



# Arjo – Q3 report 2018

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# Agenda

**1. Business update – Q3 2018**

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# Business update

Q3 2018

## Q3 2018 - Summary

### Continued growth and improved outlook for FY 2018

#### Continued growth in Q3, third in a row after 5 years of decline

- Offset by disruptions related to transfer to new logistics partner and move of logistics center as part of separation from Getinge
- When adjusted for the above, organic net sales growth was 3,5 %
- Strong net sales development in North America - healthy performance in both US and Canada
- UK growth despite challenging market environment – estimated to improve slightly for FY 2018

#### Improved outlook for 2018

- Continued strong order intake in Q3, especially in Western Europe
- Organic sales growth in 2018 is estimated to reach the middle of the 2-4% interval (previously "lower range of 2-4%")

#### Gross margin of 43,8 % - in line with expectations

- Impacted by lower invoicing and lower margins in low-spec medical beds
- Divestment of low-end Medical beds business Acare after the quarter
  - Part of action plan to improve GP in Medical Beds capital goods sales from 2019 and onwards

#### Good cost control and improved EBITDA

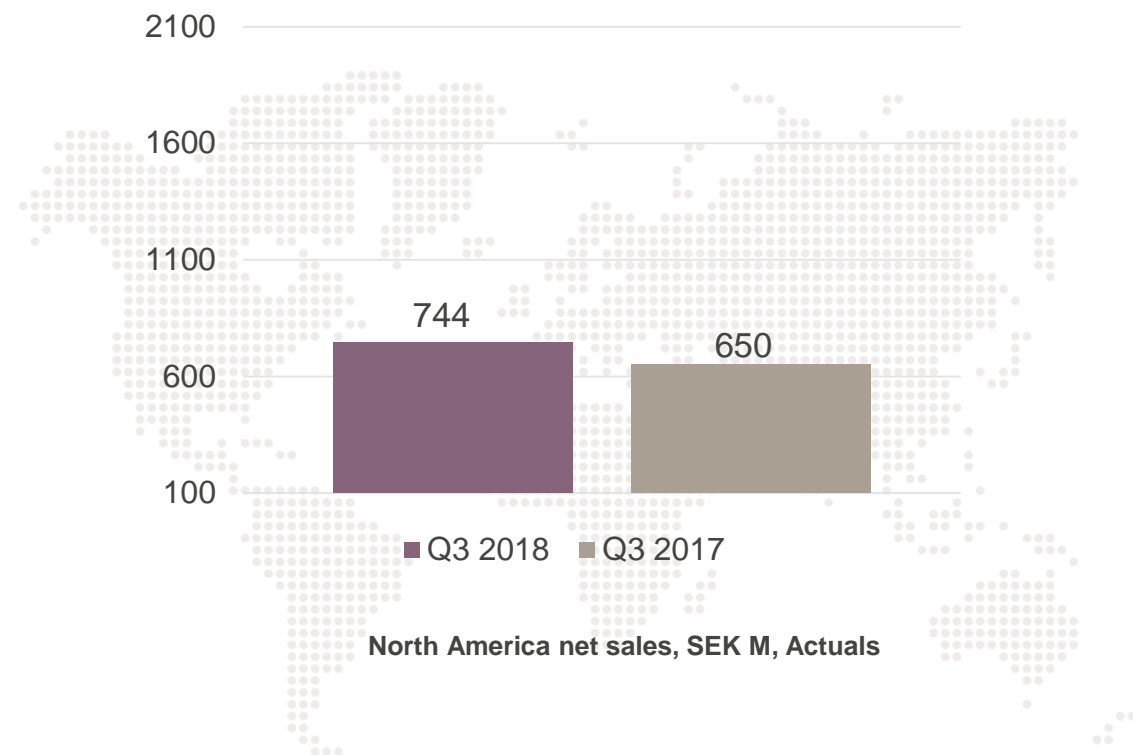
- OPEX development slightly better than plan, well within estimates
- Improved EBITDA before acquisition, restructuring and integration costs of SEK 301 M (251)



