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Elekta AB (EKTAY.SE)

Q4 2023 Earnings Call

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

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Erik Cassel
Analyst, ABG Sundal Collier AB

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Julien Ouaddour
Analyst, Bank of America

Victor Forssell
Analyst, Nordea Bank ABP

MANAGEMENT DISCUSSION SECTION

Cecilia Ketels
Head-Investor Relations, Elekta AB

Good morning everyone. And warm welcome to the presentation of Elekta's Year End and fourth quarter 2022 2023. My name is the Cecilia Ketels and I am 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 starts off with Gustaf presenting some highlights of the development. Then Tobias give you details on the financials and the presentation as ends with Gustaf's view on Elekta's outlook.

After the presentation, there will as usual be time for your questions. Before we start, I want to remind you that some of the information discussed in this call contains forward-looking statement. This can include projections regarding revenue, operating result, cash flow as well as products and product development. And these statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statements.

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

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Thank you, Cecilia. And good morning, everyone, here from Stockholm. And really, really thank you for joining our call. So I'll just take you a bit through initially, as I usually do, our strategy ACCESS 2025 and what we did in Q4 because during this quarter or last quarter of the fiscal year, 2022, 2023, we continued to deliver on our ACCESS 2025 strategy.

Our focus was really to drive and secure profitable growth and reduce working capital. We continued to successfully deliver on our cost reduction initiative and we launched a new software solution suite. And all of this is in line with our vision of towards a world where everyone has access to the best cancer care. So let's turn to some of the full year achievements. So what you can see here is really the key parts of our ACCESS 2025 strategy. And if you look at the data driving adoption across the globe, our strategic milestone to provide access to an additional 300 million people in underserved market is well on track. And by now, more than 180 million people have gained access to radiation therapy, which is ahead of plan and something we're very proud of. Also, an important part of our strategy is to go direct into markets. And in February Elekta acquired our Thailand distributor. If you turn to the customer lifetime companion in October at Astro, the big trade show in the US, Elekta launched Elekta Care 360, which is our portfolio of customer services that really help enhancing clinical operations. It includes, for example, dosimetry, consultancy services, physics start up services and Elekta Care 360 increases our value-added services. And it's further strengthen our position as a lifetime companion to our customers. When it comes to accelerating innovation, our new Leksell Gamma Knife [ph] the Elekta Three (00:03:34) was launched this year and is now operating, treating its first patients in the UK, Japan and the Netherlands and very soon in the US.

When it comes to Elekta Unity comprehensive motion management with the true tracking and automated gating, this is a true milestone in the MR-Linac paradigm shift. And was launched in October and received FDA approval in February. And last but not least, Elekta ONE, our comprehensive suite of end-to-end applications just recently launched at Astro in Vienna. I'll come back to that more later in the presentation.

When it comes to partner integration across the cancer care ecosystem, it was in the quarter Elekta entered into joint venture with Sinopharm in China to increase adoption radiation therapy to all patients in the country. And we were also very, very proud to announce that Mercurius Health equips the Robert Janker Klinik with integrated oncology solutions from Elekta and Philips. And this is really enabled by the agreement that we have had with Philips now and our strategic partnership.

If we now turn and look at orders and the markets in Q4. The demand for radiotherapy was very healthy and it supported order backlog growth and a book-to-bill ratio of 1.24. If you look at the markets and the regions, in the Americas, orders were flat compared to last year. North America was slightly down, driven by lower order intake in Canada. But throughout Latin America, despite all these regional economic challenges, growth continued due to increased demand for patient access to radiotherapy. In EMEA, order intake declined by 4%. Europe had good growth from the Southern European markets, together with Poland. However, the Middle East and Africa had negative order development, mainly as a consequence of weak markets in Egypt and Turkey, as these markets continue to be negative impacted by the domestic macroeconomic situations. Or as in APAC increased by 4%. The three largest countries in APAC, China, Japan and India all showed double digit growth during the fourth quarter. This growth was however largely offset by headwinds in the Australian markets. And we ended the quarter and that's important to say with a strong order backlog of SEK 43 billion that will support revenue growth going forward.

