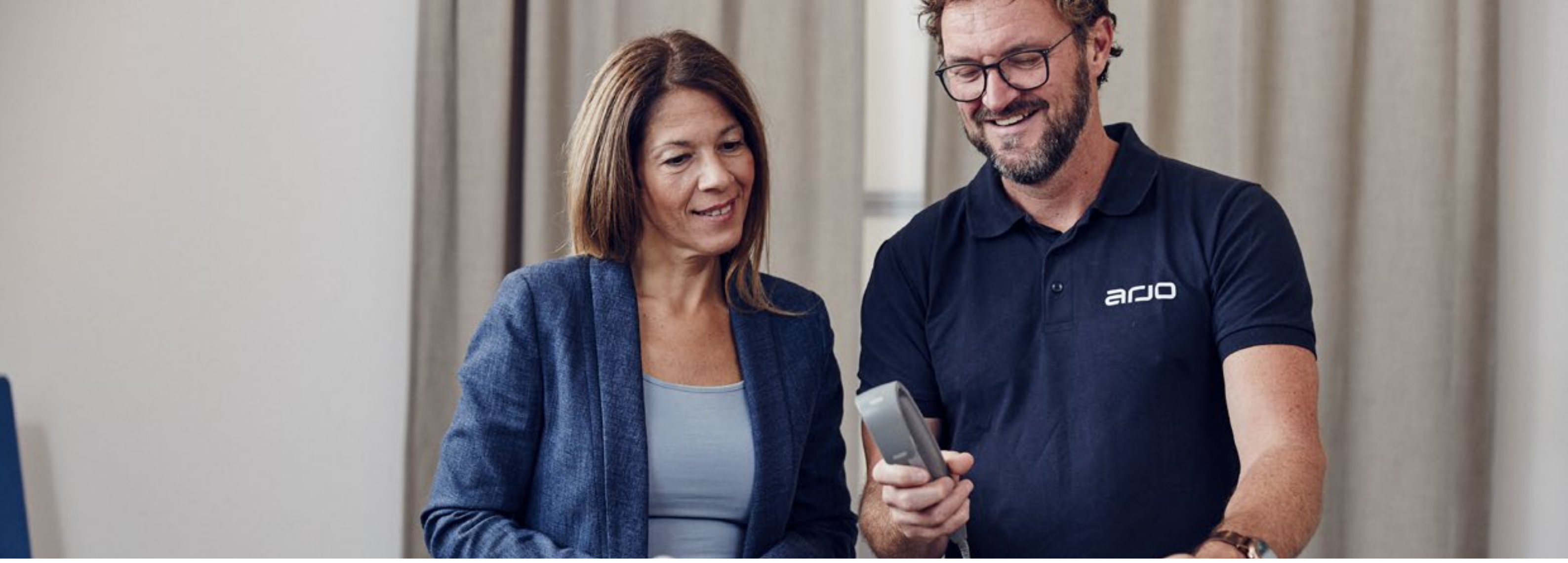


# Year-end report January–December 2019

## October–December 2019 in brief

- Net sales increased by 6.8% to SEK 2,464 M (2,307). Net sales grew organically by 2.8%.
- Adjusted EBITDA increased by 25.4% to SEK 513 M (409). IFRS 16 had a positive effect of SEK 84 M on adjusted EBITDA.
- Operating profit before restructuring activities amounted to SEK 266 M (235).
- Profit after financial items increased to SEK 217 M (130).
- Earnings per share rose to SEK 0.59 (0.36).
- Cash flow from operations amounted to SEK 438 M (334). IFRS 16 had a positive effect of SEK 77 M on cash flow.
- Cash conversion was 88.4% (96.0). IFRS 16 had a positive effect of 0.5 percentage points on cash conversion.
- Arjo has completed an audit for the new EU Medical Device Regulation, EU MDR, with positive results and is now awaiting certification.

## January–December 2019 in brief

- Net sales increased by 8.6% to SEK 8,925 M (8,217). Net sales rose organically by 3.9%.
- Adjusted EBITDA increased by 31.7% to SEK 1,728 M (1,312). IFRS 16 had a positive effect of SEK 347 M on adjusted EBITDA.
- Profit after financial items increased to SEK 542 M (395).
- Earnings per share rose to SEK 1.48 (1.09).
- Cash flow from operations amounted to SEK 1,252 M (991). IFRS 16 had a positive effect of SEK 313 M on cash flow.
- Cash conversion was 74.7% (84.0). IFRS 16 had a positive effect of 4.0 percentage points on cash conversion.
- A dividend per share of SEK 0.65 (0.55) is proposed, corresponding to approximately SEK 177 M, an 18% increase on the preceding year.

## Financial summary

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Net sales | 2,464 | 2,307 | 8,925 | 8,217 |
| Gross profit | 1,093 | 1,042 | 3,886 | 3,662 |
| Gross margin, % | 44.4% | 45.2% | 43.5% | 44.6% |
| Adjusted EBITA[1] | 338 | 313 | 1,016 | 930 |
| Adjusted EBITA margin, %[1] | 13.7% | 13.5% | 11.4% | 11.3% |
| EBITDA | 495 | 348 | 1,675 | 1,180 |
| EBITDA margin, % | 20.1% | 15.1% | 18.8% | 14.4% |
| Adjusted EBITDA[1] | 513 | 409 | 1,728 | 1,312 |
| Adjusted EBITDA margin, %[1] | 20.8% | 17.7% | 19.4% | 16.0% |
| Operating profit (EBIT) | 249 | 157 | 671 | 493 |
| Profit after financial items | 217 | 130 | 542 | 395 |
| Net profit for the period | 159 | 97 | 403 | 296 |
| Number of shares, thousands | 272,370 | 272,370 | 272,370 | 272,370 |
| Earnings per share, SEK | 0.59 | 0.36 | 1.48 | 1.09 |
| Cash flow from operations | 438 | 334 | 1,252 | 991 |
| Cash conversion, % | 88.4% | 96.0% | 74.7% | 84.0% |

1 Before exceptional items. See Alternative performance measures on page 19 and definitions on page 22.
For more information about the effects of IFRS 16, refer to Note 6 on pages 13-14.

At Arjo, we are committed to improving the everyday lives of people affected by reduced mobility and age-related health challenges. With products and solutions that ensure ergonomic patient handling, personal hygiene, disinfection, diagnostics, and the effective prevention of pressure ulcers and venous thromboembolism, we help professionals across care environments to continually raise the standard of safe and dignified care. Everything we do, we do with people in mind. www.arjo.com

arjo
*with people in mind*

# 2019 – a year with continued stable growth

"We deliver stable growth during the year and enter 2020 with strengthened positions."

## How would you summarize 2019?

During the year, we have continued developing the business and deliver on our Arjo 2020 plans. We are gaining traction in the market and see a stable organic growth of nearly 4% for the Group during the year. We do see some potential to further improve profitability and have activities in place to drive efficiencies, for instance within the European rental operations. All in all, we deliver yet another solid year and enter 2020 with strengthened positions.

## Growth in the quarter was stable. Can you elaborate on the sales trend?

We grew by nearly 3% organically during the quarter.

We are performing according to plan in North America and continue strengthening our position in both the US and Canada. The decline we see in North America for the quarter should be seen in light of a very strong fourth quarter in 2018, during which the US grew by nearly 13%. Further, we experienced a delay of three larger projects in the US, which will instead be delivered in early 2020.

