

# **Interim Report**

## **Q2 FY'16**

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

- Sivantos continued its strong performance across all three regions in Q2 2016. The completion of binax portfolio and launch of primax resulted in 7.2% organic growth<sup>1)</sup>.
- Gross-profit margins were lower due to channel mix and inventory revaluation from lower unit manufacturing costs among others. The slowdown of organic growth and the compression of gross margin reflect the life cycle stage of binax and primax as the full portfolio across all price points of binax has been launched in October 2015 affecting product and country mix and as primax is just in the process of being launched.
- Adjusted EBITDA margin decreased to 21.6% driven by operating expenses of new acquisitions and lower gross margin as previously stated. Moreover, the adjusted EBITDA margin is currently negatively impacted by investments into future growth including the accelerated roll out of audibene, Sivantos' global online retail platform, and tools to increase sales force effectiveness.
- Trade Working Capital was supported by the improvement in trade payables offsetting higher trade receivables and inventory due to product launches.

### **Note:**

The financial information for Q2 2016 is unaudited. The financial statements have been prepared based on IFRS. The comparative numbers presented in the Q2 2016 Interim Report have been prepared based on audited Consolidated Financial Statements for the Financial Stub-Period 01 January to 30 September 2015 of Auris Luxembourg II S.A and its subsidiary companies.

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 in the Consolidated Financial Key Figures although the two are not directly comparable.

<sup>1)</sup> As per new definition, 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 the Quarter ending 31 March 2016**

in mn. EUR	Q2 FY'16	Proforma <sup>1)</sup> FY'15
<b>Revenue</b>	223.5	835.3
<i>Organic Growth % <sup>2)</sup></i>	7.2%	10.5%
<b>Gross Profit</b>	127.2	476.7
%	56.9%	57.1%
<b>R&amp;D</b>	-12.4	-54.7
%	-5.6%	-6.6%
<b>SG&amp;A</b>	-102.1	-344.7
%	-45.7%	-41.3%
<b>EBIT</b>	12.9	68.0
%	5.8%	8.1%
<b>EBITDA</b>	40.5	162.4
%	18.1%	19.4%
<b>Adj. EBITDA</b>	48.3	205.9
%	21.6%	24.7%

<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.

<sup>2)</sup> As per new definition, baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

## **MD&A:**

### **Revenue**

Sivantos Group delivered topline growth of 9% in Q2 2016, which translates to 7% organic growth<sup>1)</sup> (pf). The growth was supported by completion of the binax portfolio and successful launch of the primax platform. All regions had a favourable (organic<sup>1)</sup>) performance with Asia/Pacific (APAC) 9%, Europe including Middle East & Latin America (EMEA-LA) 8% and North America (NA) growing 6%.

### **Gross Margin**

The gross margin in Q2 2016 was 57%. 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 Q2 2016 was 63% benefitting from the increase in revenue as explained above.

### **Research and Development expenses**

Total research and development costs incurred in Q2 2016 amounted to EUR 14 million. Capitalized Development costs amounted to EUR 2 million and amortization of capitalized development costs amounted to EUR 1 million. Total research and development costs expensed were 6% 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 and primax.

### **Selling expenses**

Total selling expenses in Q2 2016 were 34% 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 29% as a percentage of revenue.

### **General Administration expenses**

Total general administration expenses in Q2 2016 were 12% as a percentage of revenue and include effects from normalization items. Excluding these effects total general administration expenses were 10% as a percentage of revenue.

### **EBITDA and Adjusted EBITDA**

EBITDA margin for Q2 2016 of 18% includes the impact of normalization items, lower gross margin as previously stated, operating expenses of new acquisitions, accelerated audibene roll-out and investment into sales force effectiveness tools to support future growth. Adjusted EBITDA margin was 22%.

<sup>1)</sup> As per new definition, baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

## **Leverage**

Our Priority Gross Bank Debt includes the Term Loan B tranches with outstanding balances as of 31 March 2016 of EUR 302.0 mn (B3) and 109.7mn (B5), USD 594.0 mn (B4) – after 0.25% principal repayment and converted into 539.5 mn EUR at the LTM average exchange rate of 1.10100 – 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 1,224.5 mn. This includes Cash&Cash Equivalents adjusted for Cash not readily available as per definition of the Senior Facility Agreement.

Adjusted LTM EBITDA was at EUR 200.0 mn adjusted for non-recurring items.

The above results in net leverage of 6.1x as of 31 March 2016.

Pro-forma interest was calculated at EUR 63.9 mn, including 4.25% p.a. (Margin plus 1% floor) on TLB after inclusion of the newly issued Term Loan B5, 8.00% p.a. on the Notes and 3.75% on the RCF (utilized portion) as well as including the non-utilization fee for the remainder of the RCF.

**AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the Quarter ending 31 March 2016**  
**(in thousands of EUR, except where otherwise stated)**

	<b>01 January to 31 March FY2016</b>	<b>01 January to 30 September FY2015</b>
Revenue	223,494	611,672
Cost of goods sold	(96,249)	(269,497)
Gross profit	127,246	342,175
Research and development expenses	(12,446)	(39,986)
Selling and general administration expenses	(102,144)	(274,852)
Other operating income	420	64
Other operating expenses	(220)	(3,569)
Interest income	1,755	3,424
Interest expenses	(20,573)	(56,315)
Other financial income (expenses), net	13,822	(33,296)
Income before income taxes	7,860	(62,355)
Income taxes	4,418	7,111
<b>Net income/(loss)</b>	<b>12,278</b>	<b>(55,244)</b>
Attributable to:		
Non-Controlling Interests	(26)	1,627
Owners of the Company	12,304	(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 March 2016**  
**(in thousands of EUR, except where otherwise stated)**