So let's then turn to revenue. So in the quarter, we showed double digit revenue growth with strong performance for both solutions and service. Solutions revenue, as you can see here, was supported by continued improvements in the supply chain situations and strong installation volumes. Service grew with 7% and it's really growth across all our business lines. And I'm very, very pleased to see that the service revenue is growing faster than installed base growth you can see here on the slide as well. At the end of the period, Elekta had an installed base of approximately 7,150 devices, of which about 5,250 units were linacs – MR-Linacs or Leksell Gamma Knife systems.

For the full year, we delivered 4% revenue growth was supported by significant improvements in the global supply chain situation during the second half of the year. So if we turn to one of my favorite topics, Unity, and look at the development of our MR-Linacs, we are really proud to see that Elekta Unity systems are in clinical use on four continents, with a total of 75 installed electronic systems across the world.

Clinical unit systems shows an impressive 99% uptime and 100% of Unity treatments are now adapted to the change position of the target and sixth are adapted to changes in shape of tumor. It's really clearly demonstrating the Unity's superior technology and capabilities through changed patient outcome. More than 40 indications are treated with prostate cancer being the largest number. We have seen more than 600 peer reviewed publications and more than 4,000 patients recruited in the MOMENTUM study, making it the powerful foundation for research and innovation.

And now over to the strategic partnership with Sinopharm. This is really about increasing the adoption of radiotherapy. And it's also collaboration will Sinopharm that will help ensure that Chinese patients will have access to the same high quality precision radiation therapy regardless of where they live. It's a joint venture with Sinopharm and they have the largest sales and distribution network in China. It's about increasing adoption and radiotherapy across the country in underserved areas. It's about expanding Elekta service offering and it's also about improving clinical operations at RT sectors. So in summary it's about combining the high quality offering of Elekta with a vast network of Sinopharm.

And if we then turn to the big launch we did at Astro Elekta One. And this was after the quarter close in Vienna. And Elekta One is a comprehensive suite of end-to-end applications and it's really offering clinicians more automation, more mobility and more time to spend with patients. And this is really important because Elekta One allows customers to connect their existing product to this new innovative solution with no loss of functionalities, smooth transition to a new platform and continuous data integrity with Mosaic as a backbone. And this new Elekta software enables cancer care teams to plan and manage oncology specific workflows more efficiently. And the goal is to increase our customers' productivity with around 50% through this enhanced workflow management.

And with that, now over to Tobias for the financials.

Tobias Hägglöv

Chief Financial Officer, Elekta AB

Thank you. Good stuff and good morning, everyone. Starting with the Q4 financials, Elekta's revenue grew strongly in the quarter, driven by a good conversion rate of our order backlog. Net sales increased 10% organically. Geographically, the growth was driven by APAC with a growth rate of more than 30%. Americas yield 4% growth with positive development in the US and strong growth in Mexico. Europe had growth – good growth in the quarter, but Middle East and Africa held back to the development in EMEA, summarizing EMEA to minus 1%.

Adjusted gross margin improved to 37.8%. Our adjusted EBIT margin increased to above 16% with higher sales and lower expenses. Foreign exchange rates had a positive effect on gross as well as on EBIT margin. Finance net rose in the quarter, driven by higher interest expenses. A revaluation due to hyperinflation in Turkey.

Our adjusted gross margin improved by 80 basis points compared to Q4 last year, the healthy net sales growth contributed positively with 300 basis points. The strong solution growth as well as the geographical mix led to a total negative mix with 280 basis points. Foreign exchange rates had a positive impact of 260 basis points, mainly driven by the strengthening of the US dollar compared to last year. While supply chains conditions have improved and logistics costs are declining. Inflationary pressure from higher material and component prices continue to put pressure on our gross margin. The net impact in the quarter was 200 basis points negative. Then looking into our expenses in constant currency and adjusted for items impacting comparability. All-in-all, the operating expenses decreased by 7%, both year-over-year and sequentially as we continue to see the results of our cost reduction initiative. Selling expenses decreased by 2% year-over-year in the fourth quarter. Sequentially, our selling expenses increased by 3%, driven by higher level of in-person activities and inflationary pressure. Our administrative expenses declined year-over-year and even more so sequentially. Net R&D expenses declined both year-over-year and sequentially.

