



Interim Report January – March 2020

January – March 2020 in brief

- Net sales increased by 6.5% to SEK 2,273 M (2,134). Net sales grew organically by 3.4%.
- Adjusted EBITDA increased 7.8% to SEK 445 M (413).
- Operating profit before restructuring activities increased by 20.8% to SEK 203 M (168).
- Profit after financial items increased to SEK 140 M (133).
- Earnings per share increased to SEK 0.39 (0.37).
- Cash flow from operations increased to SEK 287 M (180).
- Cash conversion increased to 70.1% (43.6).
- The Group pauses its forecast for the full-year due to the uncertainty regarding the spread of coronavirus.
- The Annual General Meeting and Capital Markets Day 2020 are postponed due to Covid-19.

Financial summary

SEK M	Quarter 1 2020	Quarter 1 2019	Rolling 12 months	Full-year 2019
Net sales ²⁾	2,273	2,134	9,115	8,976
Gross profit ²⁾	1,043	948	4,032	3,937
Gross margin, % ²⁾	45.9%	44.4%	45.4%	43.9%
Adjusted EBITA ¹⁾	273	234	1,055	1,016
Adjusted EBITA margin, % ¹⁾	12.0%	11.0%	12.3%	11.3%
Adjusted EBITDA ¹⁾	445	413	1,760	1,728
Adjusted EBITDA margin, % ¹⁾	19.6%	19.4%	19.4%	19.2%
Operating profit (EBIT)	167	168	670	671
Profit after financial items	140	133	549	542
Net profit for the period	105	100	408	403
Number of shares, thousands	272,370	272,370	272,370	272,370
Earnings per share, SEK	0.39	0.37	1.50	1.48
Cash flow from operations	287	180	1,359	1,252
Cash conversion, %	70.1%	43.6%	81.3%	74.7%

1) Before exceptional items. See Alternative performance measures on page 17 and definitions on page 20.

2) Due to the changed accounting of GPOs, net sales were restated for the 2019 comparative figures. See also Note 1 on page 12 and Note 13 on page 18.

Strong start to the year and intense focus on helping healthcare during the crisis

Intense focus on helping healthcare during the ongoing corona pandemic

We find ourselves in a very exceptional situation with the ongoing corona crisis. It is clear that our work becomes particularly important and we are prioritizing and doing our very best to help our customers and their patients during these times. We have also made sure to secure the health and safety of our employees. It is very satisfying that we as an organization can support healthcare during this challenging time. It can generally be said that the coronaeffect has had two sides, where we see a major increase in the demand for certain product categories, mainly at the end of the quarter, and a decline in others. The demand for our high-spec medical beds and therapeutic mattresses has increased significantly, and we are seeing a higher demand in our rental operations, especially in the US. At the same time, we see a lower demand for those products not directly addressing the most immediate needs surrounding Covid-19. Under the current circumstances, it is also difficult for us to visit hospitals and elderly homes, which in the short term leads to lower activities for installation and service.

Solid growth, improved profitability and a strong financial position

We have a strong start to the year and deliver our best first quarter since our listing in 2017 with an organic growth of 3.4% and a 20% improvement in operating profit before restructuring, compared to the first quarter last year. The performance was further supported by a very strong order intake.

We continue our performance in North America with a particularly good development in Patient Handling and our rental operations. At the end of the quarter, we also see a clear corona effect within rental after an increased demand for our Critical Care solutions in the US. However, in March we saw how fewer activities in elective care led to a decline in DVT. We saw a generally favorable trend in Western Europe, particularly during the first two months of the year. Nevertheless, we noted lower activity in March in the categories that require on-site installation for our customers, such as Hygiene and Patient Handling. Preventive services also fell significantly in March in Western European markets, followed by lower sales of spare parts. We see a decline in Rest of the World in the quarter, mainly driven by postponed projects in Australia and in our distributor markets in Eastern Europe. This together with the lockdown in India that had major consequences for our business there.

We see a good profitability trend in the quarter and deliver a clear improvement in the gross margin of 1.5 percentage points, primarily due to the solid results from the efficiency programs we are implementing. We continue to have a strong financial position and another sign of strength in the quarter was our cash conversion at over 70% which is significantly

better than in Q1 2019, and in line with our target.

We put an intense quarter behind us where we continue to deliver profitable growth at the same time as we are managing the extraordinary situation surrounding the coronavirus outbreak.

Higher production capacity for medical beds and therapeutic mattresses

We are working hard to deliver and meet the expectations for higher demands of medical beds and therapeutic mattresses for intensive care. We have significantly expanded our production capacity in these areas and are working closely with our suppliers. We maintain daily dialogues to ensure access to the larger quantities of critical components. We have so far not experienced any direct disruptions in our production except for the closing of our factory in China during the Chinese New Year, which lasted about two weeks longer than normal due to the outbreak of coronavirus in the country. We are doing everything we can to meet the demands but are of course dependent on our suppliers being able to increase their deliveries at the same pace that we wish.

Corona pandemic makes it difficult to assess effects for the full year

The first quarter, especially January and February, shows a solid development of our business, with a strong order intake and sales increase. The quarter gives a good indication of Arjo's underlying business and what we could expect in normal circumstances. But the uncertainty caused by the spread of the coronavirus makes it incredibly difficult to predict the future and assess the effects for the remaining part of the year. We have therefore decided to pause our forecast for 2020. However, it is important to highlight that we so far have not lost any business or seen any cancellations. Instead, it is more a matter of a delay in the solid order stock, projects and service activities. As soon as we have better visibility into the effects of the current situation and greater clarity on the future, we will come back with an update.

Malmö, April 27

Joachim Lindoff
President & CEO



Group performance

Net sales and results

First quarter of 2020

Net sales increased by 6.5%, of which 3.4% organically, to SEK 2,273 M (2,134), after a solid sales development in several of the Group's product categories, mainly in the first two months of the quarter. Due to the corona pandemic, March saw an increased demand for product categories that meet immediate needs, while other product categories declined slightly.