# Q3 2018

## North America

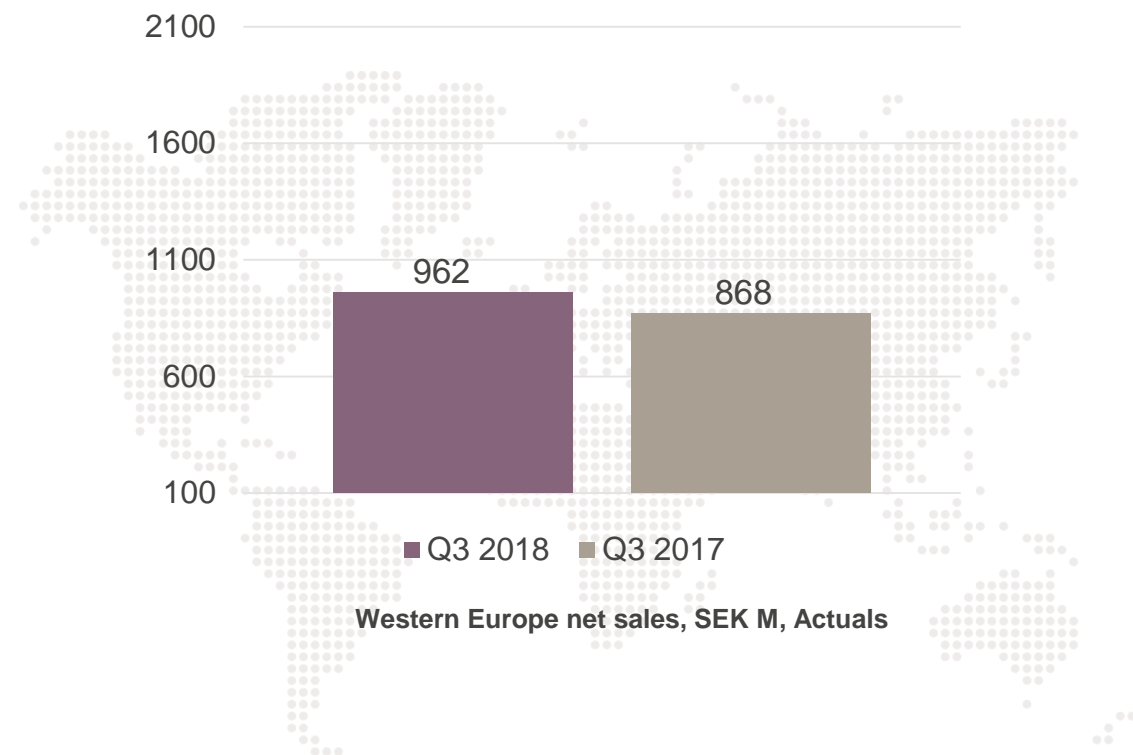
- **Net sales grew organically by 3,9%**
  - Positive development in both US & Canada
  - Continued good performance in capital goods – especially Patient Handling
- **US rental continues to perform according to plan**
  - 4% growth YTD
- **Long-term care investments starting to gain momentum**



