

# **Interim Report**

## **Q1 FY'16**

## **Innovation continues to drive strong performance**

- Sivantos continued its strong performance across all three regions in Q1 2016. The completion of binax portfolio and launch of the new music platform<sup>1</sup> resulted in 7.0% organic growth.
- Gross-profit margins declined slightly due to product mix and higher inventory revaluation.
- Adjusted EBITDA margin decreased to 24.0% driven by operating expenses of new acquisitions and lower gross margin as previously stated.
- Operating Working Capital was supported by the improvement in trade payables offsetting higher inventory due to product launches.

### **Note:**

The financial information for Q1 2016 is unaudited. The financial statements have been prepared based on IFRS.

The Issuer Auris Luxembourg II S.A. was incorporated on October 13th 2014. On November 6th 2014 EQT announced the acquisition of Sivantos Group (former “Siemens Audiology Solutions”) together with its co-investors for EUR 2.15 bn from Siemens AG. The transaction was closed on January 15th 2015. Therefore there are no comparable figures for the previous year. For reference, the FY 2015 Proforma Income Statement (pf) are included although the two are not directly comparable.

The purchase price allocation exercise for the acquisition of Sivantos Group and audibene GmbH has been completed and represented in the Balance Sheet accordingly.

<sup>1</sup> Clarification to version from 29 February 2016: Our latest platform is binax. At EUHA 2015 we completed the binax product portfolio and launched the Essential segment (internally called “music”) represented by the hearing aid families Intuis 2, Sirion 2 and Orion 2.

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**Consolidated Financial Key Figures For the Quarter ending 31 December 2015**

in mn. EUR	Q1 FY'16	Proforma <sup>1)</sup> FY'15
<b>Revenue</b>	225.2	835.3
<i>Organic Growth %</i>	7.0%	10.1%
<b>Gross Profit</b>	125.3	476.7
<i>%</i>	55.6%	57.1%
<b>R&amp;D</b>	-11.6	-54.7
<i>%</i>	-5.2%	-6.6%
<b>SG&amp;A</b>	-93.9	-344.7
<i>%</i>	-41.7%	-41.3%
<b>EBIT</b>	19.5	68.0
<i>%</i>	8.7%	8.1%
<b>EBITDA</b>	48.9	162.4
<i>%</i>	21.7%	19.4%
<b>Adj. EBITDA</b>	54.1	205.9
<i>%</i>	24.0%	24.6%

<sup>1)</sup> Pro-forma (Pf) financial Key figures have been prepared to present the results of Auris Luxembourg II S.A. as-if Sivantos Group and its consolidated subsidiaries formerly “Siemens Audiology Solutions” were included for the period October 2014 to September 2015.

Proforma (Pf.) financial key figures are not audited.

## **MD&A:**

### **Revenue**

Sivantos Group delivered topline growth of 18% in Q1 2016, which translates to 7% organic growth (pf). The growth was supported by completion of the binax portfolio and successful launch of the new music platform. All regions had a favourable performance with North America (NA) growing 11%, Europe including Middle East & Latin America (EMEA-LA) 5%, and Asia/Pacific (APAC) 4%.

### **Gross Margin**

Gross margin in Q1 2016 was 56%. The gross margin included effects from depreciation due to the step-up of tangible assets as part of the purchase price allocation. Additionally, normalization items relating to re-organization of the manufacturing footprint have impacted the gross margin. Excluding these effects, the gross margin Q1 2016 was 62% benefitting from the increase in revenue as explained above.

### **Research and Development expenses**

Total research and development costs incurred in Q1 2016 amounted to EUR 12 million. Capitalized Development costs amounted to EUR 3 million and amortization of capitalized development costs amounted to EUR 1 million. Total research and development costs expensed were 5% as a percentage of revenue both before and after effects of normalization items. This reflects investments into future technologies in order to further strengthen the competitive advantage currently experienced with binax.

### **Selling expenses**

Total selling expenses in Q1 2016 were 32% as a percentage of revenue and include effects from the amortization of customer relationship as part of the purchase price allocation and normalization items. Excluding these effects total selling expenses were 28% as a percentage of revenue.