North America continued to deliver a positive development with an organic growth of 6.9% in the quarter. Canada performed in line with a strong quarter last year, and net sales in the US improved by a solid 9.0% organically after a strong trend across product categories, with especially high sales in Patient Handling. The rental operations in the US continued to perform well during the quarter as a result of previously initiated efficiency measures. Demand in rental, especially medical beds and our Critical Care solution (RotoProne), increased further in March due to the spread of coronavirus. However, demand in Patient Handling and DVT fell slightly.

Growth in Western Europe increased 2.1% organically in the quarter, mainly driven by a solid performance in the first two months of the quarter. The region's largest market, the UK, grew organically by 7.0% in the quarter, while other large markets, such as Germany and France, somewhat declined. A number of effects from the corona pandemic were noted in March, causing a slowdown in the region's growth. For example, the Group's access to hospitals and elderly homes for installation and service was restricted, and demand fell in the product and solution categories that do not directly meet the healthcare needs related to Covid-19. The short-term negative effects were primarily noted in the Patient Handling category. At the same time, several markets in Western Europe reported higher sales demands for medical beds and therapeutic mattresses. Various measures, such as earlier vacations and government support programs, are being taken for service and installation employees in Europe where the Group has noted a decline. The aim is to retain personnel and avoid redundancies, and therefore be able to quickly ramp up capacity again when the situation turns.

Sales in Rest of the World fell organically by 1.9%. Growth was held back by orders having been pushed forward in Australia and the Group's distributor markets in Eastern Europe. In March, a sharp decline was also noted in, for example, India, which is one of several markets under extensive lockdown measures due to Covid-19.

The gross margin increased to 45.9% (44.4) in the quarter, mainly driven by previously implemented restructuring measures and a favorable development in rental. The gross margin was held back by several effects related to Covid-19. Highly restricted access to hospitals and long-term care facilities has led to postponed equipment installation and reduced service efficiency, which in turn has led to lower sales of spare parts. A slightly less favorable product mix was also noted at the end of the quarter, with lower sales in Patient Handling and Hygiene. Increased costs for logistics and protective gear for the Group's employees working in care environments also had a negative impact. In addition, the Group's factory in Suzhou, China was at a standstill for an additional two weeks after the extension of the Chinese New Year, due to the outbreak of coronavirus in China.

The previously communicated efficiency measures in Europe to increase profitability continued in the quarter. The total costs for these activities amounts to approximately SEK 75 M, of which about SEK 37 M was charged to the first quarter. The restructuring is expected to generate full-year savings of about SEK 50 M, with some positive effects already in 2020. The effects will be evenly distributed between gross profit and operating expenses.

Operating expenses amounted to SEK 838 M (779) for the quarter. Cost control remained solid and according to plan. The portion of fees to the Group Purchasing Organizations in the US market (GPOs) that are not dependent on sales volumes are recognized from January 1, 2020 as selling expenses, instead of reducing sales as previously. Comparative figures for the corresponding period have been corrected according to the same principle. Periodization of certain sales and marketing costs has changed, entailing a shift with a larger portion recognized in the first quarter and a smaller portion in remaining quarters. Accordingly, operating expenses increased by about 1.5% in comparable currencies in the quarter.

Net sales by geographic area, SEK M	Quarter 1 2020	Quarter 1 2019	Organic change	Rolling 12 months	Full-year 2019
North America ^{1,2)}	927	824	6.9%	3,628	3,525
Western Europe ²⁾	1,061	1,010	2.1%	4,212	4,161
Rest of the World ²⁾	285	300	-1.9%	1,276	1,291
Total¹⁾	2,273	2,134	3.4%	9,115	8,976

1) Due to the changed accounting of GPOs, net sales were restated for the 2019 comparative figures. See also Note 1 on page 12 and Note 13 on page 18.

2) Net sales by geographic area were adjusted for 2019 compared with previously presented figures and are now based on the customer's geographic location instead of the domicile of the sales companies.

Adjusted EBITDA for the quarter increased by 7.8% to SEK 445 M (413). Operating profit before restructuring activities increased 20.8% to SEK 203 M (168).

Currency translation effects had a positive impact of SEK 31 M on gross profit for the quarter. Transaction effects had a negative impact of SEK 2 M on the gross margin. Currency translation effects had a negative effect of SEK 23 M on operating expenses and a positive effect of SEK 8 M on operating profit. In total, currency effects had a positive impact of about SEK 6 M on operating profit.

Net financial items amounted to SEK -27 M (-35) for the quarter. Net interest fell by SEK 4 M as a result of lower borrowing costs. Net financial items also include currency effects of SEK 1 M (-4).

Cash flow and financial position

Cash flow from operations increased by SEK 107 M to SEK 287 M (180) in the quarter, driven by an improved cash flow from working capital compared with the corresponding quarter last year.

The Group's cash conversion in the quarter amounted to 70.1% compared to 43.6% in the first quarter last year.

Net investments for the quarter amounted to SEK 171 M (181), divided between tangible assets of SEK 104 M (141) and intangible assets of SEK 67 M (40). The investments in tangible assets include investments in the rental fleet of SEK 72 M (110).

The Group's cash and cash equivalents amounted to SEK 820 M (506) and interest-bearing net debt was SEK 5,759 M (5,858). At the end of the period, Arjo issued commercial paper of SEK 3,151 M (3,026). Due to the prevailing market conditions, Arjo does not expect the commercial paper program to be renewed on maturity. Arjo has contracted, unutilized credit facilities of SEK 4,318 M available for refinancing outstanding commercial paper.

The equity/assets ratio was 42.8% (41.0). Net debt/adjusted EBITDA was 3.3% (3.6).

Research and development

Arjo's gross costs for research and development in the quarter amounted to SEK 52 M (51), of which SEK 31 M (37) was charged to earnings, corresponding to 2.3% (2.4) of consolidated net sales.

Outlook 2020

The uncertainty caused by the spread of coronavirus makes it very difficult to predict the future and assess the effects for the remaining part of the year. Accordingly, the Group has paused its forecast for 2020.

The Group will come back as soon as there is better visibility into the long-term effects of the current situation and thus greater clarity on the future.



Other key events during the quarter

Annual General Meeting and Capital Markets Day 2020

Arjo's Annual General Meeting, originally scheduled for April 27, 2020, will instead be held on June 29, 2020 as previously communicated.