# Q3 2018

## Western Europe

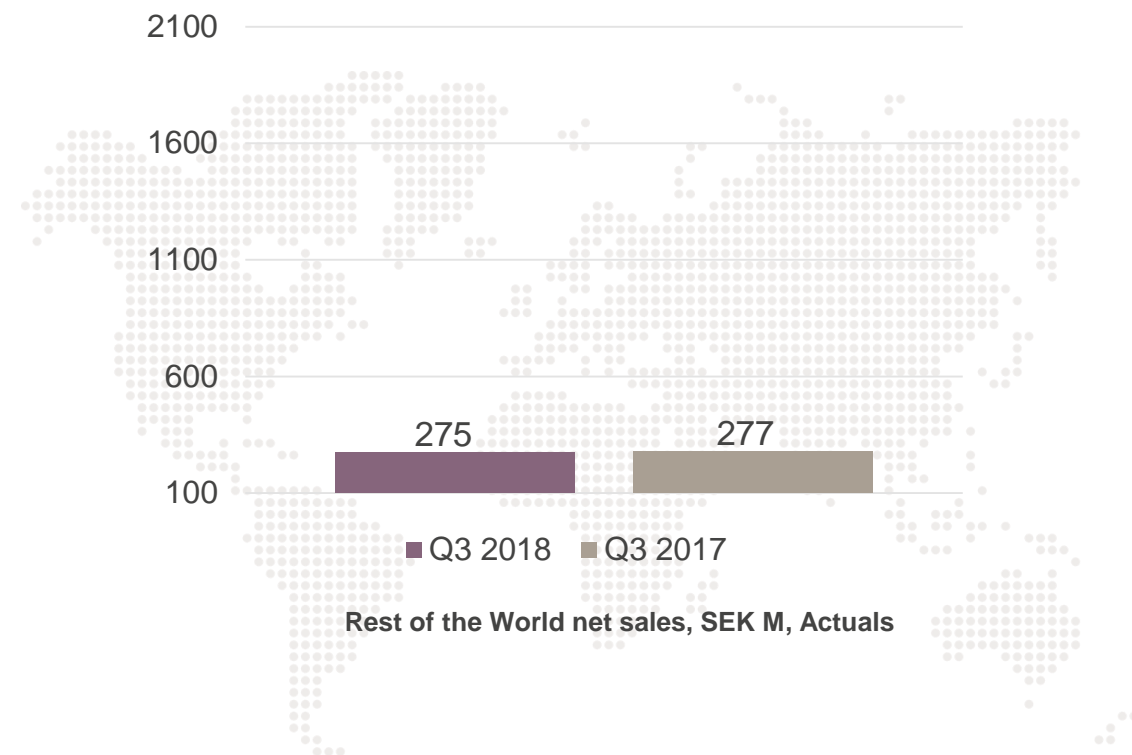
- **Net sales grew organically by 1,6%**
  - Growth somewhat offset by disruptions related to logistics move - shipments of approx. SEK 40 M postponed into Q4 (Oct)
  - Healthy capital goods growth, especially within Wound Care & Patient Handling
- **Healthy UK performance - activities paying off**
  - Continued growth in UK despite challenging market
  - UK sales volumes for FY 2018 estimated to be slightly better than FY 2017 level



# Q3 2018

## Rest of the World

- **Net sales declined by 5,1% organically**
  - Significantly lower sales in Australia – government uncertainty leading to lower investments into healthcare
  - Several markets performing well
    - Hong Kong, New Zealand, South Africa
    - Distributor markets like CEE & SEA
- **Geographic expansion continues**
  - Continued good progress in product registrations of existing product portfolio
  - Sales organisations in China & Latin America in place



## Profit development – Q3 2018

- **Gross margin of 43,8% (41,5) in Q3**
  - Impacted by lower invoicing in Q3 and disruptions related to logistics move
  - Divestment of Acare to support improved margins in Medical Beds capital goods sales from 2019 and onwards
  - 44,3% in the period (Jan-Sep) – in line with expectations
- **EBITDA before acquisition, restructuring and integration costs increased by 19,9% to SEK 301 M (251) in Q3**
  - OPEX development slightly better than plan
- **Restructuring costs of 18 MSEK in Q3**
  - Related to change of logistics partner in Europe and changed shared service setup

MSEK	Q3 2018	Q3 2017	Jan-Sep 2018	Jan-Sep 2017	FY 2017
Net sales	1 981	1 795	5 910	5 620	7 688
Gross profit	868	745	2 620	2 527	3 428
Gross margin, %	43,8	41,5	44,3	45,0	44,6
EBITDA*	301	251	903	1 006	1 246
EBITDA-margin*, %	15,2	14,0	15,3	17,9	16,2
EBIT	111	-43	336	315	281

