

Interim Report

Q4 FY'18

Quarter 4 / Fiscal Year 2018

Strong revenue growth of 28% continues to be driven by successful Signia Nx product platform and new acquisitions (TruHearing, LMJ and Comunicare)

- Sivantos continues to deliver a significantly strong organic growth¹⁾ of 15.7% in Q4 2018 with nominal growth at 27.6% despite negative FX translation effects of EUR 3m vs. Q4 2017. The accelerated growth continues to be driven by the sustained momentum of the successful new technology platform Signia Nx, operational transformation and the acquisitions of TruHearing, LMJ and Comunicare.
- Adjusted Gross Profit Margin was lower by 137Bps on year-on-year basis resulting in a 63.2% margin impacted by the dilution effect from TruHearing with lower gross margin (34%). Excluding TruHearing, Gross Margin is higher by 126Bps resulting in a 65.8% margin driven by operational efficiencies.
- Adjusted EBITDA margin decreased by 45Bps year-on-year to 26.6% leading to an increase of EUR 16.9m vs. Q4 2017, including a negative FX translation effect after hedging of EUR 2m. Excluding TruHearing, EBITDA margin is higher by 85Bps resulting in a 27.9% margin on a like-for-like basis.
- Total normalisation amount of EUR 23.9m in Q4 2018 was mainly driven by the Merger Project with Widex of EUR 11m.
- Free Cash flow was lower compared to Q4 2017 mainly attributed to one-time real estate sale with a EUR12m positive impact in prior year. Excluding this effect, Free Cash flow was higher by EUR 5m driven by optimisation in inventories and trade receivables.

Full Year / Fiscal Year 2018

Strong portfolio and improved Sales & Marketing set ups complemented with new acquisitions (TruHearing, LMJ and Comunicare) drove strong growth of 14% nominal (12% organically) in Fiscal Year 17/18

- Sivantos delivered 11.9% of organic growth¹⁾ in Full Year 2018 with nominal growth at 13.7% despite negative FX translation effects of EUR 51m vs. Full Year 2017. Organic growth momentum strongly accelerated from H1 (6.7%) to H2 (17.0%). This growth continues to be driven by the product launch roadmap of the Signia Nx platform, successes in new and existing customer channels and operational transformation.
- Adjusted Gross Profit Margin declined by 125Bps to 63.0% mainly impacted by the dilution of margin from TruHearing with lower gross margin (34%) since May. Excluding TruHearing it was higher by 10Bps leading to 64.3% driven by operational improvements. Reported Gross Margin improved by 33Bps to 57.4%.
- Adjusted EBITDA has reached EUR 261.6m, an increase of EUR 23.9m compared to Full Year 2017, including a negative FX translation effect after hedging of EUR 14m. Adjusted EBITDA margin has declined by 80Bps to 23.8% compared to Full Year 2017. Excluding TruHearing, EBITDA margin is lower by 30Bps resulting in a 24.3% margin. Reported EBITDA declined by 193Bps to 20.0%.
- Total normalisation amount of EUR42.1m in Full Year 2018 was driven besides transformational projects and restructuring of EUR 17.3m and ERP implementation of EUR 9.0m by additional merger related costs of EUR 11m.
- Free Cash flow remained lower vs. previous year by EUR 50.6m as a result of acquisitions, increased inventories related to product launch, increased trade receivables due to growth and higher capital expenditures due to the factory move in Q1 and a positive one-time effect of real estate sale in prior year Q4 2017.

Note:

The financial information for Q4 2018 & Full Year 2018/ Q4 2017 is unaudited. Financial statements for full year 2017 is audited. The financial statements have been prepared based on IFRS.

¹⁾ 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 30th September 2018

in mn. EUR	Q4 FY'18	Q4 FY'17
Revenue	313.3	245.4
<i>Organic Growth % ¹⁾</i>	15.9%	3.1%
Gross Profit	180.6	135.6
<i>% of revenue</i>	57.7%	55.3%
Adjusted Gross Profit	197.9	158.4
<i>% of revenue</i>	63.2%	64.6%
R&D	-15.5	-15.3
<i>% of revenue</i>	-5.0%	-6.2%
SG&A	-134.7	-96.9
<i>% of revenue</i>	-43.0%	-39.5%
Other income ²⁾	0.5	12.2
<i>% of revenue</i>	0.2%	5.0%
EBIT	30.9	35.7
<i>% of revenue</i>	9.9%	14.5%
EBITDA	59.5	60.6
<i>% of revenue</i>	19.0%	24.7%
Adj. EBITDA	83.3	66.4
<i>% of adjusted revenue</i>	26.6%	27.1%
Free Cash Flow ³⁾	75.1	82.5
<i>CCR % ⁴⁾</i>	1.26	1.36

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

²⁾ Includes the share of associate results.

