 2018	Jan-Jun 2019	Jan-Jun 2018	FY 2018
Net sales	2 197	1 986	4 320	3 929	8 217
Gross profit	968	896	1 905	1 752	3 662
Gross margin, %	44,1	45,1	44,1	44,6	44,6
EBITDA	421	303	834	552	1 180
EBITDA-margin, %	19,1	15,3	19,3	14,1	14,4
EBIT	165	142	333	225	493

Currency effects

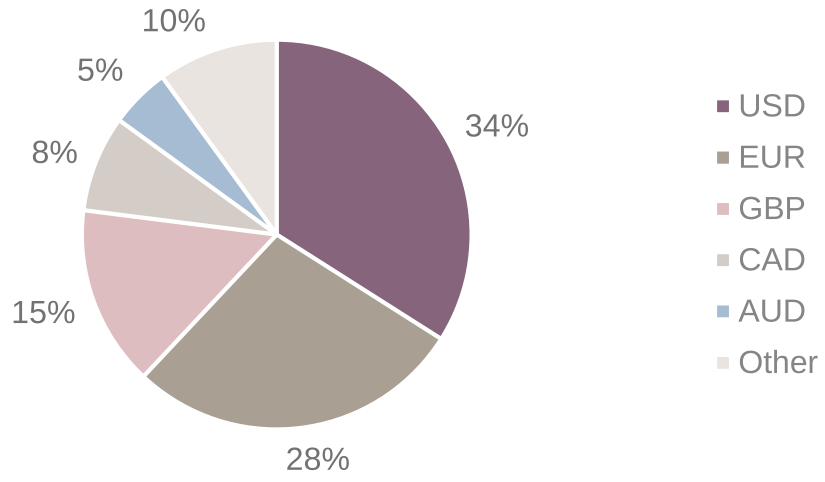
Q2 2019 vs. Q2 2018

Minor transaction effects on gross profit of -3 MSEK

The Swedish krona is stable against our main currencies in the quarter

The current hedge degree is 55% (53%) – somewhat higher than Q2 2018

Revenue by currency, Q2 2019



Translation effect Q2 2019 vs Q2 2018, MSEK	
Net Sales	106
COGS	-55
OPEX	-31

Balance sheet

Balance sheet

Stable situation and continued strong balance sheet

- Equity ratio 39,2%
  - Excluding IFRS 16 – Equity ratio ~42,5%
- IFRS 16 impacted total assets with ~SEK 1,2 Billion

Working Capital

- Focus on inventory is beginning to show effects
- Increase in accounts receiveables after a strong sales quarter

Cash balance

- Increased cash position at the end of the quarter after commercial paper is issued for the purpose of repaying bank loans

Cash flow (C/F)

Cash flow before changes to working capital

- Positive development, 28% increase of cash flow before changes to working capital excluding effects of IFRS 16

Working capital increased in the quarter

- C/F-effect from inventory reduction is 40 MSEK
- Increase in receivables by 35 MSEK, as a result of a strong sales quarter
- Decrease in payables as a result of Kindred Healthcare order

Investing activities

- Increased relative to previous year; primarily because of investment in rental fleet

Cash conversion of 60,7%

- Improving, but below 70% target – because of strong sales in the quarter, increased receiveables and Kindred Healthcare order

MSEK	Q2 2019	Q2 2018	Jan-Jun 2019	Jan-Jun 2018	FY 2018
Operating profit	165	142	333	225	493
Cash flow before changes to working capital	307	179	660	432	882
Change in working capital	-52	+10	-225	+25	+109
Cash flow from operations	255	189	435	457	991
Cash flow from investing activities	-219	-176	-405	-284	-717

Outlook 2019

Outlook 2019 (changed)

- Organic sales growth for 2019 is expected to reach the **high end of the 2-4% interval** (previously communicated approx. 3%)
- Operating expenses are expected to continue to decline slightly as a percentage of sales in 2019

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Summary

Summary

Strong growth in Q2 at 6,5%

- North America developing exceptionally with USA leading the way with Kindred order
- Western Europe in line with Q2 2018, held back by continued decline in UK
- RoW shows strong growth and development potential in both own and distributor markets

Gross margin at 44,1%

- Unfavorable product mix and continued pressure on Rental has negative impact
- Positively affected by Service sales and resource utilization in factories

OPEX down as percentage of net sales – according to plan

Continued improvements in EBITDA

Restructuring activities initiated to improve profitability and meet market developments

Improved outlook for 2019

- Organic sales growth in 2019 is estimated to reach the higher end of the 2-4% interval (previously 3%)
- Continuously hitting Arjo 2020 milestones to build a strong future

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.

with people in mind