

# **Interim Report**

## **Q1 FY'19**

## Quarter 1 / Fiscal Year 2019

### **Strong product portfolio complemented with new acquisitions (TruHearing, LMJ and Comunicare) drove growth of 23% nominal (9% organically) in Q1 Fiscal Year 2019**

- Sivantos delivered 8.9% of organic growth<sup>1)</sup> in Q1 2019 with nominal growth at 22.8% with positive FX translation effects of EUR 3m vs. Q1 2018. This growth is driven by the product launch roadmap of the Signia Nx platform and the acquisitions of TruHearing, LMJ and Comunicare.
- Adjusted Gross Profit Margin was lower by 365Bps on year-on-year basis resulting in a 62.2% margin impacted by the dilution effect from TruHearing with lower gross margin (36%) in the current year and the consolidation effect from acquisitions (Biotone, France) in the prior year. Excluding these effects, Gross Margin was almost on par with Q1 2018. Reported Gross Margin declined by 304Bps to 56.8%
- Adjusted EBITDA margin decreased by 127Bps year-on-year to 21.2% though with an increase of EUR 8.3m vs. Q1 2018. Excluding TruHearing, EBITDA margin is still lower by 58Bps resulting in a 21.9% margin due to the consolidation effect from acquisitions (Biotone, France) in the prior year partially compensated by a positive one-time effect of IFRS 9 implementation with decrease in AR and Loan provisions in the current year. Reported EBITDA declined by 377Bps to 16.7%.
- Total normalisation amount of EUR 12.8m in Q1 2019 was mainly driven by the Merger Project with Widex of EUR 3m, ERP implementation of EUR 3m and legal fee provision of EUR 3m.
- Free Cash flow was lower compared to Q1 2018 mainly attributed to increased trade working capital due to growth and payments related to the Merger Project. These effects should be only temporary.

#### **Note:**

The financial information for Q1 2019 & Q1 2018 is unaudited. Financial statements for full year 2018 is audited. The financial statements have been prepared based on IFRS.

<sup>1)</sup> Baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**Consolidated Financial Key Figures for quarter ending 31st December 2018**

<b>in mn. EUR</b>	<b>Q1 FY'19</b>	<b>Q1 FY'18</b>
<b>Revenue</b>	287.6	234.2
<i>Organic Growth % <sup>1)</sup></i>	8.9%	3.5%
<b>Gross Profit</b>	163.3	140.1
<i>% of revenue</i>	56.8%	59.8%
<b>Adjusted Gross Profit</b>	178.9	154.2
<i>% of revenue</i>	62.2%	65.8%
<b>R&amp;D</b>	-17.3	-15.2
<i>% of revenue</i>	-6.0%	-6.5%
<b>SG&amp;A</b>	-126.3	-101.8
<i>% of revenue</i>	-43.9%	-43.5%
<b>Other income <sup>2)</sup></b>	0.4	0.0
<i>% of revenue</i>	0.1%	0.0%
<b>EBIT</b>	20.0	23.0
<i>% of revenue</i>	7.0%	9.8%
<b>EBITDA</b>	48.1	48.0
<i>% of revenue</i>	16.7%	20.5%
<b>Adj. EBITDA</b>	60.9	52.5
<i>% of adjusted revenue</i>	21.2%	22.4%
<b>Free Cash Flow <sup>3)</sup></b>	-7.6	4.4
<i>CCR % <sup>4)</sup></i>	-0.16	0.09

<sup>1)</sup> Baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

<sup>2)</sup> Includes the share of associate results.

<sup>3)</sup> FCF = Reported EBITDA +/- Change in trade working capital +/- Change in current Assets & current Liabilities (excluding taxes & hedging instruments) less Net Capex

<sup>4)</sup> CCR = FCF / Reported EBITDA

## **MD&A: Quarter 1 / Fiscal Year 2019**

### **Revenue**

Sivantos Group delivered nominal growth of 22.8% in Q1 2019 with positive FX translation effects of EUR3m compared to Q1 2018, translating into +8.9% organic growth<sup>1)</sup>. North America (NA), and Europe including Middle East & Latin America (EMEA-LA) contributed to this growth level partially offset by Asia Pacific (APAC).

### **Gross Margin**

The Gross Margin in Q1 2019 was 56.8% including effects from depreciation due to the step-up of tangible assets as part of the purchase price allocation and normalization items. Excluding these effects, Gross Margin for Q1 2019 was 62.2%, minus 365Bps compared to Q1 2018 mainly related to the dilution effect from TruHearing with lower gross margin (35.7%) in the current year and the consolidation effect from acquisitions (Biotone, France) in the prior year. Excluding these additional effects, Gross Margin would be at 64.8% almost on par with prior year adjusted at 64.9%.

