CORPORATE PARTICIPANTS

Cecilia Ketels  
Head-Investor Relations, Elekta AB

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Tobias Hägglöv  
Chief Financial Officer, Elekta AB

OTHER PARTICIPANTS

Patrick Wood  
Analyst, Bank of America Merrill Lynch

Erik Cassel  
Analyst, ABG Sundal Collier AB

Kristofer Liljeberg-Svensson  
Analyst, Carnegie Investment Bank AB

Rickard Anderkrans  
Analyst, Svenska Handelsbanken AB

Victor Forssell  
Analyst, Nordea Bank ABP

David Adlington  
Analyst, JPMorgan Securities Plc

Oliver Reinberg  
Analyst, Kepler Cheuvreux SA /Germany/

Julien Ouaddour  
Analyst, Exane BNP Paribas

MANAGEMENT DISCUSSION SECTION

Cecilia Ketels  
Head-Investor Relations, Elekta AB

Good morning, everyone, and warm welcome to the presentation of Elekta's Fourth Quarter and our Fiscal Year 2021/2022. My name is Cecilia Ketels, and I'm Head of Investor Relations at Elekta. With me here in Stockholm, I have Gustaf Salford, Elekta's President and CEO; and our CFO, Tobias Hägglöv, who will be presenting the results.

And today's agenda, start off with Gustaf presenting some highlights of our development and then Tobias will give you details on the financials, and the presentation ends with a view on Elekta's outlook. After the presentation, there will, as usual, be time for your questions.

But before we start, I want to remind you that some of the information discussed on this call contains forward-looking statements, and these can include projections regarding revenue, operating result, cash flow as well as products and products development. And these statements involve risk and uncertainties that may cause actual result to differ materially from those set forth in this statement.

And with that, I hand over to you, Gustaf.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB
Thank you, Cecilia, and hello, everyone. Thanks for joining the call here on our results on Q4 and also the full year. And I would like to start with ACCESS 2025, our strategy, and how we delivered on it in the full year, but also in Q4.

So, over the last year, we have truly accelerated our innovation investments to support the long-term growth and margin expansion of Elekta, and it has resulted in many product launches of versatile solutions across our portfolio. We continue to build strong customer partnerships, and in Q4, we signed a 10-year agreement with a leading Netherlands Cancer Institute, NKI-AVL. The agreement is focused on co-creation, adaptive and personalized workflows and treatment delivery solutions.

Also, in the UK, the NHS ordered multiple licenses for Elekta's ProKnow, a software solution with centralized and analyzes radiotherapy data in a secure scalable platform, accessible to the NHS radiation oncology facilities throughout England. We also drove partner integration across the cancer care ecosystem with IBA to optimize quality assurance, QA, solutions, and with GE Healthcare to enable us to provide hospitals with a comprehensive offering across imaging and treatment for cancer patients requiring radiation therapy. Kaiku Health, our leading cancer care digital therapeutics platform, and Roche, a leading global healthcare company, entered a strategic partnership in digital patient monitoring and management.

We are also driving adoption across the globe. We are well on track towards our ambition of giving 300 million people access to better cancer care before 2024/2025. This year, we installed Linacs in underserved markets that gave access to more than 60 million people. We also expanded into Indonesia, Turkey, and the Philippines with direct operations.

We have truly, truly fantastic people at Elekta. And I'm so proud of how Elekta's employees and partners have dealt with all the headwinds in the year, and I'm very pleased to see that our employee satisfaction and engagement also increased. We have driven several Resilience & Process Excellence initiatives across the value chain, which has enabled us to successfully install and serve our solutions, driving order and revenue growth also during restrictions and lockdowns. It is vital for Elekta that we deliver our solutions and services in a sustainable way. And in order to track performance of our sustainability initiatives, we have developed our science-based targets that are now ready for submission.

And if we now turn to our order and revenue situation and our focus areas, you can see that we're growing orders with 2% in the quarter and 4% for the year. And if you exclude the largest deal ever for Elekta last year, the underlying growth rate would be 8% for the years on orders. Our order backlog increased almost SEK 40 billion.

During the quarter, the geopolitical situation changed with the war in Ukraine, as well as COVID-related lockdowns in China. But our installations came in better than planned and revenue grew by 5% in the quarter and 4% for the year. To continue this development and drive profitable growth going forward, we are focusing on continued in – to mitigate the COVID and the supply chain disturbances, but also to address inflation by higher pricing and cost reduction activities from our Resilience and Excellence Program, and around cost measures and productivity initiatives across our processes.

And if we now take the regional perspective and turn to the order situation by region, you can see that Americas declined with 6% in the quarter, US having challenging comps. Canada continued to show good order growth for the fourth consecutive quarter, and South America was impacted by exchange rates and financing.

EMEA had a very strong growth of 16%, received the first order from the region of Spanish hospitals that was linked to the large public tender, and the Middle East and Africa continued to grow strongly. The success of
Elekta's geographic expansion strategy continued as Egypt and Turkey remained the main growth drivers for the region.

Order intake in APAC decreased by 5%, driven by weaker development in some countries in East Asia and in India. And in China, Elekta continued its market leading position, but order intake was somewhat softer than last year due to an overall slower market. The strong order growth in Australia continued and Philippines, where Elekta opened our direct operations, also showed good growth in the quarter. And you can find some exciting orders in the bottom half of the slide.

If you now take a look at our portfolio of solutions and products, you can see that Elekta has today most comprehensive portfolio in the radiotherapy industry. And if you look across our business line, you'll find Oncology Informatics, Linac, Brachy, and Neuro Solutions. We've also made these recent launches in all business lines with MOSAIQ, Elekta Harmony, Elekta Studio, and now most recently, Elekta Espirit.