Notice of the AGM, including information on time and venue, will be issued no later than four weeks prior to the Meeting. Shareholders wishing to have a matter addressed at the AGM can submit their proposal to Arjo's Board Chairman by e-mail: agm@arjo.com, or by mail: Arjo AB, Att: Bolagsstämmoärenden, Hans Michelsensgatan 10, SE-211 20 Malmö, Sweden. To ensure inclusion in the notice and thus in the Annual General Meeting's agenda, proposals must be received by the company by May 11, 2020.

The Capital Markets Day, previously planned for May 13, has been postponed. A new invitation, including information regarding the location and time, will be sent out later in the year.

The decisions were made due to the spread of Covid-19.

Other information

Key events after the end of the quarter

There are no key events to report after the end of the reporting period.

Risk management

Customers and healthcare reimbursement systems

A considerable share of Arjo's revenue is derived from sales of products to public sector entities. A political discussion taking place in many countries concerns whether private healthcare providers should be able to offer publicly funded healthcare services. There is a risk that authorities in countries where Arjo operates will decide to limit or completely discontinue public funding of private healthcare, which could affect the establishment of new hospitals and other healthcare facilities and their purchasing of healthcare products, such as Arjo's emergency and long-term care products.

Sales of the Group's products are also dependent on various reimbursement systems in each of Arjo's markets. In many of Arjo's markets (such as the US), it is often the patient's insurance company that - within the framework of the existing political reimbursement system - funds or subsidizes products for the patient's emergency or long-term care. Some of the success for sales of Arjo's products in these markets is dependent on whether Arjo's products have been approved for reimbursement under the various reimbursement systems.

Since Arjo conducts operations in many different countries and markets, the above-named risks are limited for the Group as a whole.

Research and development

Arjo's future growth is also dependent on the continued expansion of new product segments and new product types in existing product segments, which is dependent on the Group's ability to influence, predict, identify and respond to changing customer preferences and needs. Arjo invests in research and development in order to produce and launch new products, but there is no guarantee that any new products will achieve the same degree of success as in the past. Nor is there any certainty that Arjo will succeed in predicting or identifying trends in customer preferences and needs, or that Arjo will identify them earlier than its competitors. To maximize the return on research and development efforts, the Group has a highly structured selection and planning process to ensure that the Group prioritizes correctly when making decisions about potential projects. This process includes careful analyses of the market, technological progress, choice of production method and selection of subsuppliers. Development activities are conducted in a structured manner and the deliveries of every project undergo a number of fixed control points. Arjo is focused on product launches that will lead to more efficient care, in which more patients can be treated, which is expected to drive demand from end customers and therefore market growth. Product development that leads to a broader product range is a means for increasing organic growth in the market in which Arjo operates.



Product liability and damage claims

As a medical device supplier, Arjo, like other healthcare industry players, may sometimes be subject to claims related to product liability and other legal issues. Such claims could involve large financial amounts and significant legal expenses. A comprehensive insurance program is in place to cover any property or liability risks (e.g. product liability) to which the Group is exposed.

Protection of intellectual property rights

Arjo invests significant financial amounts in research and development, and is continuously developing new products and technological solutions. To secure revenue from these investments, new products and technologies must be protected from unlawful use by competitors. If possible and appropriate, Arjo protects its intellectual property rights by registering patents, copyrights and trademarks. The Group is also dependent upon know-how and trade secrets that cannot be protected under intellectual property law.

Changes related to general economic and political conditions

Arjo operates in several parts of the world and, like other companies, is affected by general global economic, financial and political conditions. Demand for Arjo's medical devices and solutions is influenced by various factors, including general macroeconomic trends.

Uncertainty about future economic prospects, including political concerns, could adversely affect customers' decisions to buy Arjo's products, which would adversely affect Arjo's operations, financial position and results. Furthermore, changes in the political situation in a region or country, or political decisions affecting an industry or country, could also

have a material adverse impact on sales of Arjo's products. Since Arjo operates in a large number of geographical markets, this risk is limited for the Group as a whole.

Authorities and supervisory bodies

The healthcare market is highly regulated in all of the countries where Arjo operates. Arjo's product range is subject to legislation, including EU Directives and implementing acts regarding medical devices, and the US Food and Drug Administration's (FDA) regulations and related quality systems requirements, which also encompass comprehensive evaluation, quality assurance and product documentation.

Arjo devotes significant efforts and resources to implementing and applying guidelines to ensure regulatory compliance. Annual audits are performed by designated accreditation bodies to ensure compliance for continued CE marking of Arjo's products and international legal requirements, including the FDA, MDSAP and MDR.

During 2019, Arjo continued efforts to meet the requirements of the European regulation, EU MDR. Arjo has had an organization-wide plan in place since 2017 to reach MDR compliance and has successfully passed an audit conducted at the end of 2019, and is now awaiting certification.

All of the Group's production facilities are also certified according to ISO 13485 (Medical devices – quality management systems) and/or ISO 9001 (Quality management systems) from BSI The Netherlands.

Financial risk management

Through its operations, Arjo is exposed to a number of financial risks. Arjo's risk management is regulated by a finance policy established by the Board. Ultimate responsibility for managing the Group's financial risks and developing methods and policies for mitigating these risks lies with Group management and Group Finance. The Group's financial risks comprise currency risk, interest-rate risk, credit and counterparty risk, and tax risk, of which currency is the most important risk.

Coronavirus (COVID-19)

The corona pandemic will impact both the Group's customers in the healthcare sector and society as a whole. The pandemic could also affect the Group's supply chain, which may lead to production disruptions. In addition, the effects of coronavirus may also entail fluctuations in the financial system, which could result in indirect or direct financing difficulties for the company. Arjo is closely monitoring developments and working proactively to ensure financial contingency in this uncertain time. The Group is successively making business decisions to ensure production and deliveries to the healthcare sector in this serious situation.

Higher demand for medical beds and therapeutic mattresses has been noted since the spread of coronavirus. Demand has also increased in rental operations. Lower demand can be expected for the product categories that do not directly address the immediate needs caused by Covid-19.

Arjo to date has not experienced any major production disruptions due to the outbreak of coronavirus. The organization has managed the situation well and is maintaining a close dialog with subsuppliers to ensure access to key components. Production capacity for medical beds has been increased to handle higher demand. It is currently too early to estimate any financial consequences that this may have for the Group.