We see an overall solid sales development in Western Europe. It is particularly satisfying that the UK reported growth in the quarter, especially in light of a strong fourth quarter in 2018. We are experiencing a higher activity level in the UK at the end of the quarter, and are well equipped to meet customer needs after the recently implemented structural changes.

Rest of the World shows double-digit growth and is our strongest performing region this quarter. Australia is making a significant contribution to the performance, and as expected, shows solid growth during the year. Our investments in developing our own sales organizations and distributor markets in the region are paying off and yield results both during the quarter and in the year, providing confidence for continued solid developments.

## Could you comment on the profitability trend?

We are continuing to improve profitability, and the adjusted EBITDA amounted to SEK 513 M (409) this quarter. IFRS 16 had a positive effect of SEK 84 M.

During the year, we have conducted two major efficiency programs in the US and UK, and continue to drive a number of smaller programs within the Group – all of which are showing results in the quarter. We have reversed the negative trend within our rental operations this quarter, and see increased profitability compared to the fourth quarter in 2018; this despite the lower volumes of our Critical Care solutions in the US. We have maintained good cost control and operating expenses relative to net sales continue to decline.

Gross margin amounted to 44.4% (45.2) in the quarter, and was somewhat negatively affected by an unfavorable market and product mix. We saw healthy sales of medical beds and flushers, which have a lower than average margin, but these were somewhat compensated by positive developments in patient handling and service. During the quarter, we have continued centralizing and reducing inventory levels of, for example, spare parts in our sales and service organizations. This has had a minor negative effect on the gross margin compared to the corresponding period in 2018, but is expected to create efficiencies in inventory management and improve profitability in the Group long-term.

Full-year gross margin amounted to 43.5% (44.6), which does not entirely meet our expectations. The implemented efficiency measures are beginning to generate results, but we see potential for further improvements. We are therefore initiating activities to improve profitability across Europe alongside the programs we are currently driving in the Group.

## What can we expect in 2020?

We are entering 2020 with a high activity level and focus on profitable growth, where efficiency within the Group and entire value chain is high on the agenda. We have a good momentum in the sales organization and are continuing to strengthen our market presence across the regions. We continue to invest in product development and are increasing focus on inorganic growth opportunities.

We are well prepared for the new European regulation, EU MDR, that goes into effect in May 2020. We have successfully passed the audit conducted at the end of this year, and are now awaiting certification. This means that we could become one of the first companies to receive certification, and I am proud of the extensive work our organization has done to achieve this.

During our Capital Markets Day in May 2020, we will present our updated strategy focused on strengthening our position as a mobility outcome partner, and thereby continue contribute to a more efficient and sustainable healthcare.

Joacim Lindoff
President & CEO

# Group performance

## Net sales and results

### Fourth quarter of 2019

Net sales grew organically by 2.8% in the fourth quarter to SEK 2,464 M (2,307), after solid sales developments across all regions.

North America continues to deliver on its growth plans, with particularly strong sales within service and patient handling. The minor decline of 1.6% for the quarter is to be seen in relation to the very strong fourth quarter 2018, when North America grew by 12.3%. The result was further affected by a delay of three larger orders, now occurring in the first quarter of 2020. Canada delivered healthy growth in the quarter with continued solid developments across several product categories.

In Western Europe, organic net sales increased by 2.5% with positive developments in several markets. The region's largest market, the UK, grew organically by 2.8%. The performance is to be seen in relation to a strong corresponding quarter in 2018 with an organic growth of 10.6%. The positive trend is primarily driven by high sales activities in the quarter, despite continued low investment levels from National Health Services (NHS).

Rest of the World demonstrated strong organic growth during the quarter at 16.0%. Australia continued to deliver on its growth plans, which contributed to the positive sales trend in the region. Several emerging markets further maintained a solid sales development during the quarter.

The gross margin was 44.4% (45.2) in the quarter. A somewhat unfavorable market and product mix had a negative effect on the gross margin. Positive sales trends within medical beds and flusher disinfectors, which have lower than average margins, were somewhat compensated by good developments in patient handling and service. Efforts to centralize and reduce inventory levels of, for example, spare parts within the sales and service organizations have continued during the period. The efforts are expected to create more long-term and efficient inventory management, as well as contribute to improved profitability for the Group. However, the efforts had a minor negative effect on the gross margin in the quarter compared to the fourth quarter of 2018.

The previously initiated efficiency measures in rental operations in the US had a positive effect on the gross margin in the quarter. The positive development was somewhat held back by lower volumes of Critical Care solutions due to a mild influenza season. The cost of the program, as previously announced, is approximately SEK 25 M and is expected to have a positive full-year effect of about SEK 30 M mainly on the gross margin. The quarter was positively affected by approximately SEK 8 M.

The previously communicated efficiency measures in the UK to increase profitability demonstrated solid results at the end of the quarter. The total cost for this program amounts to about SEK 25 M and is expected to have a full-year savings effect of approximately SEK 30 M, evenly distributed between gross profit and operating expenses. Operating expenses have been positively affected by a minor degree in the quarter.

The total restructuring costs for the program has amounted to approximately SEK 50 M, of which SEK 17 M was charged to the fourth quarter. The remaining SEK 36 M was charged to the preceding quarter.

Operating expenses amounted to SEK 821 M (814) for the quarter and developed according to plan. Operating expenses as a percentage of net sales continued to decline during the quarter and amounted to 33.3% (35.3) as a result of good cost control.

Adjusted EBITDA for the period increased by 25.4% to SEK 513 M (409). IFRS 16 had a positive effect of SEK 84 M on adjusted EBITDA.

Operating profit for the period amounted to SEK 249 M (157). Operating profit before restructuring activities amounted to SEK 266 M (235).

Currency hedging affected the Group's gross profit with SEK -11 M compared to the fourth quarter of 2018. Currency translation effects had a positive impact of SEK 69 M on gross profit in the quarter. Currency translation effects had a negative effect of SEK 32 M on operating expenses and a positive effect of SEK 36 M on operating profit.

Net financial items amounted to SEK -32 M (-27) for the quarter including the effect of IFRS 16. Excluding IFRS 16, net financial items for the quarter were SEK -22 M. Net financial items include other financial expenses of SEK -5 M (-3) and net interest amounted to SEK -17 M (-24) for the quarter.

### January–December 2019

Net sales increased organically during the year by 3.9% to SEK 8,925 M (8,217).

North America delivered healthy organic growth of 6.1% following continued strong sales trends in both the US and Canada. Developments in the US, the Group's largest market, were primarily driven by solid growth in medical beds and patient handling. Western Europe demonstrated organic growth of 0.1% despite a decline of 6.9% in the UK. The development in the UK is mainly the result of continued low investments by the NHS. Rest of the World reported an organic growth of 11.9%, in

| Net sales by geographic area, SEK M | Quarter 4 2019 | Quarter 4 2018 | Organic change | Full-year 2019 | Full-year 2018 | Organic change |
|---|---|---|---|---|---|---|
| North America | 916 | 872 | -1.6% | 3,468 | 3,015 | 6.1% |
| Western Europe | 1,206 | 1,142 | 2.5% | 4,240 | 4,125 | 0.1% |
| Rest of the World | 341 | 293 | 16.0% | 1,217 | 1,077 | 11.9% |
| **Total** | **2,464** | **2,307** | **2.8%** | **8,925** | **8,217** | **3.9%** |

part driven by continued successful investments in building up own sales organizations and distributor markets such as in South Africa and Latin America. The solid organic growth of 6.7% in Australia also contributed to the positive result.

