



## Annual General Meeting in Ambu A/S

### Management's review

#### CHAIRMAN OF THE BOARD JENS BAGER

For Ambu, the 2012/13 financial year was characterised by a number of major and in fact quite monumental events. Events which will contribute to strengthening Ambu and shaping the future of the group.

The most significant single event was, of course, the acquisition of the US company King Systems. For a couple of years, we had been looking to acquire a company which could contribute to transforming Ambu, and King Systems fitted the bill. The acquisition roughly doubled Ambu's revenue in the USA – and so the world's largest economy and the world's largest market for medico-technical equipment became Ambu's new main market. At the same time, King Systems' approx. 2,000 products supplemented and strengthened Ambu's portfolio within Anaesthesia, very clearly turning Ambu into a leading global supplier of single-use anaesthesia products and providing access to new market segments. Finally, the acquisition paved the way for a number of synergies which are expected to be realised in full this year.

King Systems was a big mouthful, but the integration of the acquired company has been successfully completed according to the schedules and action plans agreed prior to the takeover in February. Not everything went completely according to plan, and there have certainly been challenges along the way, but we have basically proved that Ambu has the systems, management and resources needed to integrate a company the size of King Systems, and fairly painlessly at that. This is an important achievement when it comes to future acquisitions.

The acquisition of King Systems was financed through the issue of corporate bonds worth just over DKK 700m. Ambu was more or less the first medium-sized Danish company to enter the corporate bond market which had previously been reserved for the biggest groups. This meant that we were able to arrange attractive long-term financing on terms which could never have been obtained through traditional bank financing. The result is greater strategic latitude, and hopefully we will be able to avail ourselves of this source of financing in future.

In the slipstream of the acquisition of King Systems, Ambu in the USA entered into its largest customer contract ever: A three-year exclusive contract with the Healthtrust Purchasing Group. HPG is one of the largest US purchasing organisations and in charge of procurement for more than 1,000 hospitals and 4,000 general members. The contract has a potential sales value of more than DKK 350m over three years and illustrates the fact that our Anaesthesia portfolio is now so complete that we can realistically hope to enter into more contracts with the large general purchasing organisations.

As the last major event within Anaesthesia, a new version of the sterile single-use videoscope aScope, aScope3, with the newly developed aView monitor, was launched in selected European countries and in Australia. In some markets, the sales generated by aScope3 in just six weeks were equal to the annual sales of its predecessor, aScope2. The FDA has just approved the launch of aScope3 in the USA next month, and the product is also being rolled out in Asia and the rest of Europe. We believe that it will be a strong driver of growth.

Slightly dwarfed by the major acquisition of King Systems, another acquisition was made within the PMD product area which is also opening up interesting vistas, the takeover of the UK company First Water Heathcote. This acquisition gave access to adhesive gels which are a critical component in electrodes. Also, it paved the way for a restructuring of the electrode production, which will allow Ambu to increase its earnings from the WhiteSensor electrodes acquired from Unomedical in May last year. This will boost PMD earnings in future.

Another major event which I would like to mention is Ambu's new strategy plan – Climbing New Heights – which was adopted by the Board of Directors this autumn. The plan covers the period up until and including 2017. And now I would like to ask President & CEO Lars Marcher to explain the key figures for the financial year and the main elements in the new strategy plan.

## **PRESIDENT & CEO LARS MARCHER**

Thank you. I will start by looking at the results for the 2012/13 financial year and especially Q4 because this is the first quarter which sees the full effect of the integration of Ambu and King Systems. In Q2 and Q3 a lot of efforts were devoted to the integration of King Systems, to establishing new systems, to the combination of the sales forces and much else besides, whereas Q4 saw a much stronger focus on sales and the business.