	<b>31 March</b>	<b>30 September</b>
	<b>FY2016</b>	<b>FY2015</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	24,020	38,876
Trade receivables	131,921	119,760
Other current financial assets	13,354	19,865
Inventories	82,145	81,326
Current income tax assets	2,831	2,501
Other current assets	20,063	19,032
<b>Total current assets</b>	<b>274,334</b>	<b>281,361</b>
Non-current assets		
Goodwill	1,406,438	1,405,755
Other intangible assets	706,490	742,953
Property, plant and equipment	63,218	64,658
Other financial assets	19,078	14,210
Deferred tax assets	46,574	44,517
Other assets	6,010	6,136
<b>Total non-current assets</b>	<b>2,247,808</b>	<b>2,278,229</b>
<b>Total assets</b>	<b>2,522,142</b>	<b>2,559,589</b>
<b>Liabilities and equity</b>		
Current liabilities		
Short-term debt and current maturities of long-term debt	37,033	48,540
Trade payables	71,766	73,569
Other current financial liabilities	16,570	16,106
Current provisions	29,441	30,403
Current income tax liabilities	11,936	11,672
Other current liabilities	52,017	66,815
<b>Total current liabilities</b>	<b>218,763</b>	<b>247,105</b>
Non-current liabilities		
Long-term debt	1,120,754	1,028,471
Post-employment benefits	11,153	11,859
Deferred tax liabilities	101,048	121,212
Provisions	13,777	13,682
Other financial liabilities	42,643	30,139
Other liabilities	17,683	17,846
<b>Total non-current liabilities</b>	<b>1,307,058</b>	<b>1,223,208</b>
<b>Total liabilities</b>	<b>1,525,821</b>	<b>1,470,313</b>
Equity		
Share Capital	31	31
Capital Reserve	1,047,108	1,155,058
Retained Earnings	(64,266)	(74,504)
Reserves	4,480	(183)
Total equity attributable to owners of the Company	<b>987,353</b>	<b>1,080,402</b>
Non-controlling interests	8,968	8,875
<b>Total equity</b>	<b>996,321</b>	<b>1,089,277</b>
<b>Total liabilities and equity</b>	<b>2,522,142</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 March 2016**  
**(in thousands of EUR, except where otherwise stated)**

	<b>01 January to 31 March FY2016</b>	<b>01 January to 30 September FY2015</b>
<b>Cash flow from operating activities</b>		
Net income/(loss)	12,278	(55,244)
Adjustments to reconcile net loss to cash provided		
Amortization and depreciation	27,636	86,005
Income tax (income) expense, net	(4,418)	(7,111)
Interest expense, net	18,818	52,891
Losses on sales and disposals of intangibles and property, plant and equipment, net	(317)	847
Losses on disposals and impairm. of afs fin. assets	-	1
Other non-cash expenses	(22,294)	40,304
Change in current assets and liabilities:	(26,725)	(11,072)
<i>(Increase) decrease in inventories</i>	4,680	3,941
<i>(Increase) decrease in trade and other receivables</i>	(13,690)	(2,014)
<i>(Increase) decrease in other current assets</i>	7,195	(18,836)
<i>Increase (decrease) in trade payables</i>	3,668	(11,459)
<i>Increase (decrease) in current provisions</i>	834	(2,441)
<i>Increase (decrease) in other current liabilities</i>	(29,412)	19,737
Change in other assets and liabilities	30,307	18,743
Income taxes paid	(4,776)	(11,875)
Interest received	154	447
<b>Net cash provided by (used in) operating activities</b>	<b>30,663</b>	<b>113,937</b>
<b>Cash flows from investing activities</b>		
Additions to intangible assets and property, plant and equipment	(9,890)	(25,122)
Purchase of investments	(2,069)	-
Acquisitions, net of cash	(813)	(1,976,503)
Proceeds from disposal of intangibles and property, plant and equipment	401	2,309
<b>Net cash provided by (used in) investing activities</b>	<b>(12,371)</b>	<b>(1,999,316)</b>
<b>Cash flows from financing activities</b>		
(Redemption)/proceeds from capital contribution without issuance of new shares	(107,950)	937,139
Change in other financing activities	17	-
Transaction costs paid for issuance of SFA and senior notes	(2,547)	(42,963)
Proceeds of long-term and short term debt	110,000	1,101,312
Repayment of long-term and short term debt	(2,379)	(24,212)
Interest paid	(20,164)	(47,070)
<b>Net cash provided by (used in) financing activities</b>	<b>(23,023)</b>	<b>1,924,206</b>
Effect of exchange rates on cash and cash equivalents	2,779	31
Net increase (decrease) in cash and cash equivalents	(1,951)	38,858
Cash and cash equivalents at beginning of period	25,971	18
<b>Cash and cash equivalents at end of period</b>	<b>24,020</b>	<b>38,876</b>
	<i>Unaudited</i>	<i>Audited</i>



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

**For the period ended 31 March 2016**

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

**Leverage**

<b>Priority Net</b>	<b>EUR m</b>
Priority Gross	966.2
Cash	(16.7)
<b>Net Priority Debt</b>	<b>949.5</b>
<b>Leverage</b>	<b>4.7x</b>

**Total Net**

	<b>EUR m</b>
Gross Debt	1,241.2
Cash	(16.7)
<b>Net Total Debt</b>	<b>1,224.5</b>
<b>Leverage</b>	<b>6.1x</b>

**Fixed Charge Coverage Ratio**

<b>Total Net</b>	<b>EUR m</b>
Total PF interest	63.9
Adjusted LTM EBITDA	200.0
<b>Fixed Charge Coverage Ratio</b>	<b>3.1x</b>