Transactions with related parties

Transactions between Arjo and companies in Getinge Group are specified in Note 12.

Forward-looking information

This report contains forward-looking information based on the current expectations of Arjo's Management Team. Although management considers the expectations presented by such forward-looking information to be reasonable, there is no guarantee that these expectations will prove correct. Consequently, actual outcomes may vary considerably compared with what is stated in the forward-looking information, due to such factors as changed conditions regarding the economy, market and competition, changes in legal and regulatory requirements, as well as other policy measures and fluctuations in exchange rates.

This interim report is unaudited.

Assurance

The Board of Directors and CEO assure that the interim report provides a true and fair review of the Parent Company and the Group's operations, position and earnings and describes the material risks and uncertainties faced by the Parent Company and the Group.

Malmö, April 27, 2020

Johan Malmquist
Chairman of the Board

Carl Bennet

Sten Börjesson

Eva Elmstedt

Dan Frohm

Ulf Grunander

Ingrid Hultgren

Carola Lemne

Joacim Lindoff
President & CEO



Consolidated financial statements

Consolidated income statement

SEK M	Note	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Net sales	2, 13	2,273	2,134	8,976
Cost of goods sold	6	-1,230	-1,186	-5,039
Gross profit	13	1,043	948	3,937
Selling expenses	13	-492	-453	-1,849
Administrative expenses		-315	-289	-1,223
Research and development costs	4	-31	-37	-139
Exceptional items	5	-37	0	-53
Other operating income and expenses		-1	-1	-2
Operating profit (EBIT)	3, 6, 8	167	168	671
Net financial items	6	-27	-35	-129
Profit after financial items		140	133	542
Taxes		-35	-33	-139
Net profit for the period		105	100	403
Attributable to:				
Parent Company shareholders		105	100	403
Number of shares, thousands		272,370	272,370	272,370
Earnings per share, SEK ¹⁾		0.39	0.37	1.48

1) Before and after dilution. For definition, see page 20.

Consolidated statement of comprehensive income

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Net profit for the period	105	100	403
Other comprehensive income			
Items that cannot be restated in profit			
Actuarial gains/losses pertaining to defined-benefit pension plans	274	-54	-167
Tax attributable to items that cannot be restated in profit	-50	9	28
Items that can later be restated in profit			
Translation differences ¹⁾	327	363	394
Hedges of net investments	-82	-31	-38
Cash-flow hedges	-	17	51
Tax attributable to items that can be restated in profit ¹⁾	-5	-28	-34
Other comprehensive income for the period, net after tax	464	277	233
Total comprehensive income for the period	569	377	637
Comprehensive income attributable to:			
Parent Company shareholders	569	377	637

1) Tax effects regarding expanded net investments were recognized under translation differences in previous reports. In this report, these effects are recognized under Tax attributable to items that can be restated in profit. Historical periods have been adjusted.

Consolidated balance sheet

SEK M	Note	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Assets				
Intangible assets		7,221	7,071	7,072
Tangible assets		1,364	1,231	1,292
Tangible lease assets	6	1,179	1,210	1,158
Financial assets	10	652	504	501
Inventories		1,203	1,285	1,144
Accounts receivable		2,022	1,799	2,001
Current financial receivables	10	12	33	13
Other current receivables		692	503	579
Cash and cash equivalents	10	820	506	662
Total assets		15,165	14,142	14,422
Shareholders' equity and liabilities				
Shareholders' equity		6,483	5,804	5,914
Non-current financial liabilities	10	1,886	2,166	1,791
Non-current lease liabilities	10	902	978	885
Provisions for pensions, interest-bearing	10	33	27	140
Other provisions		239	316	212
Current financial liabilities	10	3,734	3,024	3,575
Current lease liabilities	10	328	261	313
Accounts payable		541	504	543
Other non-interest-bearing liabilities		1,019	1,062	1,050
Total shareholders' equity and liabilities		15,165	14,142	14,422

Changes in shareholders' equity for the Group

SEK M	Share capital	Reserves	Retained earnings	Total share- holders' equity ¹
Opening balance at January 1, 2019	91	543	4,793	5,427
Total comprehensive income for the period	-	372	265	637
Dividend	-	-	-150	-150
Closing balance at December 31, 2019	91	915	4,908	5,914
Opening balance at January 1, 2020	91	915	4,908	5,914
Total comprehensive income for the period	-	240	329	569
Closing balance at March 31, 2020	91	1,156	5,236	6,483

1) Fully attributable to Parent Company shareholders

Consolidated cash-flow statement

SEK M	Note	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Operating activities				
Operating profit (EBIT)		167	168	671
Add-back of amortization, depreciation and write-down	3	242	245	1,004
Other non-cash items		5	39	-54
Expensed exceptional items ¹⁾		37	0	53
Paid exceptional items		-23	-11	-73
Financial items		-30	-30	-120
Taxes paid		-49	-58	-193
Cash flow before changes to working capital		348	353	1,288
Changes in working capital				
Inventories		-28	-141	38
Current receivables		58	21	-133
Current liabilities		-91	-53	59
Cash flow from operations		287	180	1,252
Investing activities				
Divested / acquired operations	8	-	-5	6
Acquired financial assets		-4	-	-78
Net investments		-171	-181	-729
Cash flow from investing activities		-175	-186	-801
Financing activities				
Raising of loans		2,878	2,280	9,646
Repayment of interest-bearing liabilities		-2,750	-2,744	-9,993
Repayment of lease liabilities		-74	-79	-325
Change in pension assets/liabilities		0	-1	-1
Change in interest-bearing receivables		5	0	-4
Dividend		-	-	-150
Realized derivatives attributable to financing activities		-26	93	65
Cash flow from financing activities		34	-451	-762
Cash flow for the period		146	-457	-311
Cash and cash equivalents at the beginning of the period		662	961	961
Translation differences		12	2	13
Cash and cash equivalents at the end of the period		820	506	662

1) Excluding write-down of non-current assets

Note 1 Accounting policies

The Group's interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the applicable rules of the Swedish Annual Accounts Act. The Parent Company has prepared the interim report in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

The accounting policies applied in the preparation of this interim report apply to all periods and are consistent with the accounting policies presented in Note 1 Significant accounting policies in the 2019 Annual Report, published on www.arjo.com.