We are therefore very pleased that Q4 turned out to be the best and greatest quarter in Ambu's history. Revenue was up 42%, topping DKK 400m, and quite importantly, we regained our momentum in the USA, posting organic growth of 9%. Moreover, the economies of scale resulting from the acquisition of King Systems started materialising, reducing the effective rate of cost to 33.7%. The primary operating income (EBIT) increased to DKK 59m before special items – up DKK 45m compared with the prior-year period.

This represents a strong finish and is a good indicator of what Ambu is capable of after the acquisition of King Systems.

Looking at the financial year as a whole, Ambu reported double-digit growth rates in all markets following the acquisition of King Systems. Organic growth of 3% was posted in the USA, where we have established two separate sales forces for Anaesthesia and PMD, which really started proving their worth towards the end of the year. In Europe, organic growth of 8% was realised, and Ambu again won market share in markets which have generally been marked by the economic crisis and a tightening of public spending. Finally, organic growth of 11% was realised in the overseas markets as a whole. Growth of 16% was achieved in Asia where Ambu has in recent years invested in building a platform of salespeople, supporters, distributors and logistics.

All product areas grew more than the underlying markets. We have already heard about Anaesthesia, so let me comment a bit on PMD and Emergency Care:

PMD realised organic growth of 6%. In 2012/13, Ambu could for the first time market a full range of single-use electrodes for diagnostics, monitoring and outpatient treatment. This boosted sales – both of the

acquired WhiteSensor electrodes and of our traditional BlueSensor electrodes. Emergency Care realised growth of 9% due to an increase in demand for especially neck collars and manikins.

The resulting key figures can be summarised as follows: Revenue was up 32% at approx. DKK 1.4bn. King Systems alone contributed DKK 242m, while robust organic growth of 6% was realised across Ambu's product areas.

The gross margin fell to 49.1%, which was largely in line with expectations. The margins of the acquired activities in King Systems, Unomedical's electrode business and First Water Heathcote are generally lower than for Ambu's other activities. Results are also affected by the allocation of the purchase price for King Systems, and finally the margins of the large HPG contract will be relatively low until volumes reach a sufficiently high level for economies of scale to be realised both in production and in sales.

Throughout the year, we maintained a strong focus on increasing productivity and realising economies of scale, and it worked. Costs were up 24% after recognition of the acquired companies, but as revenue was up 32%, the effective rate of cost fell, despite the fact that the new Medical Device Tax introduced in the USA translated into additional costs of DKK 12m for Ambu.

The profit before interest, tax, depreciation and amortisation (EBITDA) before special items increased to DKK 235m, while the operating profit (EBIT) before special items stood at DKK 161m. Special items amounted to DKK 61m in the form of costs which Ambu has undertaken following the acquisition of King Systems and the restructuring of production in the UK.

After financial items and tax, a net profit of DKK 48m was returned, a result which is quite heavily impacted by special items and other events associated with the acquisition of King Systems. Fortunately, next years' financial statements will be more straightforward and easier to compare without special items.

In 2012/13, we brought to a close the GPS4 strategy which has steered Ambu's development over the past four years. It was an ambitious strategy, and I am pleased to say that we came a very long way towards realising the targets.

In four years, Ambu has been transformed from a company with a predominantly Danish cost base and a mainly European sales focus into a global company – with global production in the USA, the UK, Malaysia and China, with global logistics and a global supply chain, with global development activities in Denmark, the USA, the UK, China and Malaysia, with global sales and global systems.

Ambu has strengthened its position in all markets following three-digit growth rates in the USA and Asia and sound growth in Europe. Moreover, we have made a mark for ourselves in all segments, with our most important products often ranking 1st, 2nd or 3rd.

Profitability has been improved. Revenue is up approx. 60%, while the operating profit has increased approx. 50% in four years. The old Ambu attained a profit margin of 15% before time.

We have become more innovative even though we did not manage to fulfil the objective of generating 30% of revenue from new products. We simply did not predict accurately enough how swiftly the aScope would be embraced by the market, and consequently new products ended up accounting for 15% of sales.