### **Research and Development expenses**

Total research and development costs incurred in Q1 2019 amounted to EUR 21.3m. Capitalized development costs amounted to EUR 6.5m and amortization of capitalized development costs were at EUR 2.5m. Total research and development costs expensed was 6.0% as a percentage of revenue including the effects of normalization items. Excluding these effects total research and development costs expensed was 5.2% as a percentage of revenue. These investments were related to strengthening the product pipeline for the next years and the maintenance of competitive advantage currently experienced with the new Signia Nx platform. The total research and development expenses decreased by EUR1.3m compared to Q1 2018 with a revenue ratio of 6.5%.

### **Selling expenses**

Total selling expenses in Q1 2019 were 31.8% as a percentage of revenue and include effects from the amortization of customer relationship management software and depreciation of tangible assets as part of the purchase price allocation and normalization items. Excluding these effects total selling expenses were 29.9% as a percentage of revenue. As a result, the selling and marketing expenses have increased by EUR 13.0m compared to Q1 2018 with a revenue ratio of 31.2% (minus 103Bps), partially due to reallocation of resources to Sales & Marketing offset by positive one-time effect of IFRS 9 implementation with decrease in AR and Loan provisions (impact of ~EUR 4m).

### **General Administration expenses**

Total general administration expenses in Q1 2019 were 12.1% as a percentage of revenue and include effects from normalization items. Excluding normalization items, total general and administration expenses were 9.5% as a percentage of revenue. As a result, the general and administration expenses increased by EUR 4.7m compared to Q1 2018 with a revenue ratio of 9.7% (minus 18Bps).

### **EBITDA and Adjusted EBITDA**

EBITDA margin for Q1 2019 of 16.7% includes the impact of normalization items. Adjusted EBITDA margin excluding these effects was 21.2%, minus 127Bps vs. previous financial year driven by effects described above. In absolute terms, adjusted EBITDA was EUR 8.3m higher than the PY.

<sup>1)</sup> Baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

## Leverage

Priority Gross Bank Debt includes the utilized RCF Facility of EUR 48.75m, Term Loan B tranches with outstanding balances as of 31 December 2018 of EUR 645.60m (B6, B8 and B9) and USD 577.55 (B7) – after 0.25% quarterly principal repayments and converted into EUR 488.79m at the LTM average exchange rate of 1.1816. In addition, total Gross Debt includes the Senior Notes of EUR 285.08m and accrued interest on the Senior Notes.

Net Debt amounts to EUR 1,428.80m. This includes Cash & Cash Equivalents adjusted for Cash not readily available as per definition of the Senior Facility Agreement as well as Finance Lease obligations.

LTM consolidated EBITDA (as per SFA definition) was at EUR 265.10 m.

The above results in net leverage of 5.4x as of 31 December 2018.

Pro-forma interest was calculated at EUR 71.30m including Term Loans B6 (margin plus 0% floor), B7 (margin plus 1% floor), B8 (margin plus 0% floor), B9 (margin plus 0% floor), RCF margin 3% and 8% p.a. on the Notes.

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the Quarter ending 31 December 2018**  
**(in thousands of EUR, except where otherwise stated)**

	<u>01 Oct 2018 to 31 Dec 2018</u>	<u>01 Oct 2017 to 31 Dec 2017</u>
Revenue	287,648	234,194
Cost of goods sold	<u>(124,360)</u>	<u>(94,121)</u>
Gross profit	163,288	140,073
Research and development expenses	(17,330)	(15,203)
Selling and general administration expenses	(126,316)	(101,793)
Other operating income	223	147
Other operating expenses	(159)	(494)
Share of profit of associate, net of tax	332	303
Interest income	2,577	1,744
Interest expenses	(22,320)	(19,210)
Other financial (expense)/income, net	<u>(10,574)</u>	<u>9,805</u>
(Loss)/profit before income taxes	(10,279)	15,372
Income taxes	3,900	92
<b>Net (loss)/profit</b>	<b><u>(6,379)</u></b>	<b><u>15,464</u></b>
Attributable to:		
Non-Controlling Interests	22	(92)
Owners of the Company	(6,401)	15,556
	<i>Unaudited</i>	<i>Unaudited</i>

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2018**  
**(in thousands of EUR, except where otherwise stated)**