The gross margin for the year amounted to 43.5% (44.6) and was negatively impacted by challenges within rental operations. However, efficiency measures initiated in the US and UK during the year had a positive impact on gross margin at the end of the year.

Operating expenses amounted to SEK 3,159 M (3,017) for the year. Operating expenses in comparable currencies were SEK 3,030 M. Operating expenses as a percentage of net sales declined over the year and amounted to 35.4% (36.7) as a result of good cost control.

Exceptional items for the year amounted to SEK 53 M (156). The costs primarily refer to two restructuring programs in the US and the UK to drive profitability and improved gross margin.

Adjusted EBITDA for the period amounted to SEK 1,728 M (1,312), up 31.7%. IFRS 16 had a positive effect of SEK 347 M on adjusted EBITDA.

Operating profit for the period amounted to SEK 671 M (493), an increase of 36.1%.

Net financial items amounted to SEK -129 M (-98) for the full-year including the effect of IFRS 16. The effect of IFRS 16 for the year was SEK 39 M. Excluding IFRS 16, net financial items for the full-year were SEK -90 M. Net financial items include other financial expenses of SEK -9 M (3) and net interest amounted to SEK -81 M (-101) for the full-year.

## Cash flow and financial position

Cash flow from operations increased by SEK 104 M to SEK 438 M (334) for the quarter. The IFRS effect amounted to SEK 77 M.

The Group's cash conversion in the quarter amounted to 88.4% compared to 96.0% in the fourth quarter last year. Cash conversion excluding IFRS 16 amounted to 87.9% for the quarter.

Financial assets acquired during the quarter amounted to SEK 29 M (-), of which SEK 26 refers to an investment in Atlas Lift Tech, a company that offers solutions for patient handling in the US.

Net investments for the quarter amounted to SEK 180 M (139), divided between tangible assets of SEK 110 M (106) and intangible assets of SEK 70 M (33). The investments in tangible assets include investments in the rental fleet of SEK 96 M (65).

The equity/assets ratio was 41.0% (41.3). IFRS 16 had a negative effect of 3.6 percentage points. Net debt/adjusted EBITDA was 3.0 (3.5), including the effect from IFRS. Excluding IFRS 16 it amounted to 3.4, which is a more fair presentation since it is not affected by the favorable transition effect to IFRS 16.

## Research and development

Arjo's gross costs for research and development amounted to SEK 63 M (49), of which SEK 44 M (34) was charged to the quarter. This corresponds to 3% (2) of the Group's net sales. The quarter was affected by a non-cash one time write-down of SEK 6 M.

## Outlook 2020

Organic sales growth for 2020 is expected to be in the upper part of the 2-4% interval.

Operating expenses are expected to continue to decline slightly as a percentage of sales in 2020.

## Other key events during the quarter

### MDR recommendation

Arjo has passed an audit that evaluates whether the company is compliant with EU's new regulation for medical devices, MDR (Medical Device Regulation), and is now awaiting MDR certification. The audit included Arjo's Quality Management System (QMS) and technical documentation for Class I products. MDR was introduced in 2017 and stipulates that medical devices must have more comprehensive clinical information and more stringent controls after release on the market. This also includes updates to documentation and product labeling. Arjo could become one of the first companies that has the processes and documentation necessary to be MDR certified. MDR will enter into force in May 2020.

### Arjo's production facilities receive MDSAP certification

Two of Arjo's production facilities – in Suzhou, China and Poznan, Poland – were recommended for certification under the Medical Device Single Audit Program (MDSAP) during the quarter. The MDSAP allows manufacturers of medical devices to receive a certification that covers the requirements for US, Japan, Canada, Australia and Brazil in a single audit. Certification is strategically important for Arjo because it replaces individual routine inspections.

## New accounting standards 2019

### IFRS 16

IFRS 16 Leases came into effect for the fiscal year beginning on January 1, 2019. The amendment compared with IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The income statement is impacted by depreciation of the asset and an interest expense on the lease liability instead of an operating lease cost. Arjo is mainly impacted by leases of premises and cars. The lease portfolio contains about 2,500 agreements.

EBITDA was positively affected by SEK 347 M in 2019. Net financial items were negatively impacted by SEK 39 M and profit before tax negatively by SEK 26 M. Refer to Note 1 Accounting policies and Note 6 Leases for more information.

# Other information

## Key events after the end of the quarter

### Structural change in Europe

After the end of the quarter, a structural change has been initiated in Europe in order to drive increased profitability. The cost of the program amounts to about SEK 75 M and is estimated to bring full-year savings effects of approximately SEK 50 M, with minor positive effects expected already in 2020. The savings effects will be evenly distributed between gross profit and operating expenses.

## Capital Markets Day 2020

Arjo will invite analysts, institutional investors and the media to the Capital Markets Day on May 13, 2020. The event will be held in Malmö, Sweden. An invitation with more information regarding the agenda and practical details will be sent out shortly.

## 2020 Annual General Meeting (AGM)

Arjo's Annual General Meeting will be held on April 27, 2020 in Malmö, Sweden. Shareholders wishing to have a matter addressed at the Annual General Meeting on April 27, 2020 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 March 9, 2020.

## Dividend

The Board of Directors and CEO propose a dividend for 2019 of SEK 0.65 per share (0.55), an increase of 18% compared with 2018. The total dividend thus amounts to approximately SEK 177 M (150). The proposed dividend for 2019 is well in line with the target in Arjo's adopted dividend policy. The proposal is justified based on the combination of the Group's financial position and future development opportunities. The Board's proposed record date is April 29, 2020. Euroclear expects to distribute the dividend to shareholders on May 5, 2020.

## 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.

### Product liability and damage claims

As a medical device supplier, Arjo, like other healthcare industry players, could be subject to claims related to product liability and other legal issues. Such claims could involve large financial amounts and significant legal expenses. Arjo cannot provide any guarantee that its operations will not be subject to claims for compensation. 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. It cannot be ruled out that Arjo's future operations, financial position and earnings may be adversely affected by difficulties in complying with the current regulations and requirements of authorities and notified bodies, or any changes thereof.

Arjo has developed its operations to comply with these laws and regulations and, to limit the above-named risk, Arjo devotes considerable efforts and resources. Annual audits are performed by designated certification bodies to ensure compliance with CE marking of Arjo's products, and authorities such as FDA conduct regular inspections of Arjo's production units to ensure regulatory compliance. The Group's head office and 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).

### 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 most significant financial risks to which the Group is exposed are currency risk, interest-rate risk and credit and counterparty risk.