During the year, we have accelerated our innovation and our gross R&D as a percentage of sales has increased, but will stabilize and reduce over time. The focus has been and will continue to be on the investments in our family of Linacs, the Unity platform and software solutions across the portfolio and the business lines.

But now, I have to say a couple of words on our recent launch of Elekta Espirit that we did at the Conference ESTRO here just a couple of weeks ago. And it is in the same year that Elekta is turning 50-year. And this launch is very important for us because it's the latest and most advanced radiosurgery solution and it enables more personalized radiosurgery with submillimeter accuracy and treatment planning in less than 60 seconds.

It is more patient-friendly treatments and the degree of precision is able to protect the mind and the person and is truly enabling a higher quality of life. And I'm also proud to say that we actually received our first order now for Elekta Espirit from Sheffield in the UK.

And now to an update on the momentum around Unity. So, Unity, as you know, is a groundbreaking cancer treatment solution, giving clinicians the ability to visualize tumors during the treatment. And the system is the world's first and only high-field MR-Linac. During ESTRO, more than 70 clinical abstracts were published relating to Unity and I would like to highlight three out of these.

Firstly, the latest update from the MOMENTUM study reported outcomes from over 40 different disease sites in 1,800 patients. One paper showed that the patients receiving full online adaptive personalized treatment, there was no severe toxicity that was recorded and that's a very strong result.

Secondly, an abstract from Odense in Denmark reported on the feasibility of treating pancreas cancer patients with a dose that is nearly double what is typically used for this treatment-resistant tumor type. There were no severe side effects in the patients treated on Elekta Unity. And we take this as more evidence that indeed seeing what you treat matters.

Thirdly, a team from Princess Margaret Cancer Centre in Toronto demonstrated how MR-guided adaptation resulted in more favorable protection in a prostate treatment. There were no acute toxicity with MR guidance. These reassuring results give our user community the hope that the MR guidance will enable them to push hyperfractionation even further in the care of prostate cancer, making treatments even more cost-effective than they already are.
Our MR-Linac Consortium, which will have their semi-annual meeting here in June, have 16 clinical trials ongoing, and the first ongoing trials will be completed here in 2023. And I must also say that we reached a key milestone when we presented our comprehensive motion management at ESTRO. This is the first non-invasive, true 3D target tracking on the market. It is also important to stress that we track their tumor in three planes, not only vertical, but also horizontal and in depth.

So, how is the continued rollout of Unity growing across the globe? And here I'm proud to announce that in total, more than 120 MR-Linacs had been ordered since the launch. And despite the challenging circumstances of having global installation teams during the pandemic, we've managed to install another 17 Unity systems since our Capital Markets Day in June last year. And we now have more than 60 systems installed or under installation with relatively even distribution among our three geographic areas, as you see here on the map on the slide.

And with that update, I would like to hand it over to Tobias.

**Tobias Hägglöv**

*Chief Financial Officer, Elekta AB*

Thank you, Gustaf. And good morning, everyone. I will start with the Q4 financials. With a strong finish of the quarter, revenues grew by 5% despite the challenging market conditions. Americas and APAC had strong growth of 11% and 8%, respectively. Growth in Europe was in line with previous year adversely impacted by the war in Ukraine.

Our Solutions operations grew by 6% with good growth in our Linac and Brachy businesses. Gross margin in the quarter was 37%, resulting in a sequential improvement from the third quarter, while down year-over-year. I will come back to this gross margin development in more detail. Our operating margin declined by 150 basis points while earnings per share increased driven by higher EBIT and a lower finance net.

Let's turn slide and talk about our expenses in the fourth quarter. Selling expenses increased by 15% in the fourth quarter, partly as a result of more customer-relating activities. In addition, we have also made a provision of SEK 18 million related to the war in Ukraine. Our administrative expenses declined sequentially as well as year-over-year as a result of increased cost control. Net R&D decreased. Capitalization was higher since more projects (00:14:38) are moving to capitalization phases, while amortization declined year-over-year, mainly as a result of the fully amortized Unity software. All-in-all, expenses grew by 1% year-over-year in constant exchange rates.

Let's look into our R&D development in more detail. In line with our strategy and our plan, we have accelerated our investments in innovations. For those of you that participated at the investor conference, you can recognize the launch of the Elekta Esprit. You could also recognize our emphasis to further strengthen our product portfolio. Gross R&D as a percent of sales amounted to 14% by the end of this year. And as you noticed from the slide presented by Gustaf, this will, as a percentage of sales, first stabilize and then come down in coming years.
Now, let's look into the full-year financials. For the full year, our revenues grew by 4%. All regions grew, and sales of Solutions as well as Services increased year-over-year. Our gross margin has been adversely impacted by inflation and higher costs within supply chain logistics and service. This was partly offset by higher net sales and a slightly negative FX impact. All-in-all, our gross margin amounted to 37.4% for the full year.

OpEx increased by 3% in constant exchange rates. Our EBIT margin came in at 11.3% with a net currency impact of close to zero when comparing to last year. Net financial items improved mainly driven by lower gross debt and the income tax rate decreased in the year to 21%. [indiscernible] (00:16:35) mentioned led to an earnings per share of SEK 3. Let's turn slide.

Our net working capital continued to follow a normal seasonal pattern. Net working capital decreased to minus 6% in the quarter, resulting in a similar level as Q4 last year. Due to current market conditions in the freight market, we continue to hold higher inventories with early shipments to mitigate the longer lead times and secure [ph] time transfer installations (00:17:06). The mitigation of extended supply chain lead times have also led to higher customer advances and accounts payable. Let's turn slide.