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

⁴⁾ CCR = FCF / Reported EBITDA

MD&A: Quarter 4 / Fiscal Year 2018

Revenue

Sivantos Group delivered nominal growth of 27.6% in Q4 2018 with negative FX translation effects of EUR3m compared to Q4 2017, translating into +15.7% organic growth¹⁾. 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 Q4 2018 was 57.7% 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 Q4 2018 was 63.2%, minus 137Bps compared to Q4 2017 mainly related to the dilution effect from TruHearing with lower gross margin (34.4%). Excluding TruHearing, it was higher by 126Bps than PY leading to 65.8% driven by operational improvements on COGS.

Research and Development expenses

Total research and development costs incurred in Q4 2018 amounted to EUR 18.5m. Capitalized development costs amounted to EUR 5.3m and amortization of capitalized development costs were at EUR 2.3m. Total research and development costs expensed was 5.0% as a percentage of revenue including the effects of normalization items. Excluding these effects total research and development costs expensed was 4.8% 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 vs. PY, the total research and development expenses slightly decreased by EUR0.1m compared to Q4 2017 with a revenue ratio of 6.2%.

Selling expenses

Total selling expenses in Q4 2018 were 30.0% 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 28.1% as a percentage of revenue. As a result, the selling and marketing expenses have increased by EUR 22.1m compared to Q4 2017 with a revenue ratio of 26.9% plus 124Bps vs. PY, partially also due to reallocation of resources to Sales & Marketing.

General Administration expenses

Total general administration expenses in Q4 2018 were 13.0% as a percentage of revenue and include effects from normalization items. Excluding normalization items, total general and administration expenses were 7.2% as a percentage of revenue. As a result, the general and administration expenses increased by EUR 1.8m compared to Q4 2017 with a revenue ratio of 8.4% (minus 125Bps).

EBITDA and Adjusted EBITDA

EBITDA margin for Q4 2018 of 19.0% includes the impact of normalization items. Adjusted EBITDA margin excluding these effects was 26.6%, minus 45Bps vs. previous financial year including negative FX translation effect after hedging of EUR 2m. In absolute terms, adjusted EBITDA was EUR 16.9m higher than the PY.

¹⁾ 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 period ended 30th September 2018

in mn. EUR	Q4 YTD FY'18	Q4 YTD FY'17
Revenue	1,100.1	967.3
<i>Organic Growth % ¹⁾</i>	<i>11.9%</i>	<i>3.6%</i>
Gross Profit	631.0	551.6
<i>% of revenue</i>	<i>57.4%</i>	<i>57.0%</i>
Adjusted Gross Profit	692.7	621.2
<i>% of revenue</i>	<i>63.0%</i>	<i>64.2%</i>
R&D	-59.5	-55.7
<i>% of revenue</i>	<i>-5.4%</i>	<i>-5.8%</i>
SG&A	-459.8	-399.8
<i>% of revenue</i>	<i>-41.8%</i>	<i>-41.3%</i>
Other Income ²⁾	1.7	13.2
<i>% of revenue</i>	<i>0.2%</i>	<i>1.4%</i>
EBIT	113.4	109.3
<i>% of revenue</i>	<i>10.3%</i>	<i>11.3%</i>
EBITDA	219.5	211.7
<i>% of revenue</i>	<i>20.0%</i>	<i>21.9%</i>
Adj. EBITDA	261.6	237.7
<i>% of revenue</i>	<i>23.8%</i>	<i>24.6%</i>
Free Cash Flow ³⁾	132.0	182.6
<i>CCR ⁴⁾</i>	<i>0.6</i>	<i>0.86</i>

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

²⁾ Includes the share of associate results.

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

⁴⁾ CCR = FCF / Reported EBITDA

MD&A: Full Year / Fiscal Year 2018

Revenue

Sivantos Group delivered nominal growth of 13.7% in Full Year 2018 with significant negative FX translation effects of EUR 51m compared to Full Year 2017, translating into +11.9% organic growth¹⁾. All regions, North America (NA), Europe including Middle East & Latin America (EMEA-LA) and Asia Pacific (APAC), contributed to this above growth level.