### **General Administration expenses**

Total general administration expenses in Q1 2016 were 10% as a percentage of revenue and include effects from normalization items. Excluding these effects total general administration expenses were 9% as a percentage of revenue.

### **EBITDA and Adjusted EBITDA**

EBITDA margin for Q1 2016 of 22% includes the impact of normalization items and re-organization of the manufacturing footprint. Adjusted EBITDA margin excluding these effects was 24%.

## **Leverage**

Our Priority Gross Bank Debt includes the Term Loan B tranches with outstanding balances as of 31 December 2015 of EUR 302.6 mn, USD 595.5 mn (after 0.25% principal repayment and converted to 536.6 mn EUR at the LTM average exchange rate of 1.11) and RCF utilization of EUR 15 mn. Total Gross Debt includes in addition our Senior Notes of EUR 275.0 mn. Net debt amounts to EUR 1,103.5 mn.

Adjusted LTM EBITDA was at EUR 206.5 mn adjusted for non-recurring items.

The above results in net leverage of 5.3x as of 31 December 2015.

Pro-forma interest was calculated at EUR 58.2 mn, including 4.25% p.a. (Margin plus 1% floor) on TLB after completion of the Re-pricing, 8.00% p.a. on the Notes and 3.50% on the RCF (utilized portion after a margin reduction based on a ratchet).

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the Quarter ending 31 December 2015**  
**(in thousands of EUR, except where otherwise stated)**

	<b>01 October to 31 December FY2016</b>	<b>01 January to 30 September FY2015</b>
Revenue	225,226	611,672
Cost of goods sold	(99,965)	(269,497)
Gross profit	<u>125,261</u>	<u>342,175</u>
Research and development expenses	(11,629)	(39,986)
Selling and general administration expenses	(93,907)	(274,852)
Other operating income	54	64
Other operating expenses	(241)	(3,569)
Interest income	1,772	3,424
Interest expenses	(20,272)	(56,315)
Other financial income (expenses), net	(14,677)	(33,296)
Income before income taxes	<u>(13,638)</u>	<u>(62,355)</u>
Income taxes	10,944	7,111
<b>Net Loss</b>	<b><u>(2,694)</u></b>	<b><u>(55,244)</u></b>
Attributable to:		
Non-Controlling Interests	533	1,627
Owners of the Company	(3,227)	(56,870)
	<i>Unaudited</i>	<i>Audited</i>

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2015**  
**(in thousands of EUR, except where otherwise stated)**

	<b>31 December</b>	<b>30 September</b>
	<b>FY2016</b>	<b>FY2015</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	25,971	38,876
Trade receivables	119,505	119,760
Other current financial assets	13,253	19,865
Inventories	87,301	81,326
Current income tax assets	2,520	2,501
Other current assets	24,999	19,032
<b>Total current assets</b>	<b>273,548</b>	<b>281,361</b>
Non-current assets		
Goodwill	1,408,191	1,405,755
Other intangible assets	725,979	742,953
Property, plant and equipment	63,617	64,658
Other financial assets	15,782	14,210
Deferred tax assets	45,645	44,517
Other assets	6,115	6,136
<b>Total non-current assets</b>	<b>2,265,328</b>	<b>2,278,229</b>
<b>Total assets</b>	<b>2,538,877</b>	<b>2,559,589</b>
<b>Liabilities and equity</b>		
Current liabilities		
Short-term debt and current maturities of long-term debt	41,593	48,540
Trade payables	68,380	73,569
Other current financial liabilities	16,474	16,106
Current provisions	29,122	30,403
Current income tax liabilities	14,017	11,672
Other current liabilities	53,203	66,815
<b>Total current liabilities</b>	<b>222,789</b>	<b>247,105</b>
Non-current liabilities		
Long-term debt	1,042,672	1,028,471
Post-employment benefits	11,159	11,859
Deferred tax liabilities	107,636	121,212
Provisions	13,842	13,682
Other financial liabilities	28,543	30,139
Other liabilities	17,989	17,846
<b>Total non-current liabilities</b>	<b>1,221,840</b>	<b>1,223,208</b>
<b>Total liabilities</b>	<b>1,444,629</b>	<b>1,470,313</b>
Equity		
Share Capital	31	31
Capital Reserve	1,155,058	1,155,058
Retained Earnings	(76,684)	(74,504)
Reserves	6,438	(183)
Total equity attributable to owners of the Company	<b>1,084,843</b>	<b>1,080,402</b>
Non-controlling interests	9,404	8,875
<b>Total equity</b>	<b>1,094,248</b>	<b>1,089,277</b>
<b>Total liabilities and equity</b>	<b>2,538,877</b>	<b>2,559,589</b>
	<i>Unaudited</i>	<i>Audited</i>