Cash flow from operating activities amounted to SEK 1.9 billion. EBITDA for the full year was SEK 2.7 billion. Taxes paid were approximately [indiscernible] (00:17:34), was broadly in line with previous year. Net interest was substantially lower than last year. And the cash flow from operating activities amounted to SEK 1.9 billion, resulting in an operational cash conversion of 69% for the full year. Finally, continuous investments amounted to SEK 1.4 billion, mainly driven by investments in our innovation pipeline and a strengthening of our product offering. All-in-all, our cash flow after continuous investment was SEK 450 million.

Now, let's turn the slide and look into the dividend proposal. The Board of Directors has proposed a dividend of SEK 2.4 per share, and this to be paid out in two installments. This is enabled by our strong balance sheet.

Over to you, Gustaf.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Thank you, Tobias. And I would just like to say a couple of words on our outlook for Q1 for the next fiscal year. So what we see currently is, of course, these uncertain macro environment with continued supply chain challenges, and its impacting installations and costs and margins. But we also see a very strong long-term market trend to support growth and investment in high-end radiotherapy equipment and margin expansion.

And I would like to reiterate our midterm outlook until 2024/2025, and that's really about the more than 7% net sales CAGR, the margin of EBIT percentage expansion over the period. And as you saw, a capital allocation of more than 50% of annual net profit in dividend.

And to summarize the last quarter Q4, we saw the strong finish of Q4, and we also saw improved margins versus Q3. We had growing orders and revenue in the quarter, and we reported out more than 120 Unity orders and more than 60 Unity installations. We are delivering on ACCESS 2025 by forming new partnerships both with vendors and with customers, and we are also well on track with a targeted installed base in underserved markets.

And we also shown our comprehensive portfolio. And now, we're also including Elekta Esprit and our focus on accelerated innovations going forward. [ph] And just to sum up (00:20:24), I would just like to say a big, big thank you to all our employees, customers, and partners for a fantastic job and efforts during the year. Thank you.
Cecilia Ketels  
*Head-Investor Relations, Elekta AB*

Thank you, Gustaf. So for the Q&A session, I would like to ask the operator to open the lines for questions. Please operator, over to you.

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] And our first question comes from the line of Patrick Wood from Bank of America. Please go ahead. Your line is open.

**Patrick Wood**  
*Analyst, Bank of America Merrill Lynch*

Perfect. Thank you very much for taking them. I'll keep it to two, please. I guess the first one, I'm curious for the order book and the backlog that you've got. Best guess on your end, how many of those do you think are new sockets versus replacement systems? I'm trying to get a sense of how the overall installed base is likely to grow over the next few years. So, just curious on rough sense of how much is replacement versus new installs.

And then the second one, obviously supply chain a little bit tricky, access a bit tough. But obviously in EMEA, there's quite a few contracts over, let's call it, the next 12 to 18 months to satisfy. How should we think about the ability to actually install and fulfill those contracts whether it's Spain or Italy, or potentially as well Poland and Croatia over the next, let's call it, whatever year or two? How quickly should we think that you guys can get those installations done? Thanks.

**Gustaf Salford**  
*President & Chief Executive Officer, Elekta AB*

Thank you, Patrick. Two good questions. And I must say I don't have the exact numbers on the ratio and the order backlog between kind of new systems versus replacement. But of course, a lot of the growth comes from new markets where there will be a relatively high proportion in kind of greenfield sites and so on. That's also a very strong side of Elekta that we have a high share of those.

However, you see the replacement cycles as well in the US, in Europe and also in China now with the aging of their installed base. So we see a continuous growth on that increased installed base in those markets to take care of the [ph] bigger cancer [00:22:50] backlogs as well. But I think we need to get back and take a look at the exact numbers there. So, maybe we can come back here on the call as well.

And then on the other question, the installed base and especially on the larger tenders, for example, in Europe, we see a big need. We see that [ph] they won quite recent [00:23:11] installations. So we foresee that we will continue to install and get that growth from those larger tenders here and next years, one, two years I would say, maybe third year as well. But it's quite recent installation dates.

So, on the other part of the world as well because of the cancer backlogs. Again, that you need more linacs around the world to treat more cancer patients that has been growing now and then finally now diagnosed after COVID. Then, of course, we have the supply chain challenges, we have the logistics, the component shortages, and so on. But I think we have shown in Q4 we dealt with that well, but the overall issues are not done away and will not do so here in Q1 [indiscernible] [00:23:59] as I mentioned.
But I think over if you take a little bit longer time perspective, I expect the logistics situation to stabilize, and I also expect the component shortages situation to stabilize as well. But it’s quite difficult at this point in time to say exactly when [indiscernible] (00:24:19).

Patrick Wood  
*Analyst, Bank of America Merrill Lynch*

Super. Thanks for taking the questions.

Operator: Thank you. Our next question comes from the line of Erik Cassel from ABG Sundal Collier. Please go ahead. Your line is open.

Erik Cassel  
*Analyst, ABG Sundal Collier AB*

Hi. Good morning. I'll limit myself to two questions this morning. So, last quarter's [ph] profit warning (00:24:39) was partly on missed installations of Unity and Gamma Knife. And now you said that you had a strong finish to the quarter. I mean, is there a component of supportive revenue recognition in that? [indiscernible] (00:24:52) last quarter came in early Q4 and then also that you had some [ph] lock-in (00:24:55) installations that could have possibly in Q1 installations, but now happened in end of Q4 instead. So basically what I'm asking is, is there a component of supportive timings to the Q4 results?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

No. I wouldn't say that to a large extent. We always have a couple of spillovers, but I think we have that every quarter. We had a bit more, I would say, last quarter. Now, we were able to deliver those in this quarter. So, I don't see any special impact from that in the fourth quarter.