Gross R&D has continued to decline from the peak in Q1 and on a rolling 12-month basis gross R&D ended at 13.3% of net sales. Net R&D decreased year-over-year as a result of lower gross R&D spend, capitalization was in line with Q4 last year, while amortization was slightly higher. For the full year, our revenues grew by 4%. All regions grew and sales of solutions as well as services increase year-over-year.

Our gross margin has improved. What was negatively impacted by inflation and high supply chain costs, despite ease in supply chain disruption towards the end of the year, revenue growth and FX contributed positively. All-in-all, our gross margin amounted to 38.1% for the full year.

OpEx decreased by 1% in constant exchange rates, with the sequential decline towards the end of the year. Our EBIT margin came in at 10.3%. Net financial items increased and the income tax rate decreased to below 22%. All-in-all, adjusted earnings per share increased to SEK 3.11. We have turned a soft start on the year to improved financial performance in the second half. Growth rates have increased. Operational costs have been addressed. Foreign exchange rates have turned to being EBIT more than accretive, and the result is an improved operating margin of close to 300 basis points in the fourth quarter.

Since the beginning of the year, we have worked with our cost reduction initiative. It has progressed according to plan. Our spending within the year has declined with the estimated SEK 200 million. We have reduced the run rate of spending by SEK 450 million. The cost for implementing these savings amounted to SEK 312 million with SEK 71 million impacting our gross income. Then moving over to the balance sheet. Our working capital was substantially reduced in the quarter, following the strong sales at the end of Q3 and in Q4, inventories decreased, accounts receivables and accrued income improved driven by healthy cash collection. Also, our liabilities improved in the quarter.

In the fourth quarter, we delivered a record strong cash flow. EBITDA amounted to above SEK 1 billion following the reduction of working capital. Cash flow from operating activities amounted to almost SEK 2 billion, resulting in an operational cash conversion of 76% on a rolling 12-month basis. Our continuous investments amounted to SEK 417 million, mainly driven by investments in our innovation pipeline. All-in-all, our cash flow after continuous investments was above SEK 1.5 billion.

Our net debt to EBITDA ratio was by the end of the quarter below 1. In March, we refinanced maturing debt, which increased our debt portfolio duration to 4.3 years. We are continuing to link to funding to push for our sustainability agenda. And in addition to our sustainability linked bond, we now also have closed the sustainability revolver. This facility is not only linked to the social KPI of Linux in underserved markets, but also to our Scope 1 and 2 emissions as well as the Scope 3 target regarding suppliers setting own emissions reduction target that are science based, including the undrawn revolving facility, our available funds are SEK 6 billion. All-in-all, we have a strong balance sheet and a solid financial position. The board suggests maintaining the high dividend level from previous year for 2022-2023. This means SEK 2.40 per share, which represents a payout ratio of 97% of the net income.

With that, I hand over to you, Gustaf.

Gustaf Salford

President & Chief Executive Officer, Elekta AB

Thank you so much, Tobias. And now over to the outlook. So today, we have published our new outlook that goes from the period 2022, 2023 until 2024, 2025 so the two next years, so to say. And if you set it in context, during the last years, the radiotherapy market and Elekta's growth and margins has been pressured by supply chain challenges and component shortages. However, we have seen this significant improvement in the second half of 2020 to 2023 that we expect to continue. So from day, our outlook until 2024, 2025 is net sales CAGR of above 7%, EBIT margin expansion and a dividend policy of at least 50% on net profit for the year.

So if we then look at the outlook looking into next year, we believe that the uncertain macroeconomic environment remains. But we expect our improvement trend to continue into Q1. But as always, we also believe that long-term market trends to support growth and investment in high-end radiotherapy equipment and margin expansion.