Gross Margin

The Gross Margin in Full Year 2018 was 57.4% including effects from depreciation due to the step-up of tangible assets as part of purchase price allocation and normalization items. Excluding these effects, Gross Margin for Full Year 2018 was at 63.0%, minus 125Bps compared to Full Year 2017 mainly related to the dilution of margin from TruHearing with lower gross margin (33.9%) since May. Excluding TruHearing, Gross Margin was 64.3%, plus 10Bps driven by operational improvements on COGS.

Research and Development expenses

Total research and development costs incurred in Full Year 2018 amounted to EUR 73.8m. Capitalized development costs amounted to EUR 23.7m and amortization of capitalized development costs amounted to EUR 9.4m. Total research and development costs expensed was 5.4% as a percentage of revenue including the effects of normalization items. Excluding these effects total research and development costs expensed was 5.3% as a percentage of revenue vs. PY, the research and development expenses increased by EUR 2.7m compared to Full Year 2017 with a revenue ratio of 5.7%.

Selling expenses

Total selling expenses in Full Year 2018 were 30.9% 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 29.3% as a percentage of revenue. As a result, the selling and marketing expenses have increased by EUR 47.5m compared to Full Year 2017 with a revenue ratio of 28.4% plus 89Bps vs. PY, partially also due to reallocation of resources to Sales & Marketing.

General Administration expenses

Total general administration expenses in Full Year 2018 were 10.9% as a percentage of revenue and include effects from normalization items. Excluding normalization items, total general administration expenses were 8.2% as a percentage of revenue. As a result, the general administration expenses increased by EUR 0.8m compared to Full Year 2017 with a revenue ratio of 9.2% (minus 104Bps).

EBITDA and Adjusted EBITDA

EBITDA margin for Full Year 2018 of 20.0% includes the impact of normalization items. Adjusted EBITDA margin excluding these effects was 23.8%, minus 80Bps vs. previous financial year including negative FX translation effect after hedging of EUR 14m. In absolute terms, adjusted EBITDA was EUR 23.9m above PY.

¹⁾ 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 30 September 2018 of EUR 625.20m (B6 and B8) and USD 579.05 (B7) – after 0.25% quarterly principal repayments and converted into EUR 485.94m at the LTM average exchange rate of 1.1916. In addition, total Gross Debt includes the Senior Notes of EUR 279.58m and accrued interest on the Senior Notes.

Net Debt amounts to EUR 1,353.9m. 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 256.0m.

The above results in net leverage of 5.3x as of 30 September 2018.

Pro-forma interest was calculated at EUR 71.0m including Term Loans B6 (margin plus 0% floor), B7 (margin plus 1% floor), B8 (margin plus 0% floor), RCF interest 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 30 September 2018
(in thousands of EUR, except where otherwise stated)

	<u>01 Jul 2018 to 30 Sep 2018</u>	<u>01 Jul 2017 to 30 Sep 2017</u>
Revenue	313,273	245,446
Cost of goods sold	<u>(132,655)</u>	<u>(109,805)</u>
Gross profit	180,618	135,641
Research and development expenses	(15,516)	(15,297)
Selling and general administration expenses	(134,683)	(96,909)
Other operating income	624	13,063
Other operating expenses	(145)	(877)
Share of profit of associate, net of tax	19	47
Interest income	2,538	1,727
Interest expenses	(21,482)	(19,371)
Other financial income, net	<u>33,275</u>	<u>26,539</u>
Profit before income taxes	45,248	44,563
Income taxes	<u>(1,414)</u>	<u>(23)</u>
Net profit	<u>43,834</u>	<u>44,540</u>
Attributable to:		
Non-Controlling Interests	(939)	333
Owners of the Company	44,773	44,207
	<i>Unaudited</i>	<i>Unaudited</i>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2018
(in thousands of EUR, except where otherwise stated)