We have created a more attractive and more focused workplace. And we have shown that Ambu is a good home to three successful and well-integrated acquisitions.

Consequently, we have delivered on five of the six key objectives in the GPS4 strategy. Ambu started the strategy period as a small player, as one among many small suppliers, but is ending the strategy period as the smallest of the biggest global suppliers.

Ambu has strengthened its visibility and presence in the market and is now a group with two growth platforms within Anaesthesia and PMD, two more or less equally large product areas with considerable potential.

With the new Climbing New Heights strategy Ambu will, in the next four years, further develop its position as a leading supplier of single-use products for anaesthesia and patient monitoring.

Ambu will grow. Ambu will win market share and boost growth compared to the growth rates attained during the GPS4 strategy period: From annual organic growth of 5-6%, Ambu will grow an average 8-10% a year. Five levers will raise the company to new growth heights:

The first is visualisation – a market with considerable potential where anaesthetists use aScope3 to visualise the patients' airways. aScope3 was launched at the end of 2012/13 and contributed to a doubling of sales of scopes, and we expect another doubling this year. With aScope3 we address a potential 3 million procedures annually, while version 2 addressed only a third of this. We also see healthy growth potential for the King Vision laryngoscope from King Systems. King Vision has been in the market for a couple of years, and the product is selling well to rescue services and ambulances. However, it has been too expensive for hospitals to buy great quantities. We will soon be launching a new version with cheaper single-use blades which will make it possible to penetrate the hospital segment.

The next focus area is the optimisation of the portfolio of traditional products. New products are being developed within Anaesthesia and PMD as well as Emergency Care. Sales of these products will be more focused and effective and conducted by salespersons who are better trained to provide advice on the products, on their cost-effectiveness and the benefits offered with regard to hygiene and hospital routines.

Cross sales will be strengthened generally – and especially within Anaesthesia where King Systems has not been particularly active outside the USA. This will all change once Ambu's sales forces in Europe and Asia start marketing the King Systems products.

Moreover, Ambu is looking at those parts of the world which have not yet been targeted. Ambu is currently not represented in countries like Russia, Brazil and Mexico, and in other parts of the world – for example Eastern Europe, Latin America and Asia – it is possible to develop the sales channels and start targeting new market segments.

We will also seek to enter into partnerships with other companies. Such partnerships may focus on development. Or they may be partnerships where Ambu licenses a product as has been the case with the single-use pump SmartInfuser Pain Pump for pain management. The partnerships may also involve making technology available to a partner operating in other markets than Ambu. We have done so with Ascope in the veterinary market, and aScope is a natural candidate for new partnerships.

We are convinced that these focus areas will help us increase organic growth to produce revenue of DKK 2bn by the end of 2017. It took us 75 years to reach the first billion – we believe that we can hit the 2 billion kroner mark within 4-5 years.

I'm not saying it will be easy. In fact, we must grow in markets where there will be no end to the challenges. Sales prices are under constant pressure, most evidently so in Southern Europe, but also in other mature markets in Europe and to some extent in North America. Customers are phasing out expensive products and going for the low-price versions, where possible. Customers are establishing purchasing organisations to obtain economies of scale and discounts. And hospitals and rescue services are fierce in their demand for documentation of the benefits of the individual products, in financial terms and with respect to work routines and processes.

In other words, the pressure will be on. On the other hand, Ambu is in a better position than most. Firstly, most of Ambu's products are critical – they are the products which you find within a radius of 1 metre in the operating theatres, and products which are so critical and life-saving will not just be phased out in favour of a Chinese copy. Secondly, Ambu welcomes the stronger focus on product economy and utility value as single-use products are cost-effective and very much facilitate the control of bacteria and infections, which is a huge problem in many hospitals worldwide.