## 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 year-end 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, February 4, 2020**

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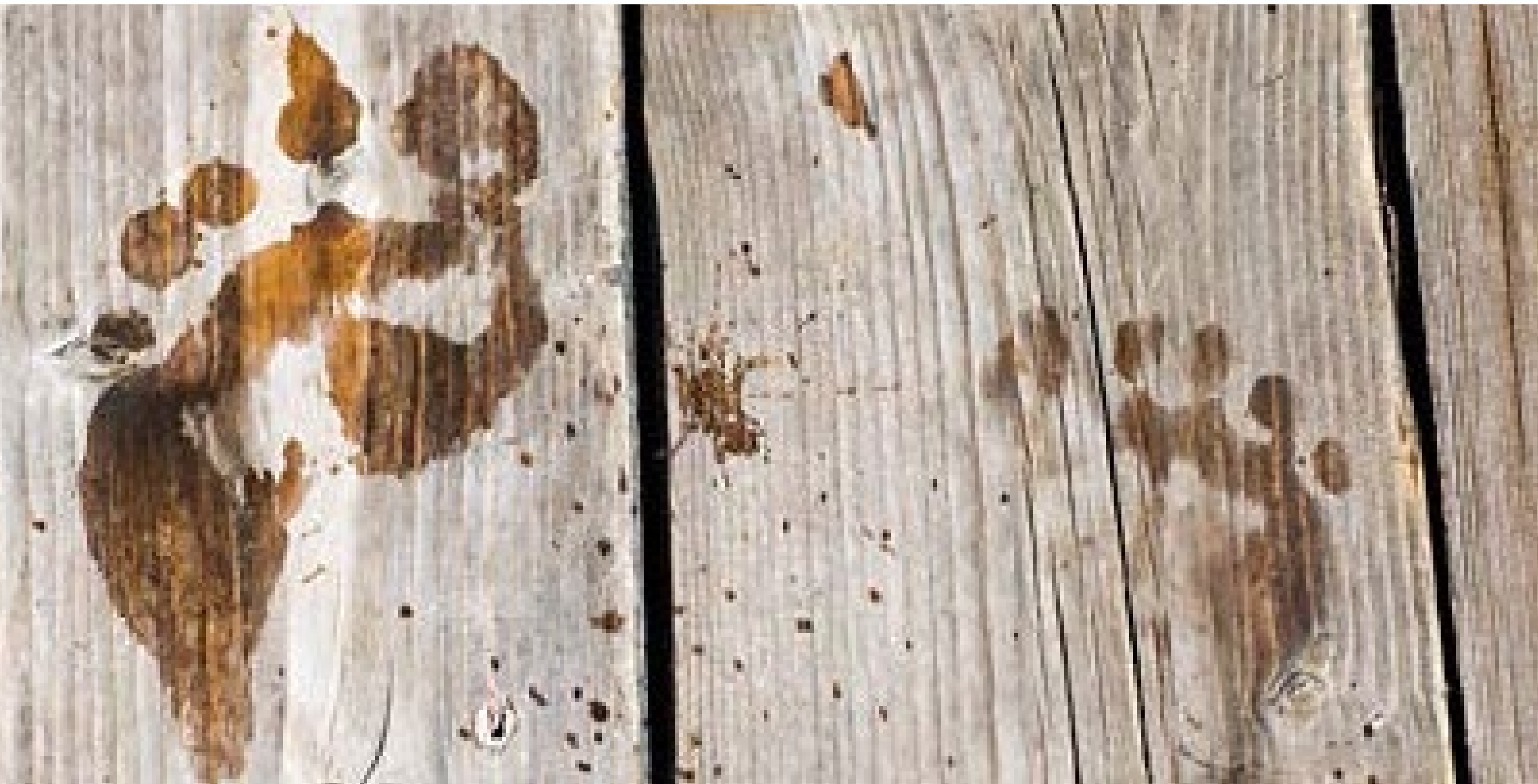
| | | |
|---|---|---|
| **Johan Malmquist**<br>Chairman of the Board | **Carl Bennet** | **Sten Börjesson** |
| **Eva Elmstedt** | **Dan Frohm** | **Ulf Grunander** |
| **Ingrid Hultgren** | **Carola Lemne** | **Joacim Lindoff**<br>President & CEO |



# Consolidated financial statements

## Consolidated income statement

| SEK M | Note | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|---|
| Net sales | 2 | 2,464 | 2,307 | 8,925 | 8,217 |
| Cost of goods sold | 6 | -1,371 | -1,265 | -5,039 | -4,555 |
| **Gross profit** | 6 | **1,093** | **1,042** | **3,886** | **3,662** |
| | | | | | |
| Selling expenses | | -456 | -433 | -1,797 | -1,657 |
| Administrative expenses | | -321 | -347 | -1,223 | -1,219 |
| Research and development costs | 4 | -44 | -34 | -139 | -141 |
| Exceptional items | 5 | -17 | -78 | -53 | -156 |
| Other operating income and expenses | | -6 | 7 | -2 | 4 |
| **Operating profit (EBIT)** | 3, 6, 8 | **249** | **157** | **671** | **493** |
| | | | | | |
| Net financial items | 6 | -32 | -27 | -129 | -98 |
| **Profit after financial items** | 6 | **217** | **130** | **542** | **395** |
| Taxes | | -57 | -33 | -139 | -99 |
| **Net profit for the period** | | **159** | **97** | **403** | **296** |
| | | | | | |
| **Attributable to:** | | | | | |
| Parent Company shareholders | | 159 | 97 | 403 | 296 |
| Number of shares, thousands | | 272,370 | 272,370 | 272,370 | 272,370 |
| Earnings per share, SEK[1] | | 0.59 | 0.36 | 1.48 | 1.09 |

1 Before and after dilution. For definition, see page 22.

## Consolidated statement of comprehensive income

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| **Net profit for the period** | **159** | **97** | **403** | **296** |
| | | | | |
| **Other comprehensive income** | | | | |
| **Items that cannot be restated in profit** | | | | |
| Actuarial gains/losses pertaining to defined-benefit pension plans | -108 | 36 | -167 | 108 |
| Tax attributable to items that cannot be restated in profit | 18 | -6 | 28 | -18 |
| | | | | |
| **Items that can later be restated in profit** | | | | |
| Translation differences[1] | -187 | -77 | 394 | 281 |
| Hedges of net investments | 42 | -13 | -38 | -126 |
| Cash-flow hedges | 10 | -14 | 51 | -52 |
| Tax attributable to items that can be restated in profit[1] | -1 | 8 | -34 | 22 |
| **Other comprehensive income for the period, net after tax** | **-225** | **-66** | **233** | **215** |
| **Total comprehensive income for the period** | **-65** | **31** | **637** | **511** |
| | | | | |
| **Comprehensive income attributable to:** | | | | |
| Parent Company shareholders | -65 | 31 | 637 | 511 |

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

## Consolidated balance sheet

| SEK M | Note | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | | 7,072 | 6,946 |
| Tangible assets | | 1,292 | 1,153 |
| Tangible lease assets | 6 | 1,158 | - |
| Financial assets | 10 | 501 | 448 |
| Inventories | | 1,144 | 1,117 |
| Accounts receivable | | 2,001 | 1,802 |
| Current financial receivables | 10 | 13 | 10 |
| Other current receivables | | 579 | 625 |
| Cash and cash equivalents | 10 | 662 | 961 |
| Assets held for sale | | - | 74 |
| **Total assets** | | **14,422** | **13,136** |
| | | | |
| **Shareholders' equity and liabilities** | | | |
| Shareholders' equity | | 5,914 | 5,427 |
| Non-current financial liabilities | 10 | 1,791 | 2,859 |
| Non-current lease liabilities | 6, 10 | 885 | 41 |
| Provisions for pensions, interest-bearing | 10 | 140 | 27 |
| Other provisions | | 212 | 301 |
| Current financial liabilities | 10 | 3,575 | 2,761 |
| Current lease liabilities | 6, 10 | 313 | 10 |
| Accounts payable | | 543 | 458 |
| Other non-interest-bearing liabilities | | 1,050 | 1,208 |
| Liabilities held for sale | | - | 44 |
| **Total shareholders' equity and liabilities** | | **14,422** | **13,136** |