\*Before acquisition, restructuring and integration costs



# Currency effects

- **Q3 2018 vs. Q3 2017 not comparable in terms of currency effects due to new currency strategy as of December 12, 2017**
- **Positive transaction effects of 13 MSEK on gross margin compared with Q3 2017**
  - The transaction effect is lower in Q3 (+13 MSEK) than in Q2 (+44 MSEK).
  - In Q1 and Q2 2018, we were still affected by old Getinge hedges, which were hedged on completely different levels, but now we are closer to the market development with a higher degree of our own hedges (80%)
- **Increased hedging leads to more stability - volatility expected to decrease**
  - Gradual increase of hedging in 2018
  - Currently 80 % of transaction effects
- **Most important currency pairs: PLN/GBP, USD/GBP, CNY/GBP, EUR/GBP**
  - Sensitivity examples based on the Q3 closing rates
    - If PLN would change 5 % towards the GBP during Q4 2018, that would impact our EBIT by 2,7 MSEK.
    - If the USD would change 5 % towards the GBP during Q4 2018, that would impact our EBIT by 3 MSEK.

Translation effect vs 1712, MSEK	Q3	YTD
Gross Profit	+50	+81
Opex	-34	-57
Restructuring/other	-1	-1
EBIT	+15	+23

# Other business highlights

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## Change of logistics partner and move of logistics center in Europe

- Part of separation from Getinge
- Initial disruptions led to deliveries amounting to approx. SEK 40 M being postponed to October (Q4)
- Progressing according to plan

## Launch of Sara Stedy Compact

- New addition to Sara Stedy family of products
- Adds flexibility to one of the best-sellers within Patient Handling

## Preparations for the EU Medical Device Regulation (MDR)

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



## Other business highlights

### Divestment of low-spec medical beds business Acare after the end of the quarter

- A key part of the action plan to improve profitability in the medical beds product category
- The divestment encompasses a production and sales unit in Zhuhai, China, that has 186 employees and generated sales of about SEK 80 M in 2017
- The divestment has no considerable effect on cash flow or results 2018
- The divestment is expected to have a positive annual effect of approximately SEK 25 M on operating profit from 2019



# Balance sheet

# Balance sheet

## Continued strong balance sheet

- Equity ratio ~42%

## Focus on Working Capital

- Cash-flow effect + 57 MSEK in Q3

## Increased framework of commercial paper program, totals 4,0 billion SEK

- Approx. 2,5 billion SEK utilized by Q3



# Cash Flow

- **Cash flow before changes to working capital**
  - Increased operating profit
- **Working capital positive in the quarter**
  - Positive 4th quarter in row
  - Focus area
  - Contribution from accounts receivables and accounts payable
- **Investing activities**
  - ReNu acquisition and NSD main drivers
- **Cash conversion YTD of 79,0%**

MSEK	Q3 2018	Q3 2017	Jan- Sep 2018	Jan- Sep 2017	FY 2017
Operating profit	111	-43	336	315	281
Cash flow before changes to working capital	143	196	575	844	982
Change in working capital	57	-74	82	-447	-410
Cash flow from operations	200	122	657	397	572
Cash flow from investing activities	-294	-101	-578	-293	-652

# Outlook 2018



## Outlook 2018 (changed)

- Organic sales growth for 2018 is expected to be **in the middle of the target of 2-4%** (previously “lower end of the target of 2-4%”).
- The group’s operating expenses for the full year 2018 is expected to amount to approx. 2 965 MSEK in comparable currencies (1712).



# Summary

# Summary

- **Continued growth in Q3, +1,4% after 5 years of decline**
  - +3,5% organic sales growth when adjusted for logistics center disruptions
  - Strong development in North America
  - Growth across most product categories, strong Patient Handling and Wound Care
  - UK in line with plan – estimated to grow slightly YoY
- **Gross margin of 43,8%**
  - Impacted by lower invoicing and logistics move disruptions
  - Divestment of Aicare and additional activities to support improved margins within capital goods sales of Medical Beds from 2019 and onwards
  - 44,3% in the period (Jan-Sep) – estimations remain to slightly improve gross margin in 2018 vs. FY 2017 in comparable currencies
- **Improved outlook for FY 2018 net 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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