The totals in the tables and calculations do not always add up due to rounding differences. Each subtotal corresponds with its original source, which can lead to rounding differences in the totals.

Changed accounting policy

The portion of fees to the Group Purchasing Organizations in the US market (GPOs) that are not dependent on sales volumes are recognized from January 1, 2020 as selling expenses, instead of reducing net sales as previously. Comparative figures for the corresponding period have been restated according to the same principle, see Note 13.

New accounting standards

No new or changed accounting standards that came into effect on January 1, 2020 had a material impact on Arjo. None of the IFRS or IFRIC interpretations that have yet to come into legal effect are expected to have any significant impact on Arjo.

Note 2 Net sales by geographic area and type of revenue

Net sales by geographic area, SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
North America ^{1,2)}	927	824	3,525
Western Europe ²⁾	1,061	1,010	4,161
Rest of the World ²⁾	285	300	1,291
Total¹⁾	2,273	2,134	8,976

Net sales by type of revenue, SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Product sales ¹⁾	1,311	1,245	5,373
Service incl. spare parts	369	361	1,504
Rental ¹⁾	593	528	2,099
Total¹⁾	2,273	2,134	8,976

1) Due to the changed accounting of GPOs, net sales were restated for the 2019 comparative figures. See also Note 1 on page 12 and Note 13 on page 18.

2) Net sales by geographic area were adjusted for 2019 compared with previously presented figures and are now based on the customer's geographic location instead of the domicile of the sales companies.

Note 3 Depreciation/amortization and write-down

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Intangible assets	-69	-66	-292
Tangible assets	-91	-97	-379
Tangible lease assets	-82	-82	-333
Total	-242	-245	-1,004
Of which, write-down	-	-	-6

Note 4 Capitalized development costs

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Research and development costs, gross	-52	-51	-212
Capitalized development costs	21	14	73
Research and development costs, net	-31	-37	-139

Note 5 Exceptional items

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Restructuring and integration costs	-37	0	-53
Total	-37	0	-53

Note 6 Leases

Only figures including IFRS 16 Leases are recognized from 2020. A specification of the right-of-use assets and where the costs are found in the income statement is presented below.

Arjo as a lessee

Amounts recognized in the balance sheet

SEK M	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Right-of-use assets			
Buildings and land	872	934	865
Cars and other vehicles	296	264	282
Other	11	12	11
Total	1,179	1,210	1,158

Amounts recognized in profit or loss

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Depreciation of right-of-use assets			
Cost of goods sold	-51	-49	-218
Operating expenses	-30	-33	-115
Total	-82	-82	-333
Interest expenses	-9	-9	-39

Note 7 Financial assets and liabilities measured at fair value

Mar 31, 2020	Assets/liabilities measured at fair value through profit or loss	Derivatives used for hedging purposes	Total
Other current receivables	88	8	96
Total assets	88	8	96
Other non-interest-bearing liabilities	14	29	43
Additional purchase consideration	71	-	71
Total liabilities	85	29	114

Mar 31, 2019	Assets/liabilities measured at fair value through profit or loss	Derivatives used for hedging purposes	Total
Other current receivables	-	17	17
Total assets	-	17	17
Other non-interest-bearing liabilities	-	102	102
Additional purchase consideration	65	-	65
Total liabilities	65	102	167

The fair value of derivative instruments is established using valuation techniques. For this purpose, observable market information is used. All derivatives are classified under level 2 of the fair value hierarchy. The Group has a liability for an additional purchase consideration related to an acquisition, which is at level 3 of the fair value hierarchy.

Note 8 Divestments

In February 2019, Acare Medical Sciences Co., Ltd – the Group's low-spec medical beds business – was divested to CBL based in China. The divestment involves a production and sales unit in Zhuhai, China, with 186 employees and sales of about SEK 80 M. Acare was recognized in the balance sheet for 2018 under assets and liabilities held for sale. The di-

vestment did not have any significant capital gains effect. The sales proceeds of about SEK 24 M were received via a promissory note, of which SEK 11 M falls due for payment in the third quarter of 2019. Cash and cash equivalents in Acare on the divestment date amounted to SEK 5 M.

Divested net assets 2019	Carrying amount
Net assets	
Assets held for sale	70
Liabilities held for sale	-46
Total net assets	24
Cash-flow effect quarter 1 2019	
Proceeds received	-
Cash and cash equivalents in divested company	-5
Total cash-flow effect	-5

Note 9 Financial data per quarter

SEK M	Quarter 1 2019	Quarter 2 2019	Quarter 3 2019	Quarter 4 2019	Quarter 1 2020
Net sales ²⁾	2,134	2,212	2,154	2,477	2,273
Cost of goods sold	-1,186	-1,229	-1,253	-1,371	-1,230
Gross profit²⁾	948	983	900	1,106	1,043
Operating expenses ²⁾	-779	-821	-778	-833	-839
Exceptional items	0	0	-36	-17	-37
Other operating income and expenses	-1	3	2	-6	-1
Operating profit (EBIT)	168	165	89	249	167
Net financial items	-35	-33	-29	-32	-26
Profit after financial items	133	132	60	217	140
Taxes	-33	-33	-15	-57	-35
Net profit for the period	100	99	45	159	105
Adjusted EBITDA ¹⁾	413	421	381	513	445
Adjusted EBITDA margin, % ¹⁾	19.4	19.0	17.7	20.7	19.6

1) EBITDA before exceptional items. Refer to Note 5 Exceptional items on page 13, Alternative performance measures on page 17 and definitions on page 20.

2) Due to the changed accounting of GPOs, net sales and selling expenses were restated for the 2019 comparative figures. See also Note 1 on page 12 and Note 13 on page 18.

