



# Arjo – Q1 report 2020

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# Agenda

**1. Business update – Q1 2020**

**2. Balance sheet**

**3. Other business highlights**

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**6. Q&A**

# Business update

Q1 2020

# Q1 2020 – Summary

Increased focus on helping healthcare combat coronavirus

## Solid growth and sales development in almost all categories in the quarter

- North America keeps good momentum with growth of 6,9%
- Western Europe shows growth at 2,1%
- Rest of World declines by 1,9% after project delays in Australia and Eastern Europe, and decline in India

## Effects from Covid-19 since beginning of March

- Increased demand for Medical Beds, Therapeutic Mattresses and Rental, incl Critical Care solutions in US
- Production capacity for Medical Beds and Therapeutic Mattresses increased to meet demand
- Some decline in Patient Handling and Hygiene – Service and installation sees very limited access to hospitals and LTC facilities

## Gross margin increased to 45,9% (44,4)

- Efficiency programs paying off
- Good supply chain utilization throughout the quarter
- Favourable development in Rental and margin increase in Patient Handling
- Held back by lower service, spare parts sales and postponed installations of Patient Handling in March

Improved profitability – operating profit before restructuring up more than 20%

Restructuring costs of 37 MSEK related to efficiency measures in Europe

Strong financial position and cash conversion increased to 70,1%

Core business shows solid start to the year, supported by strong order intake



# Q1 2020

## North America

### Net sales grew organically by 6,9%

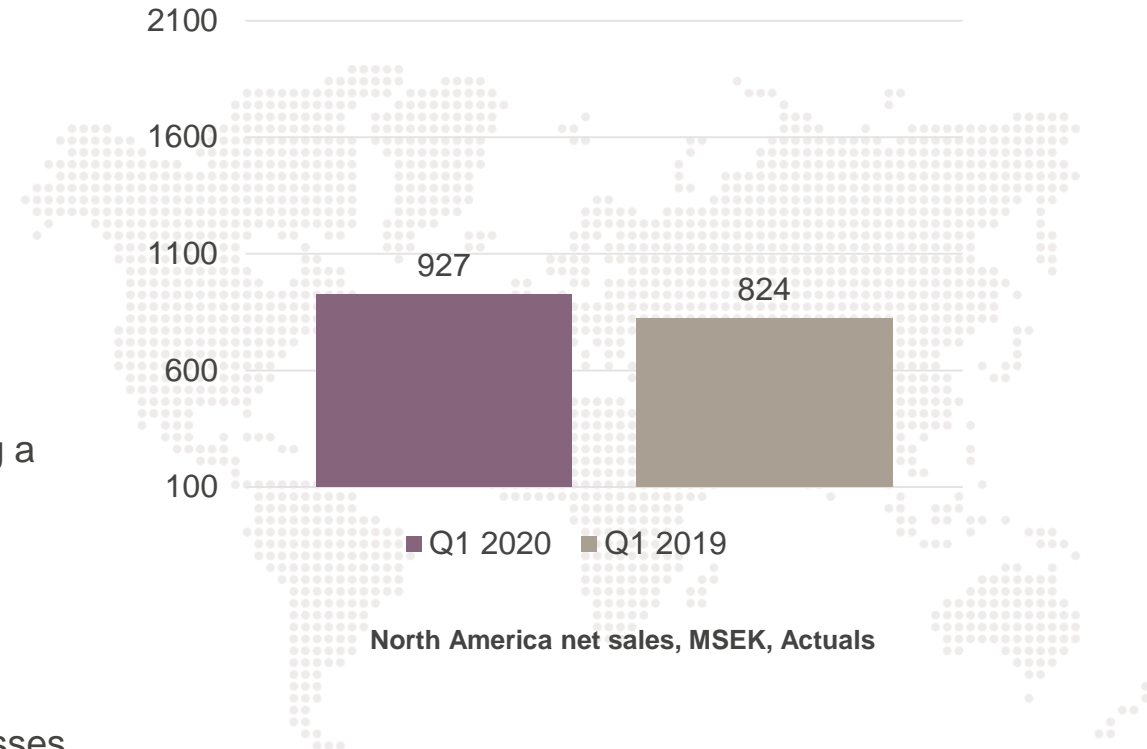
- US sees continued positive development with 9,0% growth
- Strong performance across categories, especially Patient Handling
- Core Rental continue showing results from efficiency measures