So if then try to summarize our Q4. We end this fiscal year with a very strong quarter where we have managed to deliver double-digit revenue growth. We showed record cash flow driven by low net working capital and high earnings. We have successfully implemented cost reduction initiatives, driving margins, and we have launched the Elekta ONE software suite at Astro really strengthening our comprehensive product portfolio.

So thank you for the last year and I really look forward to see you now in this fiscal year.

And now over to you Cecilia, again.

Cecilia Ketels

Head-Investor Relations, Elekta AB

Thank you, Gustav. Well, before we open up for questions, I'm happy to welcome you to our CMD that will take place in our facilities in Crawley on June the 20th. Please register to this event through the link that was sent out in the invitation press release. Either you want to follow this on the web or on site. And for those participate on site, we will pick you up with buses at Gatwick, which is very close to our office, and it's either if you come by plane or train to the Gatwick Station.

So now we open up for the Q&A session, please, operator, can you open up the first person in line?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Kristofer Liljeberg from Carnegie. Please go ahead.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Thank you. First, I just wonder, if is it possible to quantify this negative effect from Australia? What this would have been with the more normal Australia and for how long you expect this market to remain slow? And then I also wonder when it comes to the margin guidance, of course, the fiscal year LatAm that have launched negative effects from hedges. Adjusting for that, down the line [ph] its (00:21:31) margin would have been around 12.5%. Is that what we should see as a base now when you say margin should improve from here? Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you, Kristofer. I think I would take the first question and Tobias will take the second question. So, if we look at the APAC region, it was really strong growth, as we said in the call, and the three main geographies, China, India and Japan. But it was a very weak development in Australia due to that they were working around their reimbursement levels and so on in the country. And I thought a bit driven the lower orders there. I don't have the specific numbers excluding Australia, but let us come back with that and for the margin question, Tobias. Yeah, sorry.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Yeah. The [ph] constant cut out (00:22:19) when it comes to orders, I think expectations were for orders to grow at least mid-single digits. So when you say that you should grow top line more than 7% organically or sales more than 7% organically in the coming years. Of course, a lot of that comes from converting the backlog, but do you also see orders growing in that range now going forward on the more. Yeah.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah, we don't, we don't guide on orders, but we see a strong demand. And I think it's also important to look at the order levels. If you look at the order book to build ratio, so kind of orders divided by revenue in the quarter, you'll see 1.24. So we're still at very healthy order levels to support the revenue guidance of more than 7% than exactly what the orders would be going forward. That's not something we guide for, but we see a healthy market in the coming years as well, supporting the revenue guidance. And I think we'll come back more to [ph] Canada (00:23:28) market dynamics and looking through region by region and so on at the Capital Markets Day in a couple of weeks' time.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Okay. Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

And then, hi, Kristofer, nice to talk to you again. Talking about the exchange rates here. So you're right that looking into this fiscal year that has passed, we actually have had a negative impact from that reporting line exchange rate differences. Looking into the next year, we will have some negatives here starting at the year and then flattening out. So that negative impact reported from FX will be less. If you look at the total FX impact hitting most of the P&L growth FX will be a positive contributor to the year-over-year performance into next year.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank
Q

My question is when you say that you would improve the margin of course you would have automatically improved margin from less negative hedge effects.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Right.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank
Q

So would you expect margin to improve if we strip out that accounting effect?

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

We will have – we will have a healthy contribution here from net sales growth and a good cost control. We still see a pressure on the gross margin. But all-in-all we see margin expansion into the year where FX is one of the contributor. Yes.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank
Q

Okay. Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

Thank you.

