

Interim Report

Q3 FY'18

Quarter 3 / Fiscal Year 2018

Very strong revenue growth of 23% driven by successful Signia Nx product platform and new acquisitions (TruHearing, LMJ and Comunicare)

- Sivantos delivered a significantly strong organic growth¹⁾ of 18.2% in Q3 2018 with nominal growth at 23.5% despite negative FX translation effects of EUR 15m vs. Q3 2017. The accelerated growth continues to be driven by the increased momentum of the successful new technology platform Signia Nx and the acquisitions of TruHearing, LMJ and Comunicare.
- Adjusted Gross Profit Margin was lower by 465Bps on year-on-year basis resulting in a 60.0% margin impacted by a business mix shift due to the acquisitions. Excluding TruHearing, Gross Margin is lower by 247Bps resulting in a 62.2% margin driven by volume growth with portfolio extension on lower price points, promotions, and country mix changes.
- Adjusted EBITDA margin decreased by 275Bps year-on-year to 21.7% leading to an increase of EUR 6m vs. Q3 2017 despite negative FX translation effects on EBITDA.
- Free Cash flow was lower compared to Q3 2017 driven by temporarily increased trade receivables and continued capital investment into R&D and IT projects.

YTD June / Fiscal Year 2018

Significantly accelerated growth from Q1 to Q3 delivered by strong portfolio and products complemented with new acquisitions (TruHearing, LMJ and Comunicare)

- Sivantos delivered 10.6% of organic growth¹⁾ in YTD June 2018 with nominal growth at 9.0% despite negative FX translation effects of EUR 49m vs. YTD June 2017. Organic growth momentum strongly accelerated from Q1 (3.5%), to Q2 (9.8%) to Q3 (18.2%). This growth was driven by the product launch roadmap of the Signia Nx platform.
- Adjusted Gross Profit Margin declined by 122Bps to 62.9% mainly impacted by the business mix shift of the acquisitions. Excluding TruHearing it was lower by 35Bps leading to 63.8% driven especially by volume growth with portfolio extension on lower price points. Reported Gross Margin declined by 39Bps to 57.2%.
- Adjusted EBITDA has reached EUR 178.3 m, an increase of EUR +7m compared to YTD June 2017, including a negative FX translation effect of EUR 11m. Adjusted EBITDA margin has declined by 108Bps to 22.7% compared to YTD June 2017. Reported EBITDA declined by 59Bps to 20.3%.

Free Cash flow remained lower vs. previous year by EUR 43m as a result of increased inventories related to product launch, temporarily increased trade receivables and higher capital expenditures due to the factory move in Q1.

Note:

The financial information for Q3 2018 & YTD 2018/ Q3 2017 & YTD 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 June 2018

in mn. EUR	Q3	Q3
	FY'18	FY'17
Revenue	299.8	242.8
<i>Organic Growth % ¹⁾</i>	18.2%	1.3%
Gross Profit	164.5	141.7
<i>% of revenue</i>	54.9%	58.4%
Adjusted Gross Profit	180.0	157.1
<i>% of revenue</i>	60.0%	64.7%
R&D	-15.6	-15.0
<i>% of revenue</i>	-5.2%	-6.2%
SG&A	-122.2	-100.6
<i>% of revenue</i>	-40.8%	-41.4%
Other income ²⁾	1.4	0.2
<i>% of revenue</i>	0.5%	0.1%
EBIT	28.1	26.3
<i>% of revenue</i>	9.4%	10.8%
EBITDA	55.9	51.5
<i>% of revenue</i>	18.7%	21.2%
Adj. EBITDA	65.0	59.3
<i>% of revenue</i>	21.7%	24.4%
Free Cash Flow ³⁾	21.8	42.7
<i>CCR % ⁴⁾</i>	0.39	0.83

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 3 / Fiscal Year 2018

Revenue

Sivantos Group delivered nominal growth of 23.5% in Q3 2018 with significant negative FX translation effects of EUR 15m compared to Q3 2017, translating into +18.2% organic growth¹⁾. All regions, North America (NA), Europe including Middle East & Latin America (EMEA-LA) and Asia Pacific (APAC), contributed to growth.