	<u>30 Sep 2018</u>	<u>30 Sep 2017</u>
Assets		
Current assets		
Cash and cash equivalents	88,056	111,692
Trade receivables	194,520	157,942
Other current financial assets	32,088	19,629
Inventories	67,141	48,119
Current income tax assets	5,449	2,597
Other current assets	27,313	22,539
Total current assets	<u>414,567</u>	<u>362,518</u>
Non-current assets		
Goodwill	1,640,760	1,416,568
Other intangible assets	703,355	607,193
Property, plant and equipment	80,637	66,655
Investments accounted for using the equity method	4,001	6,160
Other financial assets	72,882	67,659
Deferred tax assets	33,921	49,506
Other assets	6,641	5,715
Total non-current assets	<u>2,542,197</u>	<u>2,219,456</u>
Total assets	<u>2,956,764</u>	<u>2,581,974</u>
Liabilities and equity		
Current liabilities		
Short-term debt and current maturities of long-term debt	53,496	4,678
Trade payables	119,771	73,053
Other current financial liabilities	19,175	18,596
Current provisions	34,055	31,855
Current income tax liabilities	19,911	31,009
Other current liabilities	75,601	69,439
Total current liabilities	<u>322,009</u>	<u>228,630</u>
Non-current liabilities		
Long-term debt	1,350,913	1,122,115
Post-employment benefits	11,082	12,139
Deferred tax liabilities	116,994	106,819
Provisions	15,791	14,368
Other financial liabilities	15,199	6,483
Other liabilities	19,064	14,914
Total non-current liabilities	<u>1,529,043</u>	<u>1,276,838</u>
Total liabilities	<u>1,851,052</u>	<u>1,505,468</u>
Equity		
Share Capital	31	31
Capital Reserve	1,047,108	1,047,108
Retained Earnings	66,183	24,281
Reserves	(15,619)	(3,643)
Total equity attributable to owners of the Company	<u>1,097,703</u>	<u>1,067,777</u>
Non-controlling interests	8,009	8,729
Total equity	<u>1,105,712</u>	<u>1,076,506</u>
Total liabilities and equity	<u>2,956,764</u>	<u>2,581,974</u>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Quarter ending 30 September 2018
(in thousands of EUR, except where otherwise stated)

	01 Jul 2018 to 30 Sep 2018	01 Jul 2017 to 30 Sep 2017
Cash flow from operating activities		
Net profit	43,834	44,540
Adjustments to reconcile net profit to cash provided		
Amortization and depreciation	28,554	24,973
Income tax expense, net	1,414	23
Interest expense, net	18,944	17,644
Losses on sales and disposals of intangibles and property, plant and equipment, net	(25)	(11,650)
Share of profit of associate, net of tax	(19)	(47)
Other non-cash expense/(income)	4,909	(16,751)
Change in current assets and liabilities:	28,366	26,935
<i>Decrease in inventories</i>	10,257	8,741
<i>Decrease in trade and other receivables</i>	2,677	2,463
<i>Increase in other current assets</i>	(1,003)	(97)
<i>Increase in trade payables</i>	13,397	5,781
<i>(Decrease)/increase in current provisions</i>	(1,176)	1,899
<i>Increase in other current liabilities</i>	4,214	8,148
Change in other assets and liabilities	(34,175)	(13,631)
Income taxes paid	(3,321)	(1,658)
Interest received	409	311
Net cash provided by operating activities	88,890	70,689
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(16,097)	(13,908)
Purchase of investments in Associate/others	-	5,293
Acquisitions of subsidiaries and from asset deals, net of cash	(1,464)	(5,336)
Proceeds from disposal of intangibles and property, plant and equipment	357	12,332
Net cash used in investing activities	(17,204)	(1,619)
Cash flows from financing activities		
Transaction costs paid for issuance of SFA and senior notes	(408)	-
Proceeds of long-term and short term debt	150	10
Repayment of long-term and short term debt	(3,466)	(3,089)
Interest paid	(22,356)	(20,731)
Change in short-term debt and other financing activities	(5,469)	(4,095)
Net cash provided by/(used in) financing activities	(31,549)	(27,905)
Effect of exchange rates on cash and cash equivalents	(2,279)	1,085
Net increase in cash and cash equivalents	37,858	42,250
Cash and cash equivalents at beginning of period	50,198	69,442
Cash and cash equivalents at end of period	88,056	111,692
	<i>Unaudited</i>	<i>Unaudited</i>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
PRO FORMA FINANCIAL INDICATORS
For the period ended 30 September 2018
(in millions of EUR, except where otherwise stated)

Leverage

Priority Net	EUR
Priority Gross	1,159.9
Cash	(85.8)
Net Priority Debt	1,074.1
Leverage	4.2x

Total Net	EUR
Gross Debt	1,439.6
Cash	(85.8)
Net Total Debt	1,353.9
Leverage	5.3x

Fixed Charge Coverage Ratio

Total Net	EUR
Total PF interest	71.0
Adjusted EBITDA (LTM) ¹	256.0
Fixed Charge Coverage Ratio	3.6x

¹ LTM Consolidated EBITDA calculated as per SFA definition