Erik Cassel  
*Analyst, ABG Sundal Collier AB*

Okay. Thank you. And then on R&D capitalization, I mean that keeps rising up 20% Q-on-Q basically. But if we look [indiscernible] (00:25:40) and also in this presentation, I mean it seems like this quarter should be the peak. I mean, first off, is that correct? Tobias talked about it stabilizing at a higher level. And then how should we think about that delta going into Q1? And when could we see capitalization start to declining? Thanks.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Thank you, Erik. Yeah. I can take that question. I think what you would see and what we have said is that the – our gross R&D as a percentage of sales will stabilize. And that is that you see here into next year and then the coming year as you go down. And what we actually – that is also related to the sales development. So that is what we see. So, a stabilizing effect here, and I would maybe not look specific into one single quarter rather the trend here into next year.

Erik Cassel  
*Analyst, ABG Sundal Collier AB*

Okay. So, should we interpret that as a run rate of about SEK 350 million per quarter next fiscal year and then it starts [ph] to trend (00:26:53)?
Gustaf Salford
President & Chief Executive Officer, Elekta AB

Around that to start with. And in absolute terms here for the first quarter, it might go up a little bit.

Erik Cassel
Analyst, ABG Sundal Collier AB

Okay. Thank you very much. I'll jump back in the queue.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Thank you.

Operator: Thank you. Our next question comes from the line of Kristofer Liljeberg from Carnegie. Please go ahead. Your line is open.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank AB

Yeah. Hi. You're spending quite a lot of time talking about R&D [indiscernible] (00:27:26) but I'm a bit surprised talking more about what you're doing and trying to improve margins. So I had a few questions related to that. First on the mid-term guidance, what's the starting point when you say that you would grow EBIT expansion as a percentage of sales over time?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Yes. So, I'm happy to talk about that and I think it's a very important question, Kristofer, because we have seen a dramatic pressure on gross margin from primarily external factors throughout the year, especially in the later quarters. So we have a lot of initiatives now in the Resilience and Excellence Program to, one, address, I mean, the production and logistic chains of Elekta to make them more efficient and cost-effective, looking at our manufacturing footprint as well between UK, Crawley factory and Beijing factory, look at how we service our installed base that I think is a very important area to find more efficiencies in, in order to support all of those factors would support gross margin expansion.

If you then look at the rest of our expenses, if we...

[indiscernible] (00:28:43)

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank AB

...so if we start then with the gross margin because this is something you have talked about for a number of years. I understand there's a lot of external factors, but what's required here for the gross margin to start to improve? What you're doing is that just enough to compensate for even higher inflation? So, what's needed for gross margin to start to improve? And when is it reasonable to assume that's happening?

Gustaf Salford
President & Chief Executive Officer, Elekta AB
...yeah. So if we take your first question, I mean we set off in this new outlook as we know, mid-term outlook at the Capital Markets Day. And that was also the baseline. Those margin levels where we started here from 2021, that's the baseline for our outlook until 2024/2025. Then a lot of additional costs came in throughout the year as we all know with inflation, with the component shortages, with supply chain costs and more buildup of working capital relating to that as well. So what we're doing now is addressing that item by item to come back to the similar gross margin levels that we had in the past.

And if you remember the Capital Markets Day and looked [indiscernible] (00:29:54) we have been at around 41% historically. So, of course, that's the ambition to get back to those levels, as we also said in Capital Markets Day. And then we should have leverage on the rest of the cost items if it's R&D, marketing and sales or admin costs in order to show an improvement higher than 2021 on our EBIT line.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

[indiscernible] (00:30:17) Tobias here, maybe adding to what Gustaf said. I mean [indiscernible] (00:30:23) we will work very hard on this and address it. I mean, a combination of both sales and costs and also the quality of sales, both when we look at the sales contribution as such, but also specifically on pricing initiatives and also work through the cost base. So that is hard work [indiscernible] (00:30:45) recognize what Gustaf said. We have had [ph] cost shocks (00:30:48) into our P&L in this current year and that is for us to work through going forward.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank AB

Okay. About what — okay. When should we start — I understand it's difficult to know about where inflation will end but the initiatives you're doing, when will we start to see that having a positive effect on gross margin?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

We see headwinds in Q1 as we mentioned, more continued inflation, continued potential lockdowns. That hasn't happened yet for Elekta, but we don't foresee it. But of course, there's risks always and continued component shortages due to that. I think what we are looking at and working a lot with is, of course, the cost impacting gross margins, that's logistics costs to quite a large extent and what it costs us to serve the installed base. So I think throughout next year, you will see that improvement [indiscernible] (00:31:51) but we see risks in the Q1.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank AB

Okay. And on operating costs, are you doing any more significant cost-cutting, reduce the number of employees or anything to trying to offset the general inflation?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Yeah. We're targeting our overall cost [ph] as I mentioned with (00:32:13) sales and marketing, administration as well so below the gross margin line, and there we need to work more efficiently with the resources we have, but also work with digitalization, centralization, and shared service centers as we've done in the past and also new ways of working, for example, remotely diagnosing that installed base and digitalizing our processes when it comes to sales as well and administration. So, we still have a lot of things to address and as we're doing right now and we have this Resilience and Excellence Program addressing those initiatives and that's resulting in lower costs going forward.
Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

You think it’s reasonable to assume that you would be able to keep operating cost in a flat if we adjust for the – or if you look at selling and amortization combined, would it be possible to keep them flat to try to offset the pressure we have on the gross margin?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

So, I think we want to recover the gross margin. It’s more the trajectory when it will happen. Of course, it has an impact on inflation and so on. If we look at the rest of our cost areas like sales and marketing and admin, you should see a good kind of leverage on that based on the revenue growth we’re driving on top line throughout next year but also the years ahead until 2024/2025. That is our outlook here.