Gross Margin

The Gross Margin in Q3 2018 was 54.9% 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 Q3 2018 was 60.0%, minus 465Bps compared to Q3 2017 mainly related to business mix shift due to acquisitions. Excluding TruHearing, it was at 62.2%, which was 247 Bps lower than PY driven by planned portfolio extension to lower price points, promotions and country mix changes. In addition, the decrease was partly contributed by higher material cost due to platform changes and accessories.

Research and Development expenses

Total research and development costs incurred in Q3 2018 amounted to EUR 18.2m. Capitalized Development costs amounted to EUR 5.1m and amortization of capitalized development costs were at EUR 2.5m. Total research and development costs expensed were 5.2% as a percentage of revenue both before and after effects of normalization items. 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. As a result, the total research and development expenses has been increased by EUR 0.6m with a revenue ratio of 6.2% compared to Q3 2017.

Selling expenses

Total selling expenses in Q3 2018 were 31.4% 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 28.8% as a percentage of revenue. As a result, the selling expenses has been increased by EUR 19.2m with a revenue ratio of 29.2% compared to Q3 2017.

General Administration expenses

Total general administration expenses in Q3 2018 were 9.3% as a percentage of revenue and include effects from normalization items. Excluding normalization items, total general and administration expenses were 7.7% as a percentage of revenue. As a result, the general and administration expenses has been increased by EUR 2.4m with a revenue ratio of 8.9% compared to Q3 2017.

EBITDA and Adjusted EBITDA

EBITDA margin for Q3 2018 of 18.7% includes the impact of normalization items. Adjusted EBITDA margin excluding these effects was 21.7%, minus 275Bps vs. previous financial year including negative FX translation effect of EUR 3m. In absolute terms, adjusted EBITDA was EUR 6m 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 June 2018

in mn. EUR	Q3 YTD FY'18	Q3 YTD FY'17
Revenue	786.8	721.8
<i>Organic Growth % ¹⁾</i>	<i>10.6%</i>	<i>3.8%</i>
Gross Profit	450.4	416.0
<i>% of revenue</i>	<i>57.2%</i>	<i>57.6%</i>
Adjusted Gross Profit	494.8	462.7
<i>% of revenue</i>	<i>62.9%</i>	<i>64.1%</i>
R&D	-44.0	-40.4
<i>% of revenue</i>	<i>-5.6%</i>	<i>-5.6%</i>
SG&A	-325.1	-302.9
<i>% of revenue</i>	<i>-41.3%</i>	<i>-42.0%</i>
Other Income ²⁾	1.2	1.0
<i>% of revenue</i>	<i>0.1%</i>	<i>0.1%</i>
EBIT	82.5	73.7
<i>% of revenue</i>	<i>10.5%</i>	<i>10.2%</i>
EBITDA	160.1	151.1
<i>% of revenue</i>	<i>20.3%</i>	<i>20.9%</i>
Adj. EBITDA	178.3	171.3
<i>% of revenue</i>	<i>22.7%</i>	<i>23.7%</i>
Free Cash Flow ³⁾	56.9	100.1
<i>CCR ⁴⁾</i>	<i>0.36</i>	<i>0.66</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: YTD June / Fiscal Year 2018

Revenue

Sivantos Group delivered nominal growth of 9.0% in YTD June 2018 with significant negative FX translation effects of EUR 49m compared to YTD June 2017, translating into +10.6% organic growth¹⁾. All regions, North America (NA), Europe including Middle East & Latin America (EMEA-LA) and Asia Pacific (APAC), contributed to growth.

Gross Margin

The Gross Margin in YTD June 2018 was 57.2% 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 YTD June 2018 was at 62.9%, minus 122Bps compared to YTD June 2017 mainly related to a business mix shift due to the acquisitions. Excluding TruHearing, Gross Margin was 63.8%, minus 35Bps driven by planned portfolio extension to lower price points, promotions and country mix changes. In addition, the decrease was partly contributed by higher material cost due to platform changes and accessories.