Note 10 Consolidated interest-bearing net debt

SEK M	Mar 31, 2020	Mar 31, 2019	Full-year 2019
Non-current financial liabilities	1,816	2,166	1,725
Non-current lease liabilities	902	978	885
Current financial liabilities	3,734	3,024	3,575
Current lease liabilities	328	261	313
Provisions for pensions, interest-bearing	33	27	140
Interest-bearing liabilities	6,812	6,456	6,638
Less financial receivables	-70	-91	-73
Less pension assets	-164	-1	-
Less cash and cash equivalents	-820	-506	-662
Interest-bearing net debt	5,759	5,858	5,903

Note 11 Key performance measures for the Group

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Sales measures³⁾			
Net sales	2,273	2,134	8,976
Net sales growth, %	6.5%	9.3%	8.6%
Organic growth in sales, %	3.4%	2.0%	3.9%
Expense measures³⁾			
Selling expenses as a % of net sales	21.7%	21.2%	20.6%
Administrative expenses as a % of net sales	13.9%	13.6%	13.6%
Research and development costs gross as a % of net sales	2.3%	2.4%	2.4%
Earnings measures			
Operating profit (EBIT)	167	168	671
Adjusted operating profit (EBIT) ²⁾	203	168	724
EBITA	236	234	963
Adjusted EBITA ²⁾	273	234	1,016
EBITDA	409	413	1,675
EBITDA growth, %	-1.1%	65.8%	42.0%
Adjusted EBITDA ²⁾	445	413	1,728
Earnings per share, SEK	0.39	0.37	1.48
Margin measures³⁾			
Gross margin, %	45.9%	44.4%	43.9%
Operating margin, %	7.3%	7.9%	7.5%
Adjusted operating margin, % ²⁾	8.9%	7.9%	8.1%
EBITA margin, %	10.4%	11.0%	10.7%
Adjusted EBITA margin, % ²⁾	12.0%	11.0%	11.3%
EBITDA margin, %	18.0%	19.4%	18.7%
Adjusted EBITDA margin, % ²⁾	19.6%	19.4%	19.2%
Cash flow and return measures			
Return on shareholders' equity, % ¹⁾	6.7%	6.2%	7.1%
Cash conversion, %	70.1%	43.6%	74.7%
Operating capital, SEK M	12,149	10,821	11,082
Return on operating capital, % ¹⁾	6.2%	6.4%	6.5%
Capital structure			
Interest-bearing net debt	5,759	5,858	5,903
Interest-coverage ratio, multiple ¹⁾	5.9x	5.7x	5.5x
Net debt/equity ratio, multiple	0.9x	1.0x	1.0x
Net debt/adjusted EBITDA, multiple ^{1,2)}	3.3x	3.6x	3.0x
Equity/assets ratio, %	42.8%	41.0%	41.0%
Equity per share, SEK	23.8	21.3	21.7
Other			
No. of shares	272,369,573	272,369,573	272,369,573
Number of employees, average	6,172	6,140	6,151

1) Rolling 12 months.

2) Before exceptional items. See Alternative performance measures on page 17 and definitions on page 20.

3) Due to the changed accounting of GPOs, net sales and selling expenses were restated for the 2019 comparative figures. See also Note 1 on page 12 and Note 13 on page 18. Consequential changes were made to performance measures for 2019.

Alternative performance measures

Alternative performance measures refer to financial measures used by the company's management and investors to evaluate the Group's earnings and financial position, and that cannot be directly read or derived from the financial statements. These financial measures are intended to facilitate analysis of the Group's performance. The alternative performance measures should not be considered substitutes, but rather a sup-

plement to, the financial statements prepared in accordance with IFRS. The financial measures recognized in this report may differ from similar measures used by other companies.

The alternative performance measures recognized below have not been calculated in accordance with IFRS but have been presented since Arjo believes that they are important in connection with investors' assessments of the Company and the Company's share.

Adjusted EBIT/EBITA/EBITDA SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Operating profit (EBIT)	167	168	671
Add-back of amortization and write-down of intangible assets	69	66	292
EBITA	236	234	963
Add-back of depreciation and impairment of tangible assets	173	179	712
EBITDA	409	413	1,675
Exceptional items ¹⁾	37	0	53
Add-back of write-down of restructuring and integration costs	-	-	-
Adjusted operating profit (EBIT)	203	168	724
Adjusted EBITA	273	234	1,016
Adjusted EBITDA	445	413	1,728

1) Refer to Note 5 Exceptional items on page 13.

Cash conversion	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Cash flow from operations, SEK M	287	180	1,252
Operating profit (EBIT)	167	168	671
Add-back of amortization, depreciation and write-down of intangible and tangible assets	242	245	1,004
EBITDA, SEK M	409	413	1,675
Cash conversion, %	70.1%	43.6%	74.7%

Net debt/equity ratio	Mar 31, 2020	Mar 31, 2019	Full-year 2019
Interest-bearing net debt, SEK M	5,759	5,858	5,903
Shareholders' equity, SEK M	6,483	5,804	5,914
Net debt/equity ratio	0.89	1.01	1.00

Calculation of return on operating capital	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Total assets opening balance	14,142	12,900	13,136
Total assets closing balance	15,165	14,142	14,422
Average total assets	14,654	13,521	13,779
Average total assets	14,654	13,521	13,779
Excluding average cash and cash equivalents	-663	-753	-812
Excluding average other provisions	-277	-311	-257
Excluding average other non-interest-bearing liabilities	-1,564	-1,636	-1,629
Average operating capital	12,149	10,821	11,082
Operating profit (EBIT) ¹⁾	669	578	671
Add-back of exceptional items ¹⁾	90	114	53
EBIT after add-back of exceptional items	759	692	724
Return on operating capital, %	6.2%	6.4%	6.5%

1) Rolling 12 months.

Note 12 Transactions with related parties

	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Transactions with related parties, SEK M			
Sales	15	15	64
Purchases of goods	-1	-1	-4
Accounts receivable	14	15	14
Non-current financial liabilities	31	58	29
Accounts payable	0	1	0
Other non-interest-bearing liabilities	6	6	6

Transactions between Arjo and companies in Getinge Group are specified in the table above. In addition to the above, there were no other material transactions with related parties.

Arjo uses Getinge as a distributor in certain markets. Business terms and conditions as well as market-regulated pricing apply for delivery of products and services between the Groups.