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**For the Quarter ending 31 December 2015**  
**(in thousands of EUR, except where otherwise stated)**

	<u>01 October to 31 December FY2016</u>	<u>01 January to 30 September FY2015</u>
Cash flow from operating activities		
Net loss	(2,694)	(55,244)
Adjustments to reconcile net loss to cash provided		
Amortization and depreciation	29,360	86,005
Income tax (income) expense, net	(10,944)	(7,111)
Interest expense, net	18,500	52,891
Losses on sales and disposals of intangibles and property, plant and equipment, net	205	847
Losses on disposals and impairm. of afs fin. assets	-	1
Other non-cash expenses	14,837	40,304
Change in current assets and liabilities:	1,952	(11,072)
<i>(Increase) decrease in inventories</i>	(3,658)	3,941
<i>(Increase) decrease in trade and other receivables</i>	2,212	(2,014)
<i>(Increase) decrease in other current assets</i>	(1,306)	(18,836)
<i>Increase (decrease) in trade payables</i>	(6,979)	(11,459)
<i>Increase (decrease) in current provisions</i>	(2,211)	(2,441)
<i>Increase (decrease) in other current liabilities</i>	13,894	19,737
Change in other assets and liabilities	(25,882)	18,743
Income taxes paid	(2,579)	(11,875)
Interest received	161	447
<b>Net cash provided by (used in) operating activities</b>	<u>22,915</u>	<u>113,937</u>
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(8,755)	(25,122)
Acquisitions, net of cash	(494)	(1,976,503)
Proceeds from disposal of intangibles and property, plant and equipment	193	2,309
<b>Net cash provided by (used in) investing activities</b>	<u>(9,056)</u>	<u>(1,999,316)</u>
Cash flows from financing activities		
Proceeds from capital contribution without issuance of new shares	-	937,139
Transaction costs paid for issuance of SFA and senior notes	-	(42,963)
Proceeds of long-term and short term debt	-	1,101,312
Repayment of long-term and short term debt	(15,155)	(24,212)
Interest paid	(12,384)	(47,070)
Dividends paid to non-controlling interests	(262)	-
<b>Net cash provided by (used in) financing activities</b>	<u>(27,801)</u>	<u>1,924,206</u>
Effect of exchange rates on cash and cash equivalents	1,036	31
Net increase (decrease) in cash and cash equivalents	(12,905)	38,858
Cash and cash equivalents at beginning of period	38,876	18
<b>Cash and cash equivalents at end of period</b>	<u><u>25,971</u></u>	<u><u>38,876</u></u>
	<i>Unaudited</i>	<i>Audited</i>



**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES  
PRO FORMA FINANCIAL INDICATORS**

**For the period ended 31 December 2015**

**(in thousands of EUR, except where otherwise stated)**

**Leverage**

	<b>EUR m</b>
<b>Priority Net</b>	
Priority Gross	854.5
Cash	(26.0)
<b>Net Priority Debt</b>	<b>828.5</b>
<b>Leverage</b>	<b>4.0x</b>

	<b>EUR m</b>
<b>Total Net</b>	
Gross Debt	1,129.5
Cash	(26.0)
<b>Net Total Debt</b>	<b>1,103.5</b>
<b>Leverage</b>	<b>5.3x</b>

**Fixed Charge Coverage Ratio**

	<b>EUR m</b>
<b>Total Net</b>	
Total PF interest	58.2
Total EBITDA	206.5
<b>Fixed Charge Coverage Ratio</b>	<b>3.5x</b>