Arjo – Q2 report 2018

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Agenda

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2. Other business highlights
3. Balance sheet
4. Outlook
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Business update

Q2 2018

Q2 2018 - Summary

Commercial focus paying off – continued growth in Q2

Continued growth in Q2, +2,3 % organic
- Overall positive development accross most markets and product categories
- Continued growth of US rental, fourth consecutive quarter
- UK in line with Q2 last year - activities paying off

Gross margin of 45,1 % - an increase by 1,0 pp vs. Q1 2018
- Higher sales and good factory utilization contributing to the gross margin – offset by unfavorable product mix
  - Action plan developed for improved GP in Medical Beds category – to be presented in Q3

Good cost control and improved EBITDA
- OPEX according to plan, increase due to normally high activity in Q2, R&D and Arjo being an independent group
- Improved EBITDA before acquisition, restructuring and integration costs of SEK 313 M (294)

Cash conversion of 62,4 % (43,5)

Partnership with Next Step Dynamics

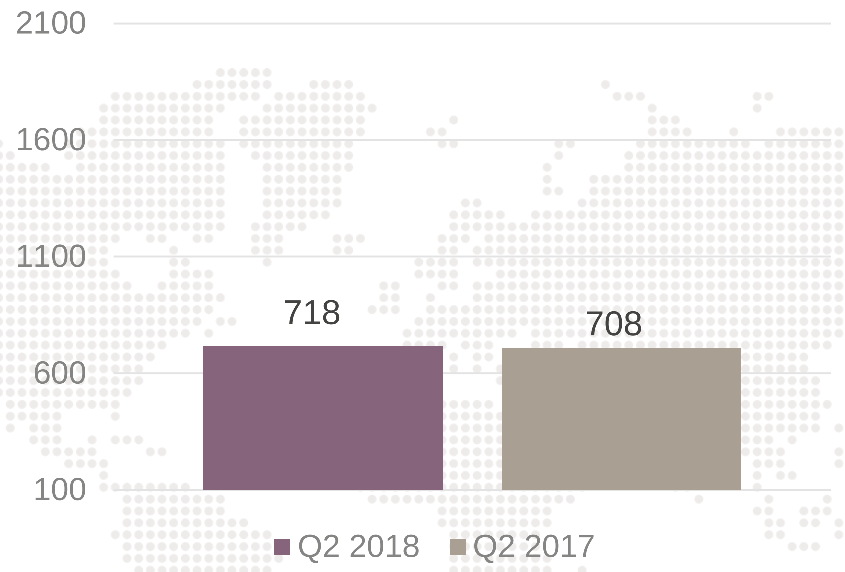
Acquisition of ReNu Medical after the quarter

Q2 2018
North America

- **Net sales grew organically by 2,6%**
  - Capital goods and rental performing well – mainly Patient Handling, Medical Beds and Wound Care

- **Rental performing well for fourth consecutive quarter – continued positive results from US turnaround plan**

- **After the quarter: Acquisition of ReNu Medical further strengthens the DVT offering**

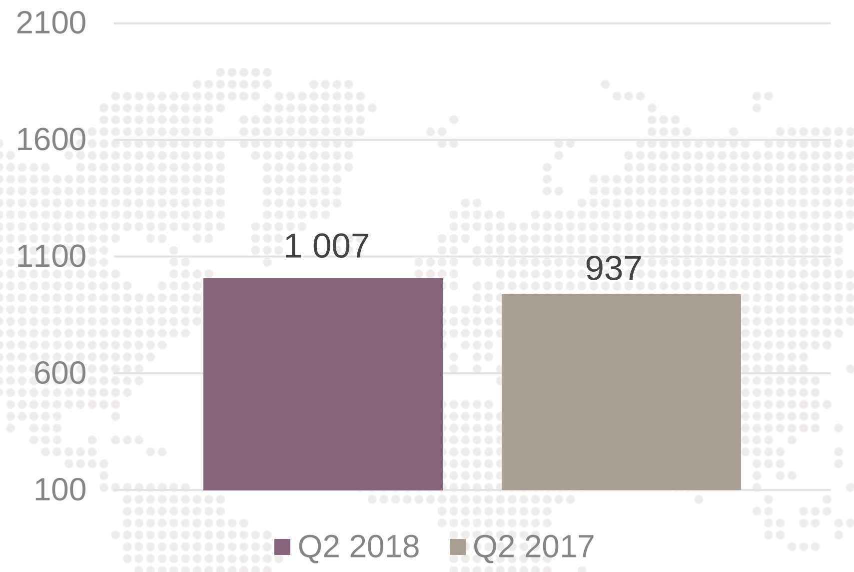


North America net sales, SEK M, Actuals

Q2 2018
Western Europe

- **Net sales grew organically by 1,7%**
  - Positive development in several larger markets
    - Germany & France
  - Growth across product categories
    - Medical Beds, Patient Handling performing well