Consequently, we believe in our growth target even if markets are under pressure, and in addition to further organic growth, we still have an appetite for acquisitions. We are very close to having 'digested' King Systems, and we expect a strong cash flow to quickly reduce Ambu's debt to a level which does not preclude further acquisitions. There are perhaps 5-10 stand-alone companies which can strengthen our position, but single products and technologies are also interesting.

In the next four years, we will also increase Ambu's profit margin to 17-18%. Again, we are launching a broad range of initiatives. The most important of these are:

Continued streamlining of our factories and supply chain. We must incessantly automate and improve our processes to ensure that our production remains the most cost-effective in the industry.

The launch of new products with higher margins, for example within visualisation.

Optimisation of prices and products to generate sales of more high-margin products.

And finally economies of scale from the acquisitions made in procurement, production, sales, the administration etc.

They are the objectives and the most important focus areas in Climbing New Heights. I am looking forward to standing here in four years' time and to reporting that we actually made it to some of the tops. Thank you.

## **CHAIRMAN OF THE BOARD JENS BAGER**

Thank you, Lars, for elaborating on the key figures and the new strategy.

I will now talk a bit more about the financial statements. As Lars mentioned, the Ambu group returned a net profit of DKK 48m, while the parent realised a profit of DKK 49m. The Board of Directors proposes the distribution of dividend of DKK 15m, corresponding to DKK 1.25 per share, and that the remaining profit of DKK 33m be transferred to reserves.

The proposed dividend corresponds to 31% of the consolidated profit. According to Ambu's dividend policy, we generally distribute about 30% of the profit as dividend. The proposed dividend thus complies with the dividend policy. In the view of the Board of Directors, this is an expedient level, given Ambu's financial reserves and expected future results.

In addition to the dividend, the shareholders have earned a very satisfactory return in the form of increases in the price of the Class B share. The share price increased by 50% in the course of the financial year, which is a somewhat higher increase than those seen for comparable shares in both the NASDAQ OMX MidCap index and in the Health Care index. In the new financial year, the price has increased further, so that the market value of all shares now exceeds DKK 3bn.

The price increases have gone hand in hand with a steadily growing interest in the share. Trading in the share has thus more than doubled. Ambu's size and market presence are now such that the company is attracting interest from several large institutional investors both in Denmark and abroad. In other words,

Ambu is attracting attention from several quarters due to its results and future prospects – and also because the management is devoting a lot of energy to communicating with professional and private investors as well as share and financial analysts. These are important efforts which help ensure that the share price reflects both the actual and expected value creation in the company.

Let me round off this review by detailing the outlook for 2013/14 of which two months have already passed.

We do not expect market conditions to change significantly. Europe will remain difficult, with low market growth due to modest economic growth, pressure on public health budgets, fierce competition and price pressure. In the USA, market conditions are expected to improve slightly, while Asia and South America will continue to see strong growth in demand. Unfortunately, Ambu generates only just over 10% of revenue in these emerging markets.

Even though we will not have much wind behind us in the main markets in the USA and Europe, we still believe that we will be able to increase Ambu's revenue by approx. 15% to about DKK 1.6bn. Just under half of this growth will be organic, while King Systems will contribute the rest from being included in the financial statements for the whole year as opposed to 7.5 months last year.

In all geographical areas, we expect Ambu to be able to continue to grow faster than both the markets and its competitors. We expect to see higher cross sales within Anaesthesia because our salespeople are able to offer more products, while Ambu's own sales forces will take over sales of the King Systems products in Europe, and also elsewhere. Finally, we expect a greater contribution from new products with higher margins, especially the aScope3 videoscope and the King Vision video laryngoscope with the new aBlade single-use product.

The acquisition of King Systems is expected to produce synergies of DKK 40m, and in addition to such economies of scale we also expect margins generally to be slightly higher. However, the expected pressure on sales prices will absorb some of the margin improvements, and we therefore expect to end the year with a profit margin of 12-14% compared with 11.6% last year.