Operator: The next question comes from Rickard Anderkrans from Handelsbanken. Please go ahead.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB
Q

Right. Good morning and thank you for taking my question. So two for me please. I want to get back a little bit to the EBIT margin guidance there. And you know the base – sorry, the base for an EBIT margin expansion ambition is now 3.5 percentage points lower looking at the adjusted EBIT. Should we interpret the new guidance as a significant cut to your EBIT margin ambition for the year 2024/2025. It would just be very helpful to understand the sort of ambition and the Delta on the EBIT margin expansion ambitions. So starting there, thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

No, what we are saying, I mean, we will drive margin expansion and our ambition is to come back to the levels that I've been at. So that is what we will do here.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

So pre-pandemic sort of levels is still reasonable then for 2024/2025 in your ambition or how should we interpret it?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

We don't provide with specific days. But the ambition is absolutely to come back to those levels. Yes. And I think there are good reasons for that. And if you see, if I may add to that and if you look at the financial performance throughout this year and look at where we started here in Q1 and Q2 and then see the progression here into Q3 and Q4. And that has been a health or financial development driven by health and net sales. We picked up that growth rate and driven by that. We have successfully worked with our cost reduction initiative. So and we're determined to improve and then going forward as well.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

All right. Thank you. And second question, please. So your MR-Linac competitor is seeing some turbulence at the moment. Do you expect to capture any of that backlog? And have you seen a meaningful increase in interest for Unity recently? And also, if I can slip in another one, what's a total order number for Unity compared to the plus 120 orders you communicated last year? Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you, Rickard. I'll take that one, because I was just down at Astro last week, the big radiation oncology showdown in Vienna. And I think the one of the biggest interests was, of course, Elekta One, but the other one was Unity and the MR-Linac overall and MR and RT at the show.

So I think you're right. As you said, they've had a bit of financial difficulties over the last couple of weeks and months here as well. However, for us, I think having Unity as part of our portfolio and driving it forward is really a key thing for our growth going forward as well, as I think that's important. Throughout the last couple of years it's been a bit lower Unity volumes because of pandemic and supply chain and so on. Its significant projects. But I see it very positively going forward. And to your questions, on the year we were around 20 Unity orders in the last year. Going forward, I expect the higher numbers of course compared to that. And I think what we see in the sales funnel and opportunity in the market is to support good Unity growth going forward. And it's just amazing to see what our or customers, partners, clinicians are doing with the machine, treating cases that before needed 25 [ph] fractions (00:29:04) with two and also doing some simulation free treatment. So it's just amazing to be part of this journey and I also see a positive trend going forward.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

Thank you. That's very helpful.

Operator: The next question comes from Erik Cassel from ABG Sundal Collier. Please go ahead.

Erik Cassel
Analyst, ABG Sundal Collier AB

Q

Hi. Hi. Good morning, Gustaf and Tobias. So first on cash flow, very good this quarter, but I understand that there are different payment terms for the tenders in Italy and Spain. I mean, is this something that has tied up any working capital now or will that happen more as we come closer to start of deliveries now after summer?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

I would say both. But actually what we have had our collection according to our contracts, with regards to the tenders in Spain, and we will have therefore the collections. So that is part of the cash flow that you see. But I would look at it more broadly that we have successfully been driving working capital here as we stated in the Q3. And it also follows the sales pattern here, while we had a strong sales too was the end of Q3 and Q4 and that we have successfully and a good cooperation with our customers work with. So yeah, it's according to plan and following the season pattern here.

Erik Cassel
Analyst, ABG Sundal Collier AB

Q

Okay, and then you bundle inflation and supply chain cost together now and quote as a 200 bps headwind. I mean, is it possible to unbundle that to see how much inflation impact there is here?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yeah, so actually what you see here in terms of the – that component, so you're absolutely right that, it contains some different items. What we see here is actually that supply chain conditions have improved, logistics costs are coming down, when you look at the other items in terms of the raw materials as such is to a large extent components for us, which are discretionary deals and there we have higher prices for these material and component prices and that is what you see here in the net impact impacting the gross margin in the quarter.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

And then I think you can also say that, of course, inflation results and salary increases...

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

...as well primarily often in the first quarter of Elekta's fiscal year, because that's where we increase salaries for our employees.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Yes.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

But we are then working with offsetting some of those effects with the excellence initiatives we have been driving and cost reduction initiative. But also we will continue to focus, of course, on excellence initiatives to offset that effect.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Yes.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

So I think that's another driver in the gross margin as well as SG&A and R&D costs and so on.