## Changes in shareholders' equity for the Group

| SEK M | Share capital | Reserves | Retained earnings | Total share-holders' equity[1] |
|---|---|---|---|---|
| **Opening balance at January 1, 2018** | **91** | **419** | **4,564** | **5,074** |
| Adjustment for prior years | - | - | -22 | -22 |
| Total comprehensive income for the period | - | 124 | 387 | 511 |
| Dividend | - | - | -136 | -136 |
| **Closing balance at December 31, 2018** | **91** | **543** | **4,793** | **5,427** |
| **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** |

1 Fully attributable to Parent Company shareholders

## Consolidated cash-flow statement

| SEK M | Note | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Operating profit (EBIT) | | 249 | 157 | 671 | 493 |
| Add-back of amortization, depreciation and write-down | 3 | 247 | 191 | 1,004 | 687 |
| Other non-cash items | | -55 | -49 | -54 | -84 |
| Expensed exceptional items[1] | | 17 | 62 | 53 | 130 |
| Paid exceptional items | | -29 | -36 | -73 | -81 |
| Financial items | | -30 | -24 | -120 | -92 |
| Taxes paid | | -15 | 6 | -193 | -171 |
| **Cash flow before changes to working capital** | | **384** | **307** | **1,287** | **882** |
| | | | | | |
| **Changes in working capital** | | | | | |
| Inventories | | 139 | 132 | 38 | 24 |
| Current receivables | | -223 | -207 | -133 | 95 |
| Current liabilities | | 138 | 102 | 59 | -10 |
| **Cash flow from operations** | | **438** | **334** | **1,252** | **991** |
| | | | | | |
| **Investing activities** | | | | | |
| Divested / acquired operations | 8 | 0 | - | 6 | -144 |
| Acquired financial assets | | -29 | - | -78 | -16 |
| Net investments | | -180 | -139 | -729 | -557 |
| **Cash flow from investing activities** | | **-210** | **-139** | **-801** | **-717** |
| | | | | | |
| **Financing activities** | | | | | |
| Raising of loans | | 3,195 | 2,603 | 9,646 | 5,507 |
| Repayment of interest-bearing liabilities | | -3,370 | -2,446 | -10,318 | -5,336 |
| Change in pension assets/liabilities | | -2 | -1 | -1 | -22 |
| Change in interest-bearing receivables | | 6 | -2 | -4 | 0 |
| Dividend | | - | - | -150 | -136 |
| Realized derivatives attributable to financing activities | | -3 | - | 65 | - |
| **Cash flow from financing activities** | | **-174** | **154** | **-762** | **13** |
| | | | | | |
| **Cash flow for the period** | | **54** | **349** | **-311** | **287** |
| | | | | | |
| Cash and cash equivalents at the beginning of the period | | 604 | 623 | 961 | 672 |
| Translation differences | | 4 | 3 | 13 | 16 |
| Reclassification to Assets held for sale | | - | **-14** | - | -14 |
| **Cash and cash equivalents at the end of the period** | | **662** | **961** | **662** | **961** |

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 2018 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.

### New accounting standards

#### IFRS 16 Leases

IFRS 16 Leases is applied from the 2019 fiscal year and replaces IAS 17 Leases. The amendment compared with the current IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The standard does not entail any material change for the lessor.

The accounting policies applied by Arjo due to the introduction of IFRS 16 are presented in the 2018 Annual Report Note 1 Significant accounting policies. The financial effects of IFRS 16 Leases are presented in this report in Note 6.

#### IFRIC 23 Uncertainty over Income Tax Treatments

This IFRIC interpretation clarifies the accounting for uncertainties in income taxes. If it is probable that the taxation authority will accept a tax treatment, the accounting is to reflect its income tax filings in this respect. If it is not probable that a particular tax treatment is accepted, the effect is to be reflected when determining, for example, taxable profit, tax bases, unused tax losses, etc.

The introduction of IFRIC 23 does not have any material effect on Arjo's financial position.

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 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| North America | 916 | 872 | 3,468 | 3,015 |
| Western Europe | 1,206 | 1,142 | 4,240 | 4,125 |
| Rest of the World | 341 | 293 | 1,217 | 1,077 |
| **Total** | **2,464** | **2,307** | **8,925** | **8,217** |

| Net sales by type of revenue, SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Product sales | 1,526 | 1,435 | 5,331 | 4,810 |
| Service incl. spare parts | 412 | 364 | 1,504 | 1,373 |
| Rental | 525 | 508 | 2,090 | 2,034 |
| **Total** | **2,464** | **2,307** | **8,925** | **8,217** |

## Note 3 Depreciation/amortization and write-down

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Intangible assets | -72 | -25 | -292 | -305 |
| Tangible assets | -92 | -70 | -379 | -382 |
| Tangible lease assets | -82 | -96 | -333 | - |
| **Total** | **-247** | **-191** | **-1,004** | **-687** |
| Of which, write-down | 0 | -17 | 0 | -24 |

## Note 4 Capitalized development costs

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Research and development costs, gross | -63 | -49 | -212 | -201 |
| Capitalized development costs | 19 | 15 | 73 | 60 |
| **Research and development costs, net** | **-44** | **-34** | **-139** | **-141** |

## Note 5 Exceptional items

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Acquisition expenses | – | – | – | -3 |
| Restructuring and integration costs | -17 | -38 | -53 | -113 |
| Adjustment of pension liability, UK | – | -40 | – | -40 |
| **Total** | **-17** | **-78** | **-53** | **-156** |

## Note 6 Leases

IFRS 16 Leases comes into effect for the fiscal year beginning on January 1, 2019. The amendment compared with IAS 17 Leases is that all contracts in which the Group is the lessee are to be recognized in the balance sheet as an asset and a liability, except for short-term leases or leases where the underlying asset has a low value. The income statement is impacted by depreciation of the asset and an interest expense on the lease liability instead of an operating lease cost. Arjo is mainly impacted by leases of premises and cars. The lease portfolio contains about 2,500 agreements. Commitments that exist regarding operating leases are described in Note 18 of the 2018 Annual Report. On the transition to IFRS 16 on January 1, 2019, Arjo decided to apply the modified retrospective approach and in accordance with the standard did not restate the comparative year. Leases that were previously classified as operating leases under IAS 17 are recognized from 2019 at the present value of the remaining lease payments discounted by the incremental borrowing rate on January 1, 2019. Arjo recognizes a tangible lease asset that corresponds to the lease liability adjusted by any prepaid lease payments recognized on December 31, 2018. This entails that there will be no impact on the Group's shareholders' equity in connection with the transition. Arjo applies the practical exemption for short-term leases (leases with a term of 12 months or less) and low-value leases (the value of the underlying asset in new condition is less than about USD 5,000) of not recognizing an asset or a liability, and instead recognizing an expense in profit or loss. Arjo has also decided to include non-lease components in the calculation for all assets except buildings. Arjo decided to utilize the following practical exemptions the first time that IFRS 16 is applied:

- The same discount rate was used on lease portfolios with similar characteristics
- Direct costs for right-of-use assets were not included in connection with the transition
- Historical information (hindsight) was used when determining the length of the lease if the contract contains options to extend or terminate the lease.
- Relied on its assessment as to whether leases are onerous by applying IAS 37 immediately before the date of initial application.