We will focus strongly on maintaining an efficient level of working capital and on keeping inventories as low as possible. Consequently, we expect to increase the free cash flows to DKK 100-120m before any acquisitions and payment of special items already expensed. A lower level of working capital and improved operating income are also expected to help reduce the net interest-bearing debt to about 2.5 times EBITDA against 3.1 times last year.

We have had a good start to the year, and we are convinced that we will keep the momentum going and in the 2013/14 financial year take the first determined steps towards realising our financial and strategic targets for the next four years which Lars Marcher mentioned earlier.

I mentioned in my introduction that 2012/13 was a hectic year with major events and far-reaching decisions, and I therefore want to say a big thank-you to the Executive Board, members of the management and Ambu's employees for their dedicated and targeted efforts. A lot of hard work has gone into making things happen, and a high level of willingness to change has been shown, and the Board of Directors appreciates this.

These major events have, of course, also affected the work of the Board of Directors. We rolled up our sleeves and set to work. The Board of Directors held eight meetings last year, and with only one member being absent for one meeting, attendance was 98% for the members elected by the shareholders, and 100% for the employee representatives.

In addition to the Board meetings proper, activity levels increased markedly for the Board committees, especially the Audit Committee which convened seven times to consider the financial statements, reporting

and auditing. Moreover, the Nomination and Remuneration Committee held four meetings, among other things to evaluate the work and cooperation of the Board of Directors and the Executive Management Team, while also considering remuneration issues in general.

In the course of the year, the Board of Directors adopted a policy on diversity. Ambu has always wanted to create equal opportunities for everybody – regardless of gender, age, ethnic background and political and religious beliefs – and with the new policy we focus particularly on appointing more female managers.

The Board of Directors has also considered the new Recommendations on Corporate Governance which were published in May. There is only one recommendation which we do not comply with: Ambu does not disclose the remuneration paid to individual members of the Executive Board, but only the total remuneration paid to the Executive Board. We honestly believe that the distribution among the two members, Lars Marcher and Michael Højgaard, is a matter for them and the Board of Directors, and at the end of the day, the tax authorities. For the shareholders, the important thing is for them to be able to say whether the total remuneration paid to the Executive Board matches the efforts and performance of the Executive Board.

In the area of corporate governance, I must also mention that, based on a questionnaire and individual interviews, the Board of Directors has carried out an evaluation of its own work and the collaboration with the Executive Board. The evaluation generally showed satisfaction with the quality of material for the Board of Directors, meetings, collaboration and competences but also provided valuable input on themes which the Board of Directors should focus on and areas where there is scope for improvement, and all this has been incorporated into the plans for our future work. In future, both the Board of Directors and the committee will carry out self-evaluations every other year to ensure the optimum working and the right composition of the Board of Directors.

## Contact

Lars Marcher, President & CEO, tel. +45 5136 2490, e-mail: [lm@ambu.com](mailto:lm@ambu.com)

Ambu A/S  
Baltorpbakken 13  
2750 Ballerup  
Tlf. +45 7225 2000  
CVR-nr.: 63 64 49 19  
[www.ambu.com](http://www.ambu.com)

## About Ambu

Since 1937, breakthrough ideas have driven our work to bring efficient healthcare solutions to life within our fields of excellence: Anaesthesia, Patient Monitoring & Diagnostics and Emergency Care. Millions of patients and healthcare professionals worldwide depend and rely on the functionality and performance of our products. We are dedicated to improving patient safety and determined to advance single-use devices. The manifestations of our efforts range from early inventions like the Ambu bag and the legendary Blue Sensor® electrodes to our latest landmark solutions such as the aScope™ – the world's first single-use videoscope. Our commitment to bringing new ideas and superior service to our customers has made Ambu one of the most recognised medico-technical companies in the world. Our head office is situated in Ballerup near Copenhagen. Ambu has more than 2,200 employees in Europe, North America, Asia and the Pacific region. You can find more information about Ambu on our website: [www.ambu.com](http://www.ambu.com).