### Canada in line with previous year

- Rental and Service increase in the quarter
- Decline in Patient Handling and Hygiene starting end of quarter, following a good start in January and February

### Covid-19 impact in March

- Increased demand for Rental, both core and Critical Care solutions
- Significant increase in demand for Medical Beds and Therapeutic Mattresses
- Visible slowdown of Patient Handling, DVT and Service



# Q1 2020

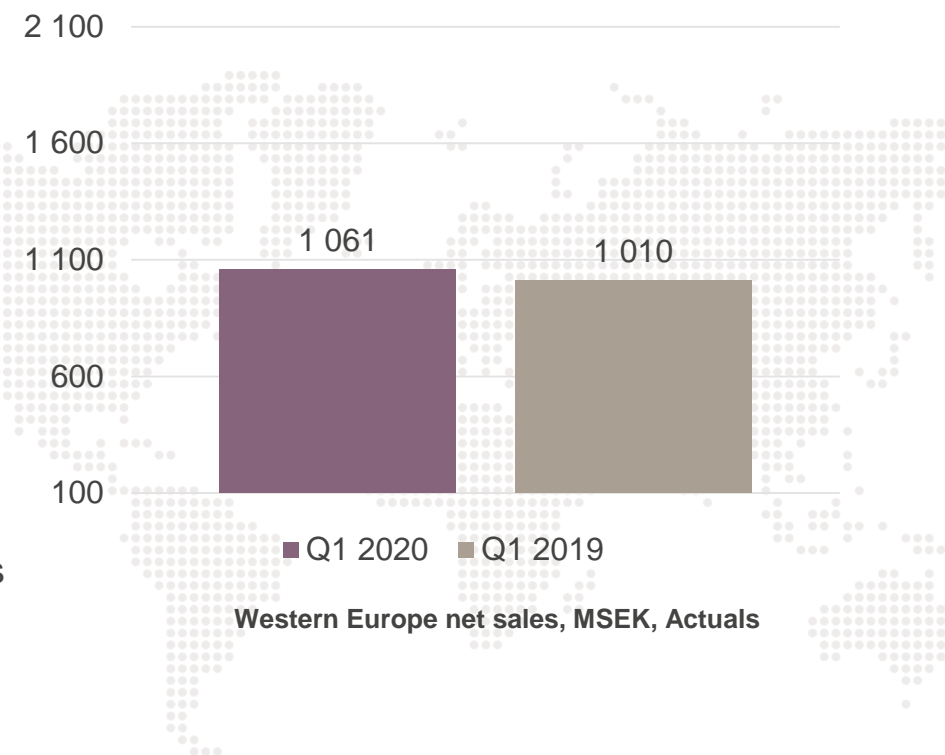
## Western Europe

### 2,1% organic growth in quarter

- Strong growth in UK – up 7,0% organically in Q1
- Slight increase in countries outside UK
- Negative development in Germany and France, based on lower sales of Service and Patient Handling in end of quarter

### Covid-19 impact in March

- Several markets show uptick in sales and demand for Medical Beds and Therapeutic Mattresses
- Service and installation impacted by limited access to hospitals and LTC facilities
- Lower demand for categories not directly related to Covid-19, such as Patient Handling and Hygiene