Tobias Hägglöv  
*Chief Financial Officer, Elekta AB*

And of course, and that I mean that we target to – that the cost growth is [ph] lower (00:33:50) than the sales growth and resulting in this targeted margin expansion.

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

Okay. Thank you.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Thank you...

Operator: Thank you. Our next question comes – sorry. Our next question comes from the line of Rickard Anderkrans from Handelsbanken. Please go ahead. Your line is open.

Rickard Anderkrans  
*Analyst, Svenska Handelsbanken AB*

Right. Good morning. Thank you for taking my questions. So a bit more on the outlook here for Q1. You mentioned unchanged macro environment and continued pressures. Should we expect similar impact dynamics that you highlighted here in the quarter in terms of gross margin pressure as we saw here in Q4? Should we expect any improvements here excluding FX in Q1 or can you give us any more flavor on the thinking here?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

I think now we’ve seen May as well a bit of it, and it’s not that things have kind of improved. If you look at the macroeconomic environment, if you look at maybe a bit of improvement, at least from Elekta’s point of view in China, I would say. But if you take the global situation, it’s still a lot under pressure. So, I don’t see any big step change under Q1 when it comes to improvement of those factors. Then Elekta internally is doing a lot of things to secure the installations we have for the quarter to address our expenses to protect margins and so on. So, that’s what we’re working to offset some of those negative effects from the external factors. But no, no significant change in the environment is what we see currently here in May.
Rickard Anderkrans  
*Analyst, Svenska Handelsbanken AB*

All right. Great. Thank you. And a little bit more there. You mentioned in the report that the plant in Beijing remained operational in the quarter, but can you quantify the impact from contracting demand in China in the quarter? And can you give us any more flavor on what you're hearing and seeing so far in China?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Yeah. Of course. First of all, I'd say, I'm proud that we have been able to continue to produce both in Crawley, in Veenendaal, in Sweden and in China throughout the full COVID pandemic the last couple of years. But if we take a deep dive into China right now, I'm also happy that we can continue to both develop our products, but also, of course, produce and ship from China into China, but also to other parts of the world. And we have continued to do that during Q4.

But as we wrote in the report, if you look at the order environment in China during our Q4, you will see a bit of a slower market due to all the lockdowns out there, but actually our installation have been quite good in the quarter as well compared to the situation we see out in the different provinces and so on. It's of course not my role to predict how the development in China will go. But at least when I talk to our teams locally, we've seen a bit of improvement over here in the last couple of weeks and months, I will say. That's the feedback I get from the ground.

Rickard Anderkrans  
*Analyst, Svenska Handelsbanken AB*

Perfect. Thank you. I'll get back into the queue. Thanks for taking my questions.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Thank you.

Tobias Hägglöv  
*Chief Financial Officer, Elekta AB*

Thank you.

Operator: Thank you. Our next question comes from the line of Victor Forssell from Nordea. Please go ahead. Your line is open.

Victor Forssell  
*Analyst, Nordea Bank ABP*

Thank you very much for taking the questions. I'll start on the R&D side again. And regarding the current spend, it is certainly looking, as you say, to stay elevated throughout the coming fiscal year, which would perhaps be even higher than you guided for one year ago. And if so, what has driven this incremental increase compared to your initial plan, you would say? And also, please, if you could elaborate on the net R&D effect as well, since you have a quite clear view on the growth side, but chose not to illustrate that in your presentation, how the net impact will affect the P&L over the coming quarters, would certainly be interesting to hear from your side.
Gustaf Salford  
President & Chief Executive Officer, Elekta AB

No, thank you, Victor. I'll start with kind of the innovation investments compared to plan. And if we start at one year ago, at the Capital Markets Day when we launched this accelerated innovation plan, you can say, and you've seen the curve of gross R&D going up, stabilizing and then going down. Compared to that plan, I should say that the revenue has not fully been there compared to what we guided for more than 7% throughout the period on our CAGR basis, not year-on-year guidance, but still throughout the period. So, I think that's one of the reasons why the gross R&D as a percentage of sales is a bit higher compared to that initial plan throughout – in June last year.

But it is important for Elekta, with the strong balance sheet we have to continue our innovation investments quarter by quarter, year by year to protect long-term growth when it comes to our Linac Solutions, Unity, and our software platform. And it's long-term projects, it takes years to develop some of these products. So, I think that's also important to say. And we continue with that innovation. If we then look at stabilization and decline in next or relatively decline compared to revenue in the next year, yes, that's what we expect from the year.

And on the net side, I leave that to you, Tobias.

Tobias Hägglöv  
Chief Financial Officer, Elekta AB

Yeah, sure. I think what you will see here is for the amortization it will be flat here into next fiscal year while we will see a bit of an increase on the capitalization side. Net impact here on the R&D into our P&L will be very limited.

Victor Forssell  
Analyst, Nordea Bank ABP

And to me at least how I interpreted it, it's like, I mean, the balance then will continue to expand even for the coming fiscal year. And that is not part of, I mean, what we talked about one year ago. So, that's my key reason for asking this question is that this net balance over your results will remain at these levels for next fiscal year as well. Is that the way we should interpret it?

Tobias Hägglöv  
Chief Financial Officer, Elekta AB

I think you should – what I said here, you might have in absolute terms a slight increase into the fourth quarter, but then what we'll say that we see leveling out here and a stabilizing impact of the R&D.

Victor Forssell  
Analyst, Nordea Bank ABP

But that means that you won't see any sort of organic growth on the R&D expenses line for the latter part of this year.