On the transition date of January 1, 2019, Arjo recognized a tangible lease asset of SEK 1,290 M and a lease liability of SEK 1,253 M. The difference comprised prepaid lease payments. The standard does not entail any material change for Arjo as the lessor.

NOTE 6 CONTINUED

### Commitments for operating leases at December 31, 2018

| SEK M | |
|---|---|
| Operating leases at December 31, 2018 | -1,313 |
| Discounted using the Group's weighted average incremental borrowing rate | 299 |
| Liabilities for financial leases at December 31, 2018 | -51 |
| Short-term leases expensed straight-line | 1 |
| Leases for which the underlying asset is of low value expensed straight-line | 3 |
| Leases reclassified to service contracts | 88 |
| Adjustment due to different handling of options to extend and cancel the lease | -331 |
| **Lease liability recognized at January 1, 2019** | **-1,304** |

### Lease assets

| SEK M | Dec 31, 2019 |
|---|---|
| Buildings and land | 865 |
| Cars and other vehicles | 282 |
| Other | 11 |
| **Total** | **1,158** |

### Lease liabilities

| SEK M | Dec 31, 2019 |
|---|---|
| Financial leases from 2018 | 42 |
| New leases according to IFRS 16 | 1,156 |
| **Total** | **1,198** |

Lease liabilities of SEK 325 M were repaid in 2019, of which a total of SEK 313 M was attributable to new lease liabilities under IFRS 16 and SEK 12 M referred to financial lease liabilities existing already in 2018.

### Impact of IFRS 16 on Income statement 2019

| SEK M | Lease expenses under IAS 17 Quarter 4 2019 | Leases, depreciation under IFRS 16 Quarter 4 2019 | Net impact Quarter 4 2019 | Lease expenses under IAS 17 Jan – Dec 2019 | Leases, depreciation under IFRS 16 Jan – Dec 2019 | Net impact Jan – Dec 2019 |
|---|---|---|---|---|---|---|
| Cost of goods sold | 56 | -55 | 1 | 227 | -218 | 9 |
| **Gross margin** | **56** | **-55** | **1** | **227** | **-218** | **9** |
| Operating expenses | 28 | -27 | 1 | 120 | -115 | 4 |
| **Operating profit/loss (EBIT)** | **84** | **-82** | **2** | **347** | **-333** | **13** |
| Net financial items | | | -9 | | | -39 |
| **Loss before tax** | | | **-7** | | | **-26** |
| | | | | | | |
| **EBIT** | | | **2** | | | **13** |
| Add-back of amortization of intangible assets | | | - | | | - |
| **EBITA** | | | **2** | | | **13** |
| Add-back of depreciation of tangible assets | | | 82 | | | 333 |
| **EBITDA** | | | **84** | | | **347** |

IFRS 16 had a material impact on a number of key performance measures. Accordingly, Arjo has decided to present certain selected key performance measures in this report both including and excluding the effect of IFRS 16. These are key performance measures that include the following items:

- EBITDA
- Operating cash flow
- Total assets
- Net debt
- Interest expenses

These key performance measures are recognized in a separate section in Note 11 Key performance measures for the Group. The amounts with which IFRS 16 adjustments have been made are presented under the heading alternative performance measures.

## Note 7 Financial assets and liabilities measured at fair value

| Dec 31, 2019 | Assets measured at fair value through profit or loss | Derivatives used for hedging purposes | Total |
|---|---|---|---|
| Other current receivables | 8 | - | 8 |
| **Total assets** | **8** | **-** | **8** |
| | | | |
| Other non-interest-bearing liabilities | 50 | - | 50 |
| **Total liabilities** | **50** | **-** | **50** |

| 31 Dec 2018 | Assets measured at fair value through profit or loss | Derivatives used for hedging purposes | Total |
|---|---|---|---|
| Other current receivables | - | 15 | 15 |
| **Total assets** | **-** | **15** | **15** |
| | | | |
| Other non-interest-bearing liabilities | - | 85 | 85 |
| **Total liabilities** | **-** | **85** | **85** |

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.

## Note 8 Divestments

In February, 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 divestment 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. Cash and cash equivalents in Acare on the divestment date amounted to SEK 5 M.

| Divested net assets | Carrying amount |
|---|---|
| **Net assets** | |
| Assets held for sale | 70 |
| Liabilities held for sale | -46 |
| **Total net assets** | **24** |
| | |
| **Cash-flow effect** | |
| Proceeds received | 11 |
| Cash and cash equivalents in divested company | -5 |
| **Total cash-flow effect** | **6** |

## Note 9 Financial data per quarter

| SEK M | Quarter 1 2018 | Quarter 2 2018 | Quarter 3 2018 | Quarter 4 2018 | Quarter 1 2019 | Quarter 2 2019 | Quarter 3 2019 | Quarter 4 2019 |
|---|---|---|---|---|---|---|---|---|
| Net sales | 1,943 | 1,986 | 1,981 | 2,307 | 2,123 | 2,197 | 2,141 | 2,464 |
| Cost of goods sold | -1,087 | -1,090 | -1,113 | -1,265 | -1,186 | -1,229 | -1,253 | -1,371 |
| **Gross profit** | **856** | **896** | **868** | **1,042** | **937** | **968** | **888** | **1,093** |
| Operating expenses | -725 | -744 | -734 | -814 | -768 | -806 | -765 | -820 |
| Exceptional items | -42 | -15 | -21 | -78 | 0 | 0 | -36 | -17 |
| Other operating income and expenses | -6 | 5 | -2 | 7 | -1 | 3 | 2 | -6 |
| **Operating profit (EBIT)** | **83** | **142** | **111** | **157** | **168** | **165** | **89** | **249** |
| Net financial items | -16 | -21 | -34 | -27 | -35 | -33 | -29 | -32 |
| **Profit after financial items** | **67** | **121** | **77** | **130** | **133** | **132** | **60** | **217** |
| Taxes | -17 | -30 | -19 | -33 | -33 | -33 | -15 | -57 |
| **Net profit for the period** | **50** | **91** | **58** | **97** | **100** | **99** | **45** | **159** |
| | | | | | | | | |
| Adjusted EBITDA[1] | 289 | 313 | 301 | 409 | 413 | 421 | 381 | 513 |
| Adjusted EBITDA margin, %[1] | 14.9 | 15.7 | 15.2 | 17.7 | 19.5 | 19.1 | 17.8 | 20.8 |

1 EBITDA before exceptional items. Refer to Note 5 Exceptional items on page 13, Alternative performance measures on page 19 and definitions on page 22.