	<b>31 Dec 2018</b>	<b>30 Sep 2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	40,969	88,056
Trade receivables	204,736	194,520
Other current financial assets	30,024	32,088
Inventories	82,759	67,141
Current income tax assets	5,850	5,449
Other current assets	34,299	27,313
<b>Total current assets</b>	<b>398,637</b>	<b>414,567</b>
Non-current assets		
Goodwill	1,677,495	1,640,760
Other intangible assets	692,680	703,355
Property, plant and equipment	84,763	80,637
Investments accounted for using the equity method	4,396	4,001
Other financial assets	78,871	72,882
Deferred tax assets	37,792	33,921
Other assets	6,912	6,642
<b>Total non-current assets</b>	<b>2,582,909</b>	<b>2,542,198</b>
<b>Total assets</b>	<b>2,981,546</b>	<b>2,956,765</b>
<b>Liabilities and equity</b>		
Current liabilities		
Short-term debt and current maturities of long-term debt	58,950	53,496
Trade payables	114,295	119,771
Other current financial liabilities	22,944	19,175
Current provisions	36,604	34,055
Current income tax liabilities	21,833	19,911
Other current liabilities	69,157	75,601
<b>Total current liabilities</b>	<b>323,783</b>	<b>322,009</b>
Non-current liabilities		
Long-term debt	1,377,043	1,350,913
Post-employment benefits	11,591	11,081
Deferred tax liabilities	113,628	116,994
Provisions	15,982	15,791
Other financial liabilities	15,205	15,198
Other liabilities	20,247	19,064
<b>Total non-current liabilities</b>	<b>1,553,696</b>	<b>1,529,041</b>
<b>Total liabilities</b>	<b>1,877,479</b>	<b>1,851,050</b>
Equity		
Share Capital	31	31
Capital Reserve	1,047,108	1,047,108
Retained Earnings	59,497	66,184
Reserves	(10,695)	(15,617)
Total equity attributable to owners of the Company	<b>1,095,941</b>	<b>1,097,706</b>
Non-controlling interests	8,126	8,009
<b>Total equity</b>	<b>1,104,067</b>	<b>1,105,715</b>
<b>Total liabilities and equity</b>	<b>2,981,546</b>	<b>2,956,765</b>
	<i>Unaudited</i>	<i>Audited</i>

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Quarter ending 31 December 2018**  
**(in thousands of EUR, except where otherwise stated)**

	<u>01 Oct 2018 to 31 Dec 2018</u>	<u>01 Oct 2017 to 31 Dec 2017</u>
Cash flow from operating activities		
Net (loss)/profit	(6,379)	15,464
Adjustments to reconcile net profit to cash provided		
Amortization and depreciation	28,053	24,950
Income tax expense, net	(3,900)	(92)
Interest expense, net	19,743	17,467
Losses on sales and disposals of intangibles and property, plant and equipment, net	(1)	485
Share of profit of associate, net of tax	(332)	(303)
Other non-cash expense/(income)	3,427	(6,528)
Change in current assets and liabilities:	(37,286)	(26,906)
Increase in inventories	(14,703)	(10,885)
Decrease in trade and other receivables	(8,218)	(1,847)
Increase in other current assets	(3,488)	(2,642)
(Decrease)/increase in trade payables	(6,991)	1,126
Increase/(decrease) in current provisions	2,274	(2,581)
Decrease in other current liabilities	(6,160)	(10,077)
Change in other assets and liabilities	(4,721)	(4,369)
Income taxes paid	(1,639)	(1,338)
Interest received	370	339
<b>Net cash (used in)/provided by operating activities</b>	<u>(2,665)</u>	<u>19,169</u>
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(17,417)	(18,176)
Purchase of investments in Associate/others	-	(3,800)
Acquisitions of subsidiaries and from asset deals, net of cash	(34,749)	(7,517)
Proceeds from disposal of intangibles and property, plant and equipment	397	34
<b>Net cash used in investing activities</b>	<u>(51,769)</u>	<u>(29,459)</u>
Cash flows from financing activities		
Transaction costs paid for issuance of SFA and senior notes	(110)	-
Proceeds of long-term and short term debt	22,062	75
Repayment of long-term and short term debt	(2,905)	(2,302)
Interest paid	(12,588)	(9,545)
Change in short-term debt and other financing activities	(39)	(222)
Dividends paid to non-controlling interests	(215)	-
<b>Net cash provided by/(used in) financing activities</b>	<u>6,205</u>	<u>(11,994)</u>
Effect of exchange rates on cash and cash equivalents	1,142	1,989
Net increase in cash and cash equivalents	(47,087)	(20,295)
Cash and cash equivalents at beginning of period	88,056	111,692
<b>Cash and cash equivalents at end of period</b>	<u><u>40,969</u></u>	<u><u>91,397</u></u>
	<i>Unaudited</i>	<i>Unaudited</i>



**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**PRO FORMA FINANCIAL INDICATORS**  
**For the period ended 31 December 2018**  
**(in millions of EUR, except where otherwise stated)**

**Leverage**

<b>Priority Net</b>	<b>EUR</b>
Priority Gross	1,183.1
Cash	(39.6)
<b>Net Priority Debt</b>	<b>1,143.5</b>
<b>Leverage</b>	<b>4.3x</b>

<b>Total Net</b>	<b>EUR</b>
Gross Debt	1,468.4
Cash	(39.6)
<b>Net Total Debt</b>	<b>1,428.8</b>
<b>Leverage</b>	<b>5.4x</b>

**Fixed Charge Coverage Ratio**

<b>Total Net</b>	<b>EUR</b>
Total PF interest	71.3
Adjusted EBITDA (LTM) <sup>1</sup>	265.1
<b>Fixed Charge Coverage Ratio</b>	<b>3.7x</b>

<sup>1</sup> LTM Consolidated EBITDA calculated as per SFA definition