Tobias Hägglöv  
Chief Financial Officer, Elekta AB

That is what we have communicated and what we stick to. Yes.
Okay. Thanks. Secondly, on the backlog and the situation primarily related to solutions mix that you currently have. Since a lot of recent order growth has stemmed from China if we look one year back, which has yet to have Harmony markets cleared, it would be interesting to hear if you're at all worried about the coming quarters not only that the current order backlog might be mispriced to current inflationary environment, but also that new solution sales could come with a negative mix impact from older Linac systems. What's your thoughts around that?

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Specifically on China, Victor, or globally?

Victor Forssell  
Analyst, Nordea Bank ABP

I mean, impacting full group, of course. Yeah.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Okay. So if we start with China, China has quite not so long time in between order to revenue. That kind of order backlog conversion into revenue is quite quick, I would say, compared to some other markets. So, that's a positive. I think we continue to have a healthy backdoor in China, we continue to install well also during the lockdowns, et cetera. And then I think when the situation improves in China, we get even better access to the customers. Yes, we can drive that revenue growth.

And then for overall market conditions, I think all of us and the market is also waiting for the coming then – kind of healthcare investment plans for the coming, I think, five-year period. And I haven't so far seen that. And I think that will also be an important driver for Chinese orders, but also for installations in the coming years to come. So, I think that's something we're...

Victor Forssell  
Analyst, Nordea Bank ABP

Sorry, Gustaf, if I may...

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Yeah.

Victor Forssell  
Analyst, Nordea Bank ABP

...may I just rephrase it then instead. Are you are you sort of seeing a mix within solutions negatively tilted towards sales of, I mean, the Synergy system, for example, or comparing that to Harmony?

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

No.
Tobias Hägglöv  
Chief Financial Officer, Elekta AB

No.

Victor Forssell  
Analyst, Nordea Bank ABP

Okay.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

And we haven’t – we actually said, we don’t have Harmony cleared in China either. So, we haven’t seen that effect yet.

Victor Forssell  
Analyst, Nordea Bank ABP

And I might just squeeze in a final one. I appreciate the Unity data points given here today. What about the investments into more local installation teams? How is that progressing? How much of an investment will that be for you? And what are we seeing right now? So effectively, what type of costs will you have to take initially to improve that internal capacity?

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Yeah. That is improved already. I mean, we invested in some of the teams that has been difficult to deal with when it comes to local installations, say, in China and some other parts of the world throughout COVID. So, I think we are well-invested in our order fulfillment and service operations to take on more volumes of Unity installations. And we’ve done that, as we talked about over the years here, throughout the last year, setting up [indiscernible] (00:44:20) for at least now then 24 units and then more, they can take on more volumes than that. So, I think we’re well-invested in that area.

Victor Forssell  
Analyst, Nordea Bank ABP

Okay. Thanks a lot.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB

Thank you.

Tobias Hägglöv  
Chief Financial Officer, Elekta AB

Thank you.

Operator: Thank you. Our next question comes from the line of David Adlington from JPMorgan. Please go ahead. Your line is open.
David Adlington  
**Analyst, JPMorgan Securities Plc**

Hi, guys. Thanks for the questions. I might trouble you with three, actually. So, firstly, I just wondered how big that Spanish order was and [indiscernible] (00:44:53) that European growth in the quarter delivery that the margin on my business was going to be accretive or dilutive to your margins. Just in terms of the reverse of the provision on the purchase that you recognized in the quarter, their continued consideration has gone done. I just wondered what hurdles did that acquisition not meet in terms of paying that contingent consideration? [indiscernible] (00:45:25)

Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

So, there were two questions. Did I miss the third question?

David Adlington  
**Analyst, JPMorgan Securities Plc**

The third...

Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

Sorry, you're breaking up a bit, David. So, I have a bit problem hearing here, but it was on the Spanish order, how big and margin levels, and then the provision.

Tobias Hägglöv  
**Chief Financial Officer, Elekta AB**

[indiscernible] (00:45:46)

Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

Can you hear me?

David Adlington  
**Analyst, JPMorgan Securities Plc**

Perfect.

Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

Okay. So, if we start with the Spanish order, it was the first – we didn't disclose the specific number, but it was a significant order and was the first part of that largest Spanish tender. So, it was not the full amount, but we haven't disclosed any specific numbers there.

On the margin levels, yes, it's primarily Linac bundle in. So, I think overall maybe with lower than average Elekta margins, but good Linac margins, I would say. On the provision side, yes, I think during the last two years, it's been a challenging environment and we had the kind of TPA that was aggressive plan to achieve. So, when we saw that we didn't receive that plan, we released that provision. So, it's more under the market conditions, but we're still happy about the development and the future potential of that acquisition.
David Adlington
Analyst, JPMorgan Securities Plc

And maybe just follow up into the – so, a slightly bigger picture on. We're expecting guidance today, but do you expect to initiate giving the market guides at some point, because you should have pretty decent visibility on revenues given the order backlog.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Yeah. Not for this year. So, I think what you see us talking about here is not guidance for next year. We have a lot of uncertainty as we're guiding or discussing for the outlook for Q1, but we maintain our mid-term guidance. So, you shouldn't expect any new guidance for the fiscal year of 2022/2023, but we will give the highlights for the coming quarter in all our quarterly reports throughout the year.

David Adlington
Analyst, JPMorgan Securities Plc

And then maybe just checking out a fourth one in. Just in terms of Q1, in terms of how we should be thinking about modeling it, should we be thinking about gross margin being down, you potentially making a loss in the first [audio gap] (00:47:59-00:48:03)

Gustaf Salford
President & Chief Executive Officer, Elekta AB

You broke up there a bit. But how should we think about gross margins in Q1 I think the question was. And if I take a step back and look at what we are describing on the outlook side, we are saying that all the factors impacting gross margins will continue in the first quarter.