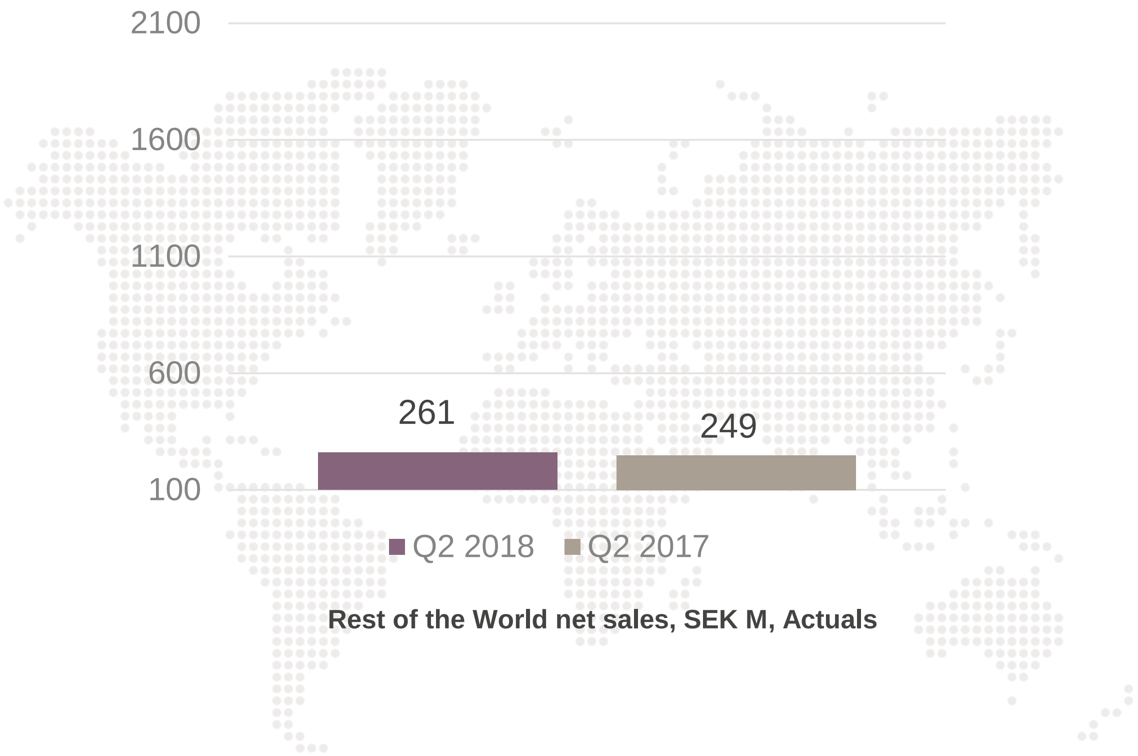
- **UK in line with last year - activities paying off**
  - UK sales volumes for FY 2018 estimated to be in line with, or slightly better, than FY 2017 levels



Western Europe net sales, SEK M, Actuals

Q2 2018
Rest of the World

- **Net sales grew by 3,6% organically**
  - Main drivers are India, South Africa and Singapore
  - Growth somewhat offset by some large shipments being postponed into Q3 (July)
- **Geographic expansion continues**
  - Sales organization in Japan up and running since May - China & Latin America to be launched later this year
- **Good progress in product registrations**
  - Ambitious target to register existing product portfolio in new markets – activities well underway



Rest of the World net sales, SEK M, Actuals

Profit development – Q2 2018

- **Gross margin of 45,1% (45,7) in Q2**
  - Somewhat unfavourable product mix due to high volumes of value segment medical beds
  - Good factory utilization
  - 44,6 % in the period – in line with FY 2017 in the same currency rates
- **EBITDA before acquisition, restructuring and integration costs was SEK 313 M (294) in Q2**
  - OPEX development in line with plan
- **Restructuring costs of 15 MSEK in Q2**
  - Mainly related to the final stages of the spin-off