Research and Development expenses

Total research and development costs incurred in YTD June 2018 amounted to EUR 55.2m. Capitalized Development costs amounted to EUR 18.1m and amortization of capitalized development costs amounted to EUR 6.9m. Total research and development costs expensed were 5.6% as a percentage of revenue both before and after effects of normalization items. As a result, the research and development expenses has been increased by EUR 4m with a revenue ratio of 5.6% compared to YTD June 2017.

Selling expenses

Total selling expenses in YTD June 2018 were 31.3% 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 29.8% as a percentage of revenue. As a result, the selling expenses has been increased by EUR 20.7m with a revenue ratio of 28.9% compared to YTD June 2017.

General Administration expenses

Total general administration expenses in YTD June 2018 were 10.1% as a percentage of revenue and include effects from normalization items. Excluding normalization items, total general administration expenses were 8.5% as a percentage of revenue. As a result, the general administration expenses has been increased by EUR 1.5m with a revenue ratio of 9.5% compared to YTD June 2017.

EBITDA and Adjusted EBITDA

EBITDA margin for YTD June 2018 of 20.3% includes the impact of normalization items. Adjusted EBITDA margin excluding these effects was 22.7%, minus 108Bps vs. previous financial year including negative FX translation effect of EUR 11m. In absolute terms, adjusted EBITDA was EUR 7m 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 Term Loan B tranches with outstanding balances as of 30 June 2018 of EUR 402.36m (B6) and USD 580.55m (B7) – after 0.25% quarterly principal repayments and converted into EUR 486.67m at the LTM average exchange rate of 1.1929. A new Term Loan EUR 225m (B8) and RCF facility EUR 48.75m were drawn to finance acquisition of TruHearing Inc, USA in April 2018. In addition, total Gross Debt includes the Senior Notes of EUR 285.1m and accrued interest on the Senior Notes.

Net Debt amounts to EUR 1,403.2m. 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 239.1m.

The above results in net leverage of 5.9x as of 30 June 2018.

Pro-forma interest was calculated at EUR 64.3m 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 June 2018
(in thousands of EUR, except where otherwise stated)

	<u>01 April 2018 to 30 June 2018</u>	<u>01 April 2017 to 30 Jun 2017</u>
Revenue	299,792	242,767
Cost of goods sold	(135,320)	(101,044)
Gross profit	<u>164,472</u>	<u>141,723</u>
Research and development expenses	(15,627)	(14,975)
Selling and general administration expenses	(122,195)	(100,590)
Other operating income	3,591	309
Other operating expenses	(2,834)	(103)
Share of profit of associate, net of tax	(17)	(48)
Gain on deemed disposal of investment in associate	704	-
Interest income	2,605	1,677
Interest expenses	(21,009)	(19,933)
Other financial income, net	(39,062)	53,303
(Loss)/profit before income taxes	<u>(29,372)</u>	<u>61,363</u>
Income taxes	(11,779)	(12,770)
Net (loss)/profit	<u>(41,151)</u>	<u>48,593</u>
Attributable to:		
Non-Controlling Interests	115	(788)
Owners of the Company	(41,266)	49,381