David Adlington
Analyst, JPMorgan Securities Plc

Okay.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

I think that's the transparency we can give today in the challenging market environments we have around us when it comes to inflation, supply chains and logistics costs.

Operator: Thank you. Our next question comes from the line of Oliver Reinberg from Kepler Cheuvreux. Please go ahead. Your line is open.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Yeah. Thanks so much for taking my question. The first one is trying to get a bit of a better feeling how you think about the full year. I mean, I fully appreciate that you don't guide, but maybe we can talk about a bit of the kind of tail and headwinds.

So, if I start on sales, obviously, you have rather [ph] an undemanding (00:49:05) comp from the last two years, very strong order book and obviously demand doesn't seem to be the big issue while installations and supply
Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

Oliver, that, of course, a great question, and I think if I start on a positive note in the drivers and factors, we have a SEK 40 billion backlog to deliver from. So, I think there's a huge demand, as I mentioned, for installations in the coming quarter and year. And I've talked in the last years about this, what I call extended [indiscernible] (00:49:56) recovery. And I think Elekta didn't drop that much on revenue in quarter during the last year, but it's kind of an extended [indiscernible] (00:50:04) recovery.

And now, we get into a situation we have a big order backlog, we have a big demand, but now it's more to get the machines out there and install at the customer site. And then part of it is customer readiness. They need to have the bankers and the preparation work done for us to install. And part of it is on our side how to install product [indiscernible] (00:50:27) and get the machines and Linacs out to the customers. And I think that will improve throughout the year, maybe not in Q1, but throughout the year.

And then I think also it's difficult to predict, but at least the high logistics costs have stabilized on high levels. So, at some point in time, that will go down and then we'll get actually tailwind on our gross margins from that effect that's kind of hurting us right now and that could happen throughout this year, but it's very difficult to say exactly when.

Oliver Reinberg  
**Analyst, Kepler Cheuvreux SA /Germany/**

Okay. But that means there's no reason to not assume at least the kind of 7% sales growth for the full year, correct?

Gustaf Salford  
**President & Chief Executive Officer, Elekta AB**

No. Of course, that's absolutely our ambition with the backlog we have and to drive revenue growth for sure for the full year.

Oliver Reinberg  
**Analyst, Kepler Cheuvreux SA /Germany/**

Perfect. And then – brilliant. And then on the margin, I mean, obviously when you get a kind of better top line, you're working on efficiencies, you just talked about that logistic costs in the full year may at least probably come down year-on-year. And apparently, as we just learned, amortization is not a challenge for this year. So, does that mean that it's reasonable to also assume the kind of EBIT margin improvement year-on-year, or should we be a bit more careful simply in terms of the overall inflation pressure and the supply chain pressure may also get a bit worse?

Tobias Hägglöv  
**Chief Financial Officer, Elekta AB**

Yeah, very good question and obviously we do not guide specifically here, as we have mentioned, but a few points on that. I mean, Gustaf was talking about [indiscernible] (00:52:08) recovery and I think that is also here looking at the margin development ahead of us. I think [indiscernible] (00:52:15) on a sort of sequential
development. And obviously, we don't have a crystal ball that can evaluate all the macroeconomic factors here impacting us.

But to your point here, if we are targeting sales growth, we [ph] see challenging provision (00:52:37) here in Q1. Obviously, that logistics that Gustaf mentioned here starts to flatten out. That is positive for Elekta. So, yes, we are driving towards margin expansions. But as we said here, looking into the first quarter, we do not see substantial changes in market conditions.

**Oliver Reinberg**  
*Analyst, Kepler Cheuvreux SA /Germany*/

Perfect. And the last question from me, just on pricing, can you just update us on your pricing initiatives just on solutions? And also, can you talk about, in your order book, is there any ability for any kind of price adjustment clauses, or can you ramp up the order book probably to Harmony, Harmony Pro to get some kind of a price offset there?

**Gustaf Salford**  
*President & Chief Executive Officer, Elekta AB*

Yeah. And that has been, I would say, the focus area for many of our discussions over the last quarter, of course, because of inflation. And we have done quite a lot of studies talking to customers, doing surveys, and the customers' willingness to accept higher prices is quite good actually. They also have an understanding that the macroeconomic environments are changing. So, for new orders [ph] as we placed here (00:54:01) in Q4 and we continue going forward, yes, we have price increases there kind of implemented, but the key thing is, of course, to bring value to the customers. So, with the new launches, as I mentioned, with Harmony, with Elekta Studio, with Elekta Esprit, with new software solutions, that's the best opportunity to raise prices because we bring value to the customer.

So, then we talked about the new orders that would translate into revenue often with around a year's lack orders revenue. If you look back in the backlog of Elekta, you had a SEK 40 billion. Around 50/50, I would say, was – I think is 55% solutions and 45% service. Out of those 45% service, you have CPI or inflation clauses that you will then increase linked to the index year-over-year. For the rest of the [indiscernible] (00:54:57) 55% in the backlog, that's more difficult because that's often public tenders, and we don't have any – that's one price that you negotiated at that point in time, and we need to deliver on it. Of course, we look into opportunities, can we replace [indiscernible] (00:55:12) with Harmony, can we do some more after-sales, are there other products we can offer to those customers, but it is according to contract. So, new sales, price up, service part of the backlog, price according to CPI clauses, lots of effort in the rest of the backlog to see price [ph] or margin (00:55:28) improvement factors, but that's more difficult, I would say. So, that's just to give you some of the dynamics there, Oliver.

**Oliver Reinberg**  
*Analyst, Kepler Cheuvreux SA /Germany*/

Thanks so much. That's helpful. And if I can squeeze in a last one, I mean, a big discussion point [ph] is this, there's also (00:55:44) personnel cost inflation. I think that was so far not a part of your discussion. Is it something you're seeing [ph] or a lot (00:55:50) concerned about?