Note 13 Restatement of net sales and selling expenses

The portion of fees to the Group Purchasing Organizations in the US market (GPOs) that are not dependent on sales volumes are recognized from January 1, 2020 as selling expenses, instead of reducing net sales as previously. Comparative figures for the corresponding period have been restated according to the same principle. The restated net sales and selling expenses

per quarter and for the full-year 2019 are presented below. All performance measures that include net sales and selling expenses have been restated.

SEK M	Quarter 1 2019		Quarter 2 2019		Quarter 3 2019		Quarter 4 2019		Full-year 2019	
	Restated amount	Previously recognized amount	Restated amount	Previously recognized amount	Restated amount	Previously recognized amount	Restated amount	Previously recognized amount	Restated amount	Previously recognized amount
Net sales	2,134	2,123	2,212	2,197	2,154	2,141	2,477	2,464	8,976	8,925
Cost of goods sold	-1,186	-1,186	-1,229	-1,229	-1,253	-1,253	-1,371	-1,371	-5,039	-5,039
Gross profit	948	937	983	968	900	888	1,106	1,093	3,937	3,886
Gross margin, %	44.4%	44.1%	44.4%	44.1%	41.8%	41.5%	44.6%	44.4%	43.9%	43.5%
Selling expenses	-453	-442	-485	-470	-442	-429	-469	-456	-1,849	-1,797

Parent Company financial statements

Parent Company income statement

SEK M	Quarter 1 2020	Quarter 1 2019	Full-year 2019
Administrative expenses	-36	-40	-155
Other operating income and expenses	2	0	114
Operating profit (EBIT)	-34	-40	-41
Income from participations in Group companies	-	-	310
Net financial items ¹⁾	-16	-31	-75
Profit after financial items	-50	-71	194
Taxes	11	15	-14
Net profit for the period	-40	-56	180

1) Net financial items contain interest income, interest expenses, other financial expenses and exchange-rate gains and losses attributable to the translation of financial receivables and liabilities in foreign currencies measured at the closing day rate.

Parent Company balance sheet

SEK M	Mar 31, 2020	Mar 31, 2019	Full-year 2019
Assets			
Intangible assets	347	335	340
Financial assets	6,419	6,332	6,390
Current financial receivables, Group companies	971	931	1,427
Other current receivables, Group companies	5	2	59
Current receivables	30	35	35
Total assets	7,772	7,635	8,251
Shareholders' equity and liabilities			
Shareholders' equity	4,595	4,549	4,635
Provisions	1	1	1
Current financial liabilities	3,147	3,024	3,573
Other current liabilities, Group companies	4	43	10
Other non-interest-bearing liabilities	24	18	32
Total shareholders' equity and liabilities	7,772	7,635	8,251

At the end of the period, the carrying amount of shares and participations in subsidiaries amounted to SEK 6,309 M (6,292). The change for the period is SEK 15 M and comprises forming new subsidiaries and capital contributions to subsidiaries.

The Parent Company's commercial paper program has a framework amount of SEK 4,000 M. The total amount issued at the end of the period amounted to SEK 3,151 M (3,026).

Intangible assets comprise software.

Definitions

Financial terms

Adjusted EBITDA

EBITDA with add-back of exceptional items.

Adjusted EBITDA margin

Adjusted EBITDA in relation to net sales.

Cash conversion

Cash flow from operations in relation to EBITDA.

Earnings per share

Profit for the period attributable to Parent Company shareholders in relation to average number of shares. The following data was used to calculate earnings per share:

Profit for the period attributable to

Parent Company shareholders SEK 105 M

Number of shares, thousands 272,370

Earnings per share SEK 0.39

EBIT

Operating profit.

EBITA

Operating profit before amortization and write-down of intangible assets.

EBITA margin

EBITA in relation to net sales.

EBITDA

Operating profit before amortization, depreciation and write-down.

EBITDA margin

EBITDA in relation to net sales.

Equity/assets ratio

Shareholders' equity in relation to total assets.

Exceptional items

Total of acquisition, restructuring and integration costs as well as major non-recurring items.

Interest-coverage ratio

Profit after financial items plus interest expenses and add-back of exceptional items in relation to interest expenses. Calculated based on rolling twelve-month data.

Net debt/equity ratio

Interest-bearing net debt in relation to shareholders' equity.

Operating capital

Average total assets less cash and cash equivalents, other provisions, accounts payable and other non-interest-bearing liabilities.

Operating expenses

Selling expenses, administrative expenses and research and development costs.

Operating margin

Operating profit in relation to net sales.

Organic change

A financial change adjusted for currency fluctuations, acquisitions and divestments.

Return on operating capital

Rolling 12 months' operating profit with add-back of exceptional items in relation to operating capital.

Return on shareholders' equity

Rolling 12 months' profit after tax in relation to average shareholders' equity.

Medical and other terms

Compression therapy

Treatment technique which means that one uses outer pressure with a certain frequency and for a certain period of time to treat and prevent venous leg ulcers.

Deep vein thrombosis (DVT)

Formation of a blood clot in a deep leg vein.

Edema

Swelling due to accumulation of fluid in tissues.

Ergonomics

A science concerned with designing the job to fit the worker to prevent illness and accidents.

EU Medical Device Regulation (MDR)

Regulations created by the EU to ensure better protection for the public health and patient safety by establishing modernized and more robust EU legislation. All medical device manufacturers and distributors must comply with these new regulations.

Pressure injuries

Sores that occur when blood flow to the skin is reduced by external pressure. Most common in patients with reduced mobility.

Prevention

Preventive activity/treatment.

Sequential VTE prevention

A treatment that aims to enhance the circulation of blood in the deep veins of the legs, which helps reduce deep vein thrombosis (blood clot in the deep veins of the legs).

US Food and Drug Administration (FDA)

The US authority responsible for protecting the public health by carrying out regular inspections of, among other things, medical devices.

VTE

The abbreviation VTE stands for venous thromboembolism - a blood clot in the veins, similar to DVT (above).

Teleconference

Fund managers, analysts and the media are invited to a teleconference on April 27 at 8:00 a.m. CEST.