# Q1 2020

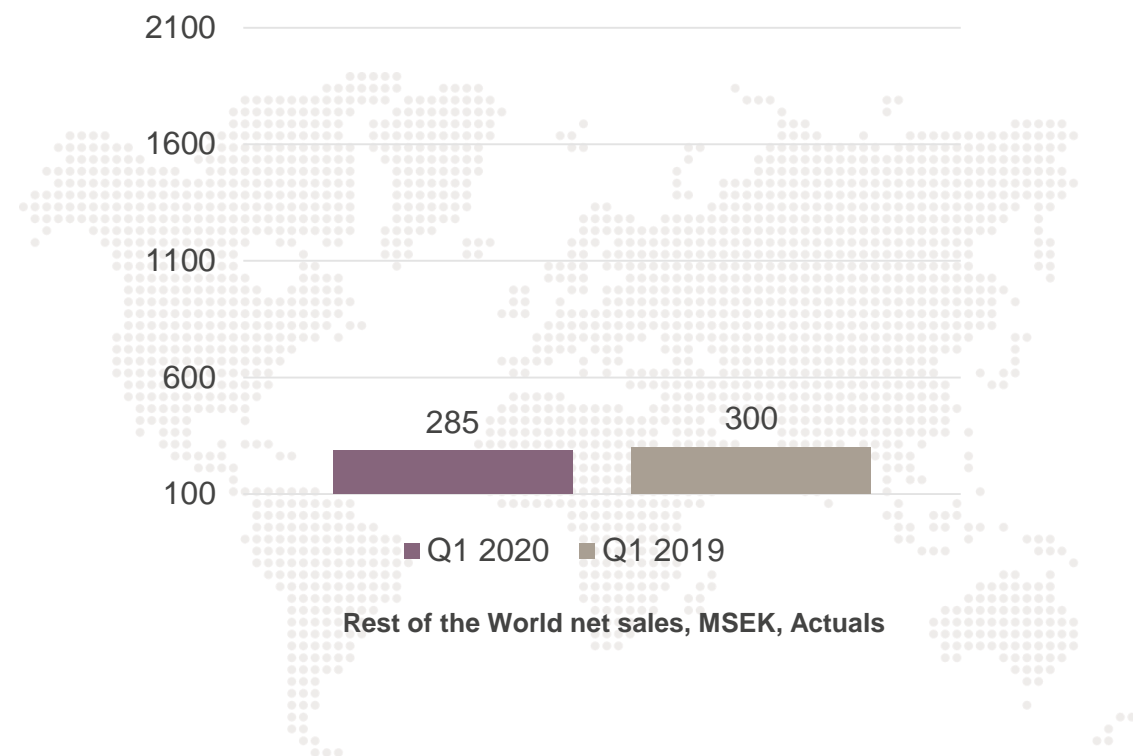
## Rest of the World

### Rest of World net sales decrease by 1,9%

- After positive first two months, Covid-19 effects in March leads to overall decline in quarter
- Continued positive development in South Africa and Latin America

### Covid-19 impact in March

- Growth primarily held back by postponed installations and projects in Australia and distributor markets in Eastern Europe
- India sees significant decline after total lockdown due to Covid-19





# Profit development – Q1 2020

## Improved gross margin of 45,9% (44,4)

- Mainly driven by restructuring initiatives paying off, solid Rental development, and margin increase in Patient Handling
- Operational leverage in Supply Chain
- Margin held back by several Covid-19 effects in March
  - Limited access to hospitals and LTC effecting service GP
  - Lower sales in Patient Handling and Hygiene, categories with good margins
  - Logistics costs, protective equipment and extended Suzhou factory closing as one-offs

## Operating profit before restructuring activities increased by 20,8%

### Continued efficiency measures in Europe

- 37 MSEK in quarter – total cost for program is 75 MSEK
- FY savings of 50 MSEK, some savings already in 2020

### OPEX

- Continued good cost control – development according to plan
- Organic increase of 1,5% vs. Q1 2019 excl. one-offs

MSEK	Q1 2020	Q1 2019	Rolling 12 months	FY 2019
Net sales	2 273	2 134	9 115	8 976
Gross profit	1 043	948	4 032	3 937
Gross margin, %	45,9	44,4	45,4	43,9
Adj. EBITDA	445	413	1 760	1 728
Adj. EBITDA-margin, %	19,6	19,4	19,4	19,2
Operating profit before restructuring activities	203	168	759	724
EBIT	167	168	670	671