Erik Cassel
Analyst, ABG Sundal Collier AB
Q

Okay. I guess I want to get a number on it, but can I ask instead like, is there more to come through from lower freight costs or the I guess those 300 bps to 500 bps that supply chain costs was a headwind last year. Is it possible to see more price cost coming down more and becoming more of a tailwind or have you seen the full effects of that normalizing yet?

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

No, I think we have a favorable trend here in terms of supply chain and logistics. So that is a positive trend in it. And then also take into consideration the salary inflation that will come here in Q1. But those items that you mentioned, we have a favorable trend on them.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

And when we talk to our logistics providers and look at the logistics cost, I think you will see both an improvement versus last quarter and last year's first quarter going into the next year. Just to give a bit more flavor on your question. And I also want to come back to Kristofer's question, [ph] we just checked (00:33:39) what APAC order growth was excluding Australia in the quarter and that was plus 14% compared to then what we reports for the whole region of plus 4% in the report. So, plus 14% for APAC excluding Australia.

Erik Cassel
Analyst, ABG Sundal Collier AB
Q

Okay. Perfect. Thank you very much.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Thank you.

Operator: The next question comes from Veronika Dubajova from Citi. Please go ahead.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Hi. Gustav. Hi, Tobias, and thank you guys for taking my questions. I have two please. One. I just want to go back to that midterm margin ambition. I mean, obviously, in the past you were a lot more precise. And if I go back to the guidance you've given back at the end of fiscal 2021, the ambition was to get to that 14% improved versus that 14% margin that you achieved that year. So I'm just trying to clarify, I think [ph] surprise (00:34:37) your comments about wanting to return to the pre-COVID margin. When you see that, are you talking about the 14% or are you talking about the pre-COVID margin, which was more like 10% to 12%? And I guess if that is still the ambition, why have you removed it from the mid-term guidance? I'll ask that, then I'll have a follow-up after that. But maybe we can get that out of the way first.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Hi, Veronica. So and a bit more flavor on the guidance and of course, is a very important topic, how we see the growth and the margin expansion going forward. So as I said strong growth, more than 7% margin expansion. You've seen it in a second half. We look into the first quarter, we see a good trend into that, the strong development going into next year, same message, strong margin expansion. And then, also in the second year, we want to come back to the previous levels where we started this kind of paired and higher and then we don't have an exact date for that and a certain percentage. But I hope that gives you kind of confidence in our guidance on the margin expansion going forward. And as we say, many of the trends we see now impacting our gross margin, but also EBIT margins are favorable. And you have seen also our cost reduction initiative really bite into costs in Q3 and Q4 last year. We will, of course, give more input on the drivers for this at the Capital Markets Day and what is at three weeks' time. And I think that's an area that would be a big topic that day.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

And I appreciate it, that's really helpful color. I'm just surprised. I mean, if you are feeling more constructive on the gross margin, if you have delivery on these cost savings, why are we not getting that commitment to that 14% margin?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

For us...

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

What's the offset? Yeah.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah, I think what we really, really focus on, Veronica, is quarter by quarter improvement in everything we do from the top line to the gross margin to the EBIT, that's what we want to show. We want to work with prices, we want to work with installation, we want to work with COGS initiatives, we want improved gross margin, as well as driving efficiencies in our R&D and SG&A organizations. I think that this is the message we want to send out and that's what you will see over the coming quarters. And then we will come back and we'll come back to high levels as well. And that's how we see the plan for the next coming two years.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Okay, that's very helpful. And then if I can just ask on the shape of the margin improvement, as you think about fiscal 2024 versus fiscal 2025, is it even paced? Is it front loaded or backend loaded? And then I'll jump back into the queue.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Again, I think its quarter-over-quarter. That's how we focus. Exactly. You know, how Elekta is product based. So it's not the smooth line, but it will be year-over-year improvements.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Okay. Thank you, guys. Appreciate it.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Thank you, Veronica.

Operator: [Operator Instructions] The next question comes from Julien Ouaddour from Bank of America. Please go ahead.