## Note 10 Consolidated interest-bearing net debt

| SEK M | Full-year 2019 | Full-year 2018 |
|---|---|---|
| Non-current financial liabilities | 1,725 | 2,859 |
| Non-current lease liabilities | 885 | 41 |
| Current financial liabilities | 3,575 | 2,761 |
| Current lease liabilities | 313 | 10 |
| Provisions for pensions, interest-bearing | 140 | 27 |
| **Interest-bearing liabilities** | **6,638** | **5,698** |
| | | |
| Less financial receivables | -73 | -55 |
| Less pension assets | - | -52 |
| Less cash and cash equivalents | -662 | -961 |
| **Interest-bearing net debt** | **5,903** | **4,630** |
| Adjustment IFRS 16, Non-current lease liabilities | 856 | - |
| Adjustment IFRS 16, Current lease liabilities | 301 | - |
| **Interest-bearing net debt, excluding IFRS 16** | **4,746** | **4,630** |

## Note 11 Key performance measures for the Group

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| **Sales measures** | | | | |
| Net sales | 2,464 | 2,307 | 8,925 | 8,217 |
| Net sales growth, % | 6.8% | 11.6% | 8.6% | 6.9% |
| Organic growth in sales, % | 2.8% | 5.8% | 3.9% | 3.0% |
| | | | | |
| **Expense measures** | | | | |
| Selling expenses as a % of net sales | 18.5% | 18.8% | 20.1% | 20.2% |
| Administrative expenses as a % of net sales | 13.0% | 15.1% | 13.7% | 14.8% |
| Research and development costs as a % of net sales | 1.8% | 1.5% | 1.6% | 1.7% |
| | | | | |
| **Earnings measures** | | | | |
| Operating profit (EBIT) | 249 | 157 | 671 | 493 |
| EBITA | 321 | 252 | 963 | 798 |
| Adjusted EBITA[2] | 338 | 313 | 1,016 | 930 |
| EBITDA | 495 | 348 | 1,675 | 1,180 |
| EBITDA growth, % | 42.6% | 143.4% | 42.0% | 18.4% |
| Adjusted EBITDA[2] | 513 | 409 | 1,728 | 1,312 |
| Earnings per share, SEK | 0.59 | 0.36 | 1.48 | 1.09 |
| | | | | |
| **Margin measures** | | | | |
| Gross margin, % | 44.4% | 45.2% | 43.5% | 44.6% |
| Operating margin, % | 10.1% | 6.8% | 7.5% | 6.0% |
| EBITA margin, % | 13.0% | 10.9% | 10.8% | 9.7% |
| Adjusted EBITA margin, %[2] | 13.7% | 13.5% | 11.4% | 11.3% |
| EBITDA margin, % | 20.1% | 15.1% | 18.8% | 14.4% |
| Adjusted EBITDA margin, %[2] | 20.8% | 17.7% | 19.4% | 16.0% |
| | | | | |
| **Cash flow and return measures** | | | | |
| Return on shareholders' equity, %[1] | | | 7.1% | 5.6% |
| Cash conversion, % | 88.4% | 96.0% | 74.7% | 84.0% |
| Operating capital, SEK M | | | 11,082 | 9,946 |
| Return on operating capital, %[1] | | | 6.5% | 6.5% |
| | | | | |
| **Capital structure** | | | | |
| Interest-bearing net debt | | | 5,903 | 4,630 |
| Interest-coverage ratio, multiple[1] | | | 5.5x | 6.2× |
| Net debt/equity ratio, multiple | | | 1.0x | 0.9× |
| Net debt/adjusted EBITDA, multiple[1,2] | | | 3.0x | 3.5× |
| Equity/assets ratio, % | | | 41.0% | 41.3% |
| Equity per share, SEK | | | 21.7 | 19.9 |
| | | | | |
| **Other** | | | | |
| No. of shares | | | 272,369,573 | 272,369,573 |
| Number of employees, average | | | 6,151 | 6,123 |

1 Rolling 12 months.
2 Before exceptional items. See Alternative performance measures on page 19 and definitions on page 22.
For more information about the effects of IFRS 16, refer to Note 6 on pages 13-14.

NOTE 11 CONTINUED

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| **Earnings measures, excluding IFRS 16** | | | | |
| EBITDA | 411 | 348 | 1,328 | 1,180 |
| EBITDA growth, % | 18.4% | 143.4% | 12.6% | 18.4% |
| Adjusted EBITDA[2] | 428 | 409 | 1,381 | 1,312 |
| | | | | |
| **Margin measures, excluding IFRS 16** | | | | |
| EBITDA margin, % | 16.7% | 15.1% | 14.9% | 14.4% |
| Adjusted EBITDA margin, %[2] | 17.4% | 17.7% | 15.5% | 16.0% |
| | | | | |
| **Cash flow and return measures, excluding IFRS 16** | | | | |
| Cash conversion, % | 87.9% | 96.0% | 70.7% | 84.0% |
| Operating capital, SEK M | | | 10,503 | 9,946 |
| Return on operating capital, %[1] | | | 6.9% | 6.5% |
| | | | | |
| **Capital structure, excluding IFRS 16** | | | | |
| Interest-bearing net debt | | | 4,746 | 4,630 |
| Interest-coverage ratio, multiple[1] | | | 7.4x | 6.2× |
| Net debt/equity ratio, multiple | | | 0.8x | 0.9× |
| Net debt/adjusted EBITDA, multiple[1,2] | | | 3.4x | 3.5× |
| Equity/assets ratio, % | | | 44.6% | 41.3% |

1 Rolling 12 months.
2 Before exceptional items. See Alternative performance measures on page 19 and definitions on page 22.
For more information about the effects of IFRS 16, refer to Note 6 on pages 13–14.

## 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 supplement 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 EBITA/EBITDA<br>SEK M | Quarter 4<br>2019 | Quarter 4<br>2018 | Full-year<br>2019 | Full-year<br>2018 |
|---|---|---|---|---|
| Operating profit (EBIT) | 249 | 157 | 671 | 493 |
| Add-back of amortization and write-down of intangible assets | 72 | 95 | 292 | 305 |
| **EBITA** | **321** | **252** | **963** | **798** |
| Add-back of depreciation and write-down of tangible assets | 174 | 96 | 712 | 382 |
| **EBITDA** | **495** | **348** | **1,675** | **1,180** |
| Adjustment for IFRS 16 | -84 | - | -347 | - |
| **EBITDA, excluding IFRS 16** | **411** | **348** | **1,328** | **1,180** |
| Exceptional items[1] | 17 | 78 | 53 | 156 |
| Add-back of write-down of restructuring and integration costs | - | -17 | - | -24 |
| **Adjusted EBITA** | **338** | **313** | **1,016** | **930** |
| **Adjusted EBITDA** | **513** | **409** | **1,728** | **1,312** |
| Adjustment for IFRS 16 | -84 | - | 347 | - |
| **Adjusted EBITDA, excluding IFRS 16** | **428** | **409** | **1,381** | **1,312** |