Dial the number below to participate:

Sweden: +46 (0)8 5033 6574

UK: +44 (0)330 336 9125

USA: +1 323-794-2093

Code: 3046663

A presentation will be held during the telephone conference. To access the presentation, please use this link:

<https://slideassist.webcasts.com/starthere.jsp?ei=1300315>

Alternatively, use the following link to download the presentation:

<https://www.arjo.com/int/about-us/investors/reports--presentations/2020/>

A recording of the teleconference will be available for 90 days via the following link: <https://slideassist.webcasts.com/starthere.jsp?ei=1300315>

Financial information

Updated information on, for example, the Getinge share and corporate governance is available on Arjo's website www.arjo.com. The Annual Report, year-end report and interim reports are published in Swedish and English and are available for download at www.arjo.com.

The following financial statements will be published in 2020:



June 29, 2020

July 17, 2020

October 28, 2020

2020 Annual General Meeting

Interim report Jan-Jun

Interim report Jan-Sep

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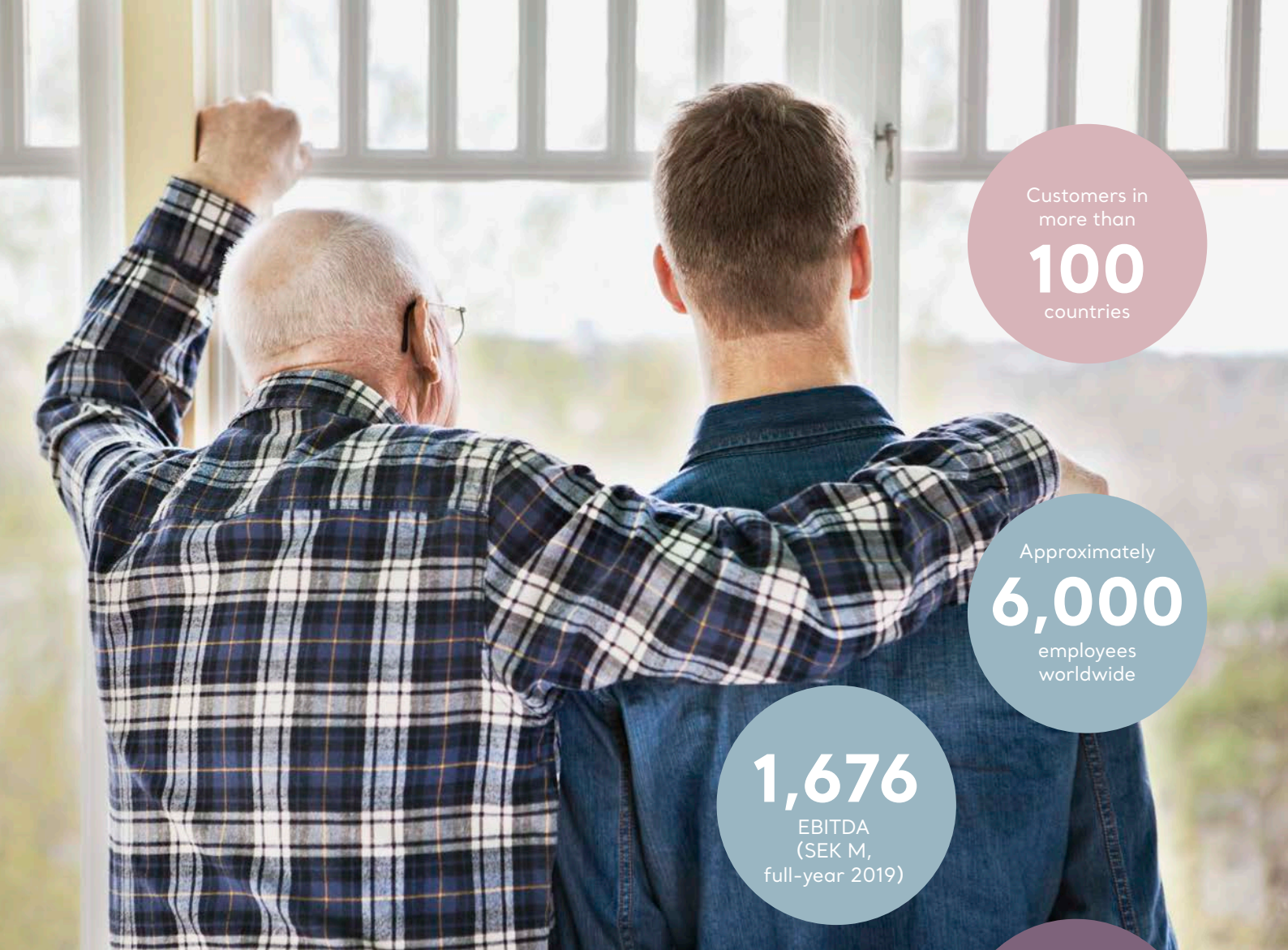
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This information is information that Arjo AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication, through the agency of the contact person set out above, on April 27, 2020 at 7:00 a.m. CEST.



Customers in
more than
100
countries

Approximately
6,000
employees
worldwide

1,676
EBITDA
(SEK M,
full-year 2019)

8,976
Net sales
(SEK M,
full-year 2019)

About Arjo

Arjo's work is based on genuine care for human health and well-being, and contributes to a sustainable healthcare system – always with people in mind.

Arjo is a market-leading supplier of medical devices and solutions that improve quality of life for patients with reduced mobility and age-related health challenges.

Arjo creates value by improving clinical outcomes for patients and enabling a better work environment for healthcare professionals. Arjo thereby contributes to a sustainable healthcare system – always with people in mind.

Arjo's main customers are private and public institutions providing acute and long-term care. The company's offering includes products and solutions for patient handling, prevention of pressure ulcers, prevention of deep vein thrombosis and for diagnostics. The Group also offers medical beds and services such as training in connection with product sales.

The company has customers in more than 100 countries, which Arjo has divided into three geographic areas: North America, Western Europe and Rest of the World. Arjo has about 6,000 employees worldwide and the head office is in Malmö, Sweden.

Arjo's work is based on genuine care for human health and well-being. Arjo is a market-leading supplier of medical devices and solutions that improve quality of life for patients with reduced mobility and age-related health challenges. The company's offering includes products and solutions for patient handling, hygiene, disinfection, medical beds, prevention of pressure ulcers, prevention of deep vein thrombosis and for obstetric and cardiac diagnostics.

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www.arjo.com

arjo