MSEK	Q2 2018	Q2 2017	Jan-Jun 2018	Jan-Jun 2017	FY 2017
Net sales	1 986	1 894	3 929	3 825	7 688
Gross profit	896	865	1 752	1 782	3 428
Gross margin, %	45,1	45,7	44,6	46,6	44,6
EBITDA*	313	294	602	754	1 246
EBITDA-margin*, %	15,7	15,6	15,3	19,7	16,2
EBIT	142	120	225	358	281

*Before acquisition, restructuring and integration costs

Currency effects

Q2 2018 vs. Q2 2017 not comparable in terms of currency effects due to new currency strategy as of December 12, 2017

- Positive transaction effects of 44 MSEK on gross margin compared with Q2 2017

Higher volatility expected due to lower hedging than 2017 - gradually increased hedging in 2018

Most important currency pairs: PLN/GBP, USD/GBP, CNY/GBP, EUR/GBP

- Sensitivity examples based on the Q2 closing rates
  - If PLN would change 5 % towards the GBP during H2 2018, that would impact our EBIT by 13 MSEK.
  - If the USD would change 5 % towards the GBP during H2 2018, that would impact our EBIT by 5 MSEK.

Other business highlights

Other business highlights

Launch of IndiGo, breakthrough technology for medical bed transport

- One of the group's efforts to improve profitability in the medical beds category.
- Positive contribution to net sales and results expected from Q3 2018.

Exclusive partnership with Next Step Dynamics

- As a first step, Arjo will spend SEK 70 M over a period of 24 months on development projects for predicting and preventing patient/resident and caregiver injuries.
- Sales to begin in 2019 and net sales and results contribution expected in 2019.

Acquisition of US reprocessing company ReNu Medical, Inc.

- Access to growing reprocessing market, expected increase of net sales and profitability within DVT and adjacencies.
- Marginal positive contribution to net sales, gross margin and earnings per share in 2018.

Other business highlights

Change regarding the Group's shared service setup

- Discontinued shared service agreement with Getinge, bringing financial control closer to the business
- Total savings of 9 MSEK in 2019 and 7 MSEK annually from 2020

Reorganization to optimize the Group’s development resources

- Relocation of product development from San Antonio, Texas, to other sites proceeding according to plan
- Total restructuring costs of approx. SEK 40 M charged in Q1
- Estimated total savings of about SEK 20 M in 2018 and thereafter annual savings of approximately SEK 40 M from 2019

Preparations for Medical Device Regulation (MDR) in the EU

- Well in line with plan – to be handled within current structure
- Includes full run-through of product categories

Balance sheet

Balance sheet

Continued strong balance sheet

- Equity ratio ~42%

Focus on Working Capital

- Cash-flow effect + 10 MSEK in Q2

Continue to utilize commercial paper program

- Utilized ~2,5 billion SEK

Cash Flow

- **Cash flow before changes to working capital**
  - lower EBIT
- **Working capital positive in the quarter**
  - Positive 3rd quarter in row
  - Focus area
- **Investing activities up in Q2**
  - Rental fleet primary driver
- **Cash conversion YTD of 82,8%**

MSEK	Q2 2018	Q2 2017	Jan-Jun 2018	Jan-Jun 2017	FY 2017
Operating profit	142	120	225	358	281
Cash flow before changes to working capital	179	219	432	648	982
Change in working capital	10	-97	25	-373	-410
Cash flow from operations	189	122	457	275	572
Cash flow from investing activities	-176	-102	-284	-192	-652

Outlook 2018

Outlook 2018

- Organic sales growth in 2018 is estimated to reach the lower range of 2-4 %
- The group’s operating expenses for the full year 2018 is expected to amount to approx. 2 965 MSEK (previously 2 950 MSEK), including the ReNu Medical acquisition (+15 MSEK)

Summary

Summary

- **Continued growth in Q2, + 2,3% organic sales growth**
  - Stable development in all regions and across product categories
  - US rental business performing well for fourth consecutive quarter - US turnaround plan continues to hit milestones
  - UK in line with plan – activities paying off
- **Gross margin of 45,1 – 1 pp better than Q1**
  - Continued price pressure in medical beds value segment – action plan under development and actions to be presented in Q3
  - 44,6 in the period in line with FY 2017 (44,6) – estimations remain to slightly improve gross margin in 2018 vs. FY 2017
- **Commercial activities to drive Arjo's long term growth**
- **Q2 marks yet another important step towards 2-4 % annual sales growth**

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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