# Currency effects

## Q1 2020 vs. Q1 2019 - EBIT

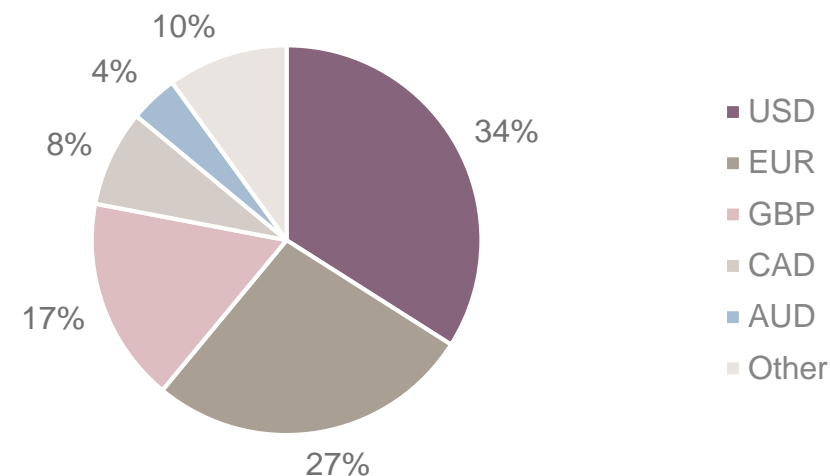
- Translation effect: +8 MSEK
- Transaction effect: -2 MSEK
- Total currency effect +6 MSEK

Positive translation effect on Gross Profit partly offset by negative impact on OPEX

Marginally negative transaction effect

Net positive EBIT impact from currency effects of 6 MSEK

Revenue by currency, Q1 2020



Translation effect vs 1903, MSEK	Q1
Sales	77
COGS	-46
Gross Profit	31
OPEX	-23
Restructuring/other	0
EBIT	8

# Balance sheet

# Balance sheet

## Strong balance sheet continues to improve

- Equity ratio improved to 42,8% (41)
- Net debt/adjusted EBITDA 3,3 (3,6)

## Working Capital stable and under control

- Inventory and receivables increased marginally in the quarter while payables remained at YE 2019 level
- Continued and increased focus on working capital management in light of Covid 19 business environment

## Cash balance

- Stronger cash position both compared to same period last year and YE 2019
- Significantly improved cash conversion ratio



# Cash flow

## Cash flow before changes to working capital

- Operating profit and cash flow before changes to working capital on same level as last year
- Significantly improved operating cash flow

## Change in working capital improved

- Stable working capital with marginal inventory build-up compared to last year

## Investing activities

- Investment level on par with last year and mainly in fixed assets related to rental fleet

## Stronger cash conversion

- Set target reached and significant improvement vs. last year

MSEK	Q1 2020	Q1 2019	FY 2019
Operating profit	167	168	671
Cash flow before changes to working capital	348	353	1 288
Change in working capital	-61	-173	-36
Cash flow from operations	287	180	1 252
Cash flow from investing activities	-175	-186	-801

# Other business highlights

# Update on WoundExpress

- Positive clinical evaluation results released at end of February
- Preparations continue for the Randomized Controlled Trial (RCT) to scientifically conclude profound impact on healing Venous Leg Ulcers as a combination therapy – expected to finish in next 12 months
- Additional evaluations for treatment beyond Venous Leg Ulcers
- Sales force build-up continue in UK and Nordics and evaluation for other regions ongoing



# Outlook 2020



## 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.



# Summary

# Summary

- **Strong start to the year shows solid underlying business**
- **Covid-19 effects towards end of quarter**
- **Gross margin increased to 45,9% - driven by previously initiated efficiency measures and good volume development**
- **Cost development according to plan**
- **Strong financial position**
- **Outlook for 2020 paused – currently very difficult to estimate Covid-19 effects for the running year**

# 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.

**arjo**

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