**Gustaf Salford**  
*President & Chief Executive Officer, Elekta AB*

Personnel cost inflation, is it salary increases or...
Yeah. Yes, there is some salary increases – or inflation impacting salary increases as well. I think it's very different country by country, I must say. So, if you say the US, you'll absolutely find it less so in Europe, because the inflation is more driven from energy price, et cetera. If you go into China and APAC, it's not that much inflation pressure on salaries what we experience at least. So, you need to take a geographic perspective there. We try to offset that by being more efficient, doing more activities in low-cost countries and shared service centers. So, that's our plan to offset that effect with more efficiencies and lower-cost country operations.

Super. Thanks so much for the color.

Yeah. Good morning, Gustaf. Good morning, Tobias. Thanks for taking my question. I'm left with one, it's just whether you could provide some more color on your order book in the US specifically as to the attitude of US hospitals in the context of rising bond yields and wage inflation. So, just curious what you – what sort of discussions you've had in the US specifically in the past few months, please.

Yeah. Great question. If you take the US situation and probably you've seen a lot of other companies discussing it, may be more – a bit more impacted by interest rates, more private initiatives you can say and to some extent then salary inflation as well impacting the operations of the clinics. At the same time, they need to do automation of their processes and we can have good parts of making the clinics more efficient with software solutions, of workflow initiatives. And I say – often say US for Elekta is not so much a market – growth market, but a market share gain market. So, with Unity, with new solutions, with partnerships, I think we have a great opportunity to take share in the US going forward. And so, I think that's how I see it. But of course, some of the private initiatives are – is then impacted by the fact, as you mentioned, with inflation and interest rates.
Oliver Reinberg  
Analyst, Kepler Cheuvreux SA /Germany/  
Thank you. Thank you very much.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB  
Thank you.

Tobias Hägglöv  
Chief Financial Officer, Elekta AB  
Thank you.

Operator: Thank you. Next question is a follow-up question from Kristofer Liljeberg. Please go ahead, your line is open.

Kristofer Liljeberg-Svensson  
 Analyst, Carnegie Investment Bank AB  
Yeah. Just a quick one on Unity installations. I think you said a total of 61 if I do the math correctly. But how many of those are currently being installed? Is it possible to give a figure for that? I guess you haven't been able to finalize around 20 installation this last fiscal year.

Gustaf Salford  
President & Chief Executive Officer, Elekta AB  
So, [ph] Liljeberg (00:59:24), just a clarification, because – what do you mean by the last comment, the 20?

Kristofer Liljeberg-Svensson  
 Analyst, Carnegie Investment Bank AB  
Whether if you have done 61 installations...

Gustaf Salford  
President & Chief Executive Officer, Elekta AB  
Yes.

Kristofer Liljeberg-Svensson  
 Analyst, Carnegie Investment Bank AB  
...now and you must have done around 20 this last fiscal year if I'm not totally wrong here. That seems...

Gustaf Salford  
President & Chief Executive Officer, Elekta AB  
Yeah. So...

Kristofer Liljeberg-Svensson  
 Analyst, Carnegie Investment Bank AB  
...quite a high figure.
Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Yeah. So, to your question, I think the delta is – if you compare it to the material we presented over the last year's update on installations is now 17 that are under installation or installed throughout the year, so to say. So, I think that's important to say. And out of those, I think it's a couple that are under installation. So, we started installation of those machines.

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

So, you have...

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

But, of course, we want that to be a higher number, but...

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

So, you have been able to do around 15 or so.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

17.

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

Yeah, but – okay. And is the ambition now to be at 24 going forward per year?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Absolutely. Absolutely. So, I think we said that during the year, it's been a more challenging product together with the Gamma Knives to install throughout the COVID impacted years. However, with – I mean, you always want more, but we're quite pleased with the 17. The ambition is to quickly come up to the 24 and higher in the coming years here, of course. That's how we set up the supply chain.

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

And what about – if you look at the demand situation for new orders, my impression is that you're starting to see more demand from smaller clinics also. So, do you expect order momentum to pick up there now after the pandemic for Unity?

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Yes. I mean, at the recent ESTRO Conference, there was a huge interest for Unity. We had a great traffic, we had customers we hadn't seen before and having discussions with them around Unity. And the type of discussions we now have is if you're a comprehensive cancer center, you should have a Unity. You would have – have other
Linacs as well, but that would be part of the bundles. And I think that’s great discussions for us to have, and we see that opportunity with MR-Linacs, but, of course, especially with Unity that you’re becoming more kind of a standard of care going forward. And we see big opportunities there, not just on the academic KOL sites, but also more regional or provincial hospitals throughout the world. So, I think we are at the very important part of our journey with Unity where you also see the clinical evidence coming and you see a bigger ramp-up of it and a huge interest from the customer community around it.

Kristofer Liljeberg-Svensson  
*Analyst, Carnegie Investment Bank AB*

Okay. Thank you.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Thank you, [ph] Kristofer (01:02:29).

Tobias Hägglöv  
*Chief Financial Officer, Elekta AB*

Thank you.

Cecilia Ketels  
*Head-Investor Relations, Elekta AB*

Yes. We have reached the hour. So, if you have further questions that you didn’t have time to – that we didn’t have time to address in this call, please don’t hesitate and reach out to us, and we take those questions separately. And with that, I thank you for participating today and wish you a further good day. Good-bye.

Tobias Hägglöv  
*Chief Financial Officer, Elekta AB*

Thank you. Thank you.

Gustaf Salford  
*President & Chief Executive Officer, Elekta AB*

Bye-bye.

Tobias Hägglöv  
*Chief Financial Officer, Elekta AB*

Bye-bye.