Unaudited

Unaudited

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

	30 June 2018	30 September 2017
Assets		
Current assets		
Cash and cash equivalents	50,198	111,692
Trade receivables	197,946	157,942
Other current financial assets	25,905	19,629
Inventories	77,799	48,119
Current income tax assets	5,758	2,597
Other current assets	27,665	22,539
Total current assets	385,271	362,518
Non-current assets		
Goodwill	1,643,338	1,416,568
Other intangible assets	716,352	607,193
Property, plant and equipment	79,099	66,655
Investments accounted for using the equity method	3,968	6,160
Other financial assets	40,431	67,659
Deferred tax assets	35,872	49,506
Other assets	6,352	5,715
Total non-current assets	2,525,412	2,219,456
Total assets	2,910,683	2,581,974
Liabilities and equity		
Current liabilities		
Short-term debt and current maturities of long-term debt	59,479	4,678
Trade payables	104,893	73,053
Other current financial liabilities	24,228	18,596
Current provisions	34,086	31,855
Current income tax liabilities	22,373	31,009
Other current liabilities	66,394	69,439
Total current liabilities	311,453	228,630
Non-current liabilities		
Long-term debt	1,348,904	1,122,115
Post-employment benefits	10,800	12,139
Deferred tax liabilities	123,914	106,819
Provisions	16,118	14,368
Other financial liabilities	17,007	6,483
Other liabilities	18,554	14,914
Total non-current liabilities	1,535,297	1,276,838
Total liabilities	1,846,750	1,505,468
Equity		
Share Capital	31	31
Capital Reserve	1,047,108	1,047,108
Retained Earnings	21,437	24,281
Reserves	(13,530)	(3,643)
Total equity attributable to owners of the Company	1,055,046	1,067,777
Non-controlling interests	8,887	8,729
Total equity	1,063,933	1,076,506
Total liabilities and equity	2,910,683	2,581,974
	<i>Unaudited</i>	<i>Audited</i>

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

	01 Apr 2018 to 30 Jun 2018	01 April 2017 to 30 Jun 2017
Cash flow from operating activities		
Net (loss)/profit	(41,151)	48,593
Adjustments to reconcile net profit to cash provided		
Amortization and depreciation	27,820	25,224
Income tax expense, net	11,779	12,770
Interest expense, net	18,404	18,256
Gain on deemed disposal of investment in associate	(704)	-
Losses on sales and disposals of intangibles and property, plant and equipment, net	22	85
Share of profit of associate, net of tax	17	48
Other non-cash income	26,781	(33,876)
Change in current assets and liabilities:	(17,594)	68
<i>Decrease/(increase) in inventories</i>	144	(359)
<i>Increase in trade and other receivables</i>	(13,082)	(245)
<i>Decrease/(increase) in other current assets</i>	34	(716)
<i>Decrease in trade payables</i>	(8,511)	(7,608)
<i>Increase in current provisions</i>	2,828	383
<i>Increase in other current liabilities</i>	993	8,613
Change in other assets and liabilities	27,052	(29,344)
Income taxes paid	(15,703)	(7,484)
Interest received	503	294
Net cash provided by operating activities	37,226	34,634
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(15,380)	(11,585)
Purchase of investments in Associate/others	6,726	(5,293)
Acquisitions of subsidiaries and from asset deals, net of cash	(294,777)	(591)
Proceeds from disposal of intangibles and property, plant and equipment	955	149
Net cash used in investing activities	(302,476)	(17,320)
Cash flows from financing activities		
Transaction costs paid for issuance of SFA and senior notes	(1,000)	(513)
Proceeds of long-term and short term debt	273,924	22
Repayment of long-term and short term debt	(2,890)	(2,347)
Interest paid	(12,335)	(9,912)
Change in short-term debt and other financing activities	(98)	(628)
Net cash provided by/(used in) financing activities	257,601	(13,378)
Effect of exchange rates on cash and cash equivalents	(17,381)	4,058
Net (decrease)/increase in cash and cash equivalents	(25,030)	7,994
Cash and cash equivalents at beginning of period	75,228	61,447
Cash and cash equivalents at end of period	50,198	69,441

Unaudited

Unaudited

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

Leverage

Priority Net	EUR
Priority Gross	1,161.8
Cash	(44.8)
Net Priority Debt	1,117.0
Leverage	4.7x

Total Net	EUR
Gross Debt	1,447.9
Cash	(44.8)
Net Total Debt	1,403.2
Leverage	5.9x

Fixed Charge Coverage Ratio

Total Net	EUR
Total PF interest	64.3
Adjusted EBITDA (LTM) ¹	239.1
Fixed Charge Coverage Ratio	3.7x

¹ LTM Consolidated EBITDA calculated as per SFA definition