1 Refer to Note 5 Exceptional items on page 13.

| Cash conversion | Quarter 4<br>2019 | Quarter 4<br>2018 | Full-year<br>2019 | Full-year<br>2018 |
|---|---|---|---|---|
| **Cash flow from operations, SEK M** | **438** | **334** | **1,252** | **991** |
| Operating profit (EBIT) | 249 | 157 | 671 | 493 |
| Add-back of amortization, depreciation and write-down of intangible and tangible assets | 247 | 191 | 1,004 | 687 |
| **EBITDA, SEK M** | **495** | **348** | **1,675** | **1,180** |
| **Cash conversion, %** | **88.4%** | **96.0%** | **74.7%** | **84.0%** |

| Cash conversion, excluding IFRS 16 | Quarter 4<br>2019 | Quarter 4<br>2018 | Full-year<br>2019 | Full-year<br>2018 |
|---|---|---|---|---|
| **Cash flow from operations, SEK M** | **438** | **334** | **1,252** | **991** |
| Adjustment for IFRS 16 | -77 | - | -313 | - |
| **Cash flow from operations, SEK M, excluding IFRS 16** | **361** | **334** | **939** | **991** |
| Operating profit (EBIT) | 249 | 157 | 671 | 493 |
| Add-back of amortization, depreciation and write-down of intangible and tangible assets | 247 | 191 | 1,004 | 687 |
| Adjustment for IFRS 16 | -84 | - | -347 | - |
| **EBITDA, SEK M, excluding IFRS 16** | **411** | **348** | **1,328** | **1,180** |
| **Cash conversion, %, excluding IFRS 16** | **87.9%** | **96.0%** | **70.7%** | **84.0%** |

| Net debt/equity ratio | Full-year 2019 | Full-year 2018 |
|---|---|---|
| Interest-bearing net debt, SEK M | 5,903 | 4,630 |
| Adjustment for IFRS 16 | -1,156 | - |
| **Interest-bearing net debt, SEK M, excluding IFRS 16** | **4,746** | **4,630** |
| Shareholders' equity, SEK M | 5,914 | 5,427 |
| **Net debt/equity ratio** | **1.00** | **0.85** |
| **Net debt/equity ratio, multiple, excluding IFRS 16** | **0.80** | **0.85** |

| Calculation of return on operating capital | Full-year 2019 | Full-year 2018 |
|---|---|---|
| Total assets opening balance | 13,136 | 12,210 |
| Total assets closing balance | 14,422 | 13,136 |
| Adjustment for IFRS 16 | -1,158 | - |
| Total assets closing balance, excluding IFRS 16 | 13,264 | 12,673 |
| **Average total assets** | **13,779** | **12,673** |
| **Average total assets, excluding IFRS 16** | **13,200** | **12,673** |
| | | |
| Average total assets | 13,779 | 12,673 |
| Average total assets, excluding IFRS 16 | 13,200 | 12,673 |
| Excluding average cash and cash equivalents | -812 | -817 |
| Excluding average other provisions | -257 | -278 |
| Excluding average other non-interest-bearing liabilities | -1,629 | -1,632 |
| **Average operating capital** | **11,082** | **9,946** |
| **Average operating capital, excluding IFRS 16** | **10,503** | **9,946** |
| | | |
| Operating profit (EBIT)[1] | 671 | 493 |
| Add-back of exceptional items[1] | 53 | 156 |
| EBIT after add-back of exceptional items | 724 | 649 |
| **Return on operating capital, %** | **6.5%** | **6.5%** |
| **Return on operating capital, %, excluding IFRS 16** | **6.9%** | **6.5%** |

1 Rolling 12 months.

## Note 12 Transactions with related parties

| | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| **Transactions with related parties, SEK M** | | | | |
| Sales | 18 | 14 | 64 | 72 |
| Purchases of goods | -1 | -1 | -4 | -9 |
| Other expenses | - | -17 | - | -69 |
| Accounts receivable | | | 14 | 20 |
| Non-current financial liabilities | | | 29 | 55 |
| Accounts payable | | | 0 | 10 |
| Other non-interest-bearing liabilities | | | 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.

Other expenses primarily refer to administrative services.

# Parent Company financial statements

## Parent Company income statement

| SEK M | Quarter 4 2019 | Quarter 4 2018 | Full-year 2019 | Full-year 2018 |
|---|---|---|---|---|
| Administrative expenses | -41 | -45 | -155 | -155 |
| Restructuring and integration costs | – | -13 | – | -49 |
| Other operating income and expenses | 114 | 72 | 114 | 66 |
| **Operating profit/loss (EBIT)** | **73** | **14** | **-41** | **-138** |
| Income from participations in Group companies | 199 | 569 | 310 | 1,370 |
| Net financial items[1] | -15 | -8 | -75 | -85 |
| **Profit after financial items** | **257** | **575** | **194** | **1,147** |
| Taxes | -49 | -82 | -15 | -33 |
| **Net profit for the period** | **207** | **493** | **180** | **1,114** |

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 | Full-year 2019 | Full-year 2018 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 340 | 349 |
| Financial assets | 6,390 | 6,317 |
| Current financial receivables, Group companies | 1,427 | 677 |
| Other current receivables, Group companies | 59 | 82 |
| Current receivables | 35 | 30 |
| **Total assets** | **8,251** | **7,455** |
| | | |
| **Shareholders' equity and liabilities** | | |
| Shareholders' equity | 4,635 | 4,605 |
| Provisions | 1 | 1 |
| Current financial liabilities | 3,573 | 2,761 |
| Other current liabilities, Group companies | 10 | 55 |
| Other non-interest-bearing liabilities | 32 | 33 |
| **Total shareholders' equity and liabilities** | **8,251** | **7,455** |

At the end of the period, the carrying amount of shares and participations in subsidiaries amounted to SEK 6,294 M (6,292). The change for the year is SEK 2 M and comprises the formation of 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 3,576 M (2,763). Intangible assets comprise software.

# Definitions

## Financial terms

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

**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.

**Cash conversion**
Cash flow from operations in relation to EBITDA.

**EBIT**
Operating profit.

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

**Adjusted EBITA**
EBITA with add-back of exceptional items.

**EBITA margin**
EBITA in relation to net sales.

**Adjusted EBITA margin**
Adjusted EBITA in relation to net sales.

**EBITDA**
Operating profit before amortization, depreciation and write-down.

**Adjusted EBITDA**
EBITDA with add-back of exceptional items.

**EBITDA margin**
EBITDA in relation to net sales.

**Adjusted EBITDA margin**
Adjusted EBITDA in relation to net sales.

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

**Net debt/equity ratio**
Interest-bearing net debt in relation to shareholders' equity.

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

**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 403 M
Number of shares, thousands ........ 272,370
Earnings per share ........ SEK 1.48

**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.

**Operating expenses**
Selling expenses, administrative expenses and research and development costs.

**Operating margin**
Operating profit in relation to net sales.

**Equity/assets ratio**
Shareholders' equity in relation to total assets.

## Medical and other terms

**Deep vein thrombosis (DVT)**
Formation of a blood clot in a deep leg vein.

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

**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.

**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.

**EU Medical Device Regulation (MDR)**
Regulations created by the EU to ensue 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 that will come into force in May 2020.

**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).

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

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

**Edema**
Swelling due to accumulation of fluid in tissues.

## Teleconference

Fund managers, analysts and the media are invited to a teleconference on February 4 at 8:00 a.m. CET.

Dial the number below to participate:

Sweden: +46 (0)8 5033 6574
UK: +44 (0)330 336 9125
USA: +1 323-794-2093
Code: 3702533

A presentation will be held during the telephone conference. To access the presentation, please use this link:
https://slideassist.webcasts.com/starthere.jsp?ei=1278242

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=1278242

## 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:

| | |
|---|---|
| April 2020 | 2019 Annual Report |
| April 27, 2020 | 2020 Annual General Meeting |
| April 27, 2020 | Interim report January-March |
| May 13, 2020 | Capital Markets Day |
| July 17, 2020 | Interim report January–June |
| October 28, 2020 | Interim report January–September |

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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 January 4, 2020 at 7:00 a.m. CET.


8,925
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 AB** · Corp. Reg. No. 559092-8064 · Hans Michelsensgatan 10 · SE-211 20 Malmö · Sweden

www.arjo.com