Julien Ouaddour
Analyst, Bank of America

Q

Thank you very much. Good morning, everyone. So I have – I have a couple. So the first one is just a follow-up to Veronica one with the previous guide we had some help just to model the margin. Could you just help us saying you expect to future be closer to the 13% or 14% in 2024, 2025 or on a just below this level, it's just that we don't really understand why you changed the guidance or like rebased or cut the guidance if you still believe that there's some margin expansion? That's the first one.

And then the second one, just on R&D capitalization, you said, like in the past, it should come down, like capitalization should come down, amortization up, still not really clearly the case today. And could you maybe tell us what you expect for this in terms of R&D over the coming years and next year, especially what kind of margin headwind could we expect if you increase amortization for next year? Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you, Julien. Yeah, I will start with the first question and Tobias will take the capitalization and amortization one. But to the first question, I think it's the same answer, a message that I also said to Veronica's question that it is really about quarter-by-quarter improvement back to the levels we were before and also have an ambition to go higher, of course, in the coming years. It will be year-over-year improvements and that's how we see kind of a margin expansion journey going forward. And to the amortization capitalization question, Tobias.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes. Hi Julien and thanks for the question here. Yeah. So I mean if you look ahead here on the development of this item instead what you can expect here is that in terms of the growth saw in the year-over-year a slight uptick given the inflationary pressure. In terms of capitalization that will essentially be on par with current year and then amortization will increase somewhat. So what does that mean then in terms of the net R&D here moving into next year? Yes that will be slightly higher both in terms of total amount as well as a percent of sales and that impact we will have.

Julien Ouaddour
Analyst, Bank of America

Q

Perfect. Perfect. Thank you. Thank you so much. And sorry, sorry again to ask a question about it just a very quick follow-up on the first one of the midterm guidance. Would you say it's sort of cuts of the midterm guidance or not? I mean in your view, how do you like how do you see it?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Now the midterm guidance was margin expansion. That's where we started ACCESS 2025 journey. We've seen as I mentioned lower revenue growth 4% per year. That's in line with the market. We expect 6% to 8% at that point in time. The margin expansion going forward is what we see and now I think believe and support the more than 7% revenue growth in the coming two years.

Julien Ouaddour
Analyst, Bank of America

Q

Okay. Perfect. Thank you very much. Have a good.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Thank you.

Operator: The next question comes from Victor Forssell from Nordea. Please go ahead.

Victor Forssell
Analyst, Nordea Bank ABP
Q

Thank you so much. Just a quick one from my side. I think last quarter, you talked a little bit more about price than you did today. So just curious to hear a bit more about how you view the order backlog that you have in terms of price, when in time you think that will become more supportive if that's already next fiscal year, any sort of figures that you can provide us with would of course be very helpful, but at least a bit of discussion around price of especially solutions and not service? Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

Thank you, Victor. And of course, a great question, we put a lot of emphasis and focus on during the last year because of the inflation. So we have seen good improvement in order backlog and the orders we get in on the price level, really positive to see. That effect will of course spill into the next year and years from our backlog. We will continue on this journey with price into the next year, of course, to offset the inflation on our COGS and salary increases and so on. So we have seen some of the effect already in this year, but primarily will come into the coming quarters here, would maybe focus on the second half of the year.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Towards the end of year where you see the P&L impact. So yes, that is what we will see.

Victor Forssell
Analyst, Nordea Bank ABP
Q

Thank you. And can you just remind us when we look at solutions, how much any given year stems from the backlog and how much is actually incremental orders for that specific year?

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

I think the majority it would be around 80% I think on the solution something like that.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Yes.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

That comes from the backlog. If you just look at the solution parts, the 60%, so to say of our 100% revenue. So the majority is from the backlog. Yeah.

Victor Forssell
Analyst, Nordea Bank ABP

Q

Yeah. Great. Thanks a lot.

Cecilia Ketels
Head-Investor Relations, Elekta AB

Okay. So if there are no more questions, we would like to thank you for listening in today. And please don't hesitate to reach out if you have further questions later on. And we wish you a good remaining date and see you on the road. Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

Thank you.