Elekta – Q3 report and Transformation update 2015/16

Tomas Puusepp
President and CEO

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Chief Financial Officer
Q3 year to date - summary

Emerging markets affected by weak economic development

Order bookings below plan and decreased 6*%
Emerging markets decreased 9*%

Net sales decreased 2*%

EBITA increased by 17% to SEK 855** M

Cash flow from operating activities improved 97% to SEK 311 M

Net working capital reduced to 8% (17) of sales***

Adjusted outlook and update of transformation program

*Based on constant exchange rates
**Before non-recurring items of SEK -139 M (-2) and adjusted for bad debt losses of SEK 107 M (28)
***Rolling 12-months
Order bookings – growth momentum in two regions

**Europe, Middle East and Africa**
Significant decline in Russia, Eastern Europe and in parts of the Middle East
Challenging comparison – EUR 16 M order from Turkey MOH last Q3

**North and South America**
USA: modest growth in line with market
Strong performance in Canada
Latin America
  - Good momentum in most countries
  - Weak market in Brazil

**Asia Pacific**
Continued good development in Australia and China
Declining markets in Japan and Southeast Asia
Leksell Gamma Knife® new systems - order bookings -56*% YTD

Leksell Gamma Knife® new systems

› Good pipeline of new systems - but taking longer time
  - Emerging markets: weak economic environment for high end specialized equipment
  - Icon awaiting regulatory approval (China, Japan, Canada)
  - Awaiting NRC approval in US
  - Market introduction to oncology segment taking longer time than expected

Icon upgrades on track

› Excellent feedback from early adopters

*Based on constant exchange rates
Strong growth in our core linear accelerator business

Elekta Linear Accelerators – order bookings +10*% YTD

› Gaining market share globally

› Continued success of Versa HD™
  – Rapid leaf speeds and high dose delivery
  – Potential to deliver SBRT/SRS in a standard time slot

*Based on constant exchange rates
Transformation program

› June 2015 Elekta announced a transformation program to create a leaner company with improved financial efficiency, higher margins and strong cash flow

› YTD we have realized cost reductions of SEK 80 M

› During our efforts we have identified further areas for improvement
  - Net working capital to below 5% of net sales by FY 2016/17
  - Cost reductions of SEK 700* M - raised from SEK 450 M with full effect from FY 2017/18

› Additional restructuring cost needed for the transformation is estimated to be approximately SEK 550 M and will be charged as a non-recurring item in future periods

Target to reach an EBITA margin of 20 percent in fiscal year 2017/18 unchanged

*Base year 2014/15, excluding currency effects
Financial performance – Q3 FY 15/16

**Net sales:** SEK 7,614 M (6,984), decreased 2%*
- Low volumes of Leksell Gamma Knife
- Temporarily low deliveries in Europe
- Continued good growth in Services

**EBITA:** SEK 855** M (733)
- One-off costs: SEK -139 M (-2) related to transformation and legal costs
- Bad debt of SEK 107 M (28). Primarily Russia and Latin America

**Gross margin:** 40% (39)
- Improved revenue mix with higher share of services

**R&D expenditures:** SEK 1,053 M (1,037)
- Representing 14% (15) of net sales
- Amortization of capitalized R&D increased by SEK 79 M

**Operating expenses**
- Decreased 2***%
- Head count reduction: 155

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**Before non-recurring items of SEK -139 M (-2) and adjusted for bad debt losses of SEK 107 M (28)
***Based on constant exchange rates and excluding amortizations and bad debt losses
Improvement in cash flow generation

Cash flow from operating activities

Cash flow from operating activities - rolling 12 months
Cash conversion above target of >70%
Net working capital to be further improved

DSO* improved to 56 (83) days

- North and South America -42 (-32)
  - Improvement mainly related to a favorable product mix with a relative high level of software sales
- Europe, Middle East & Africa 132 (176)
  - Lowered DSO due to decrease in accounts receivable
- Asia Pacific 97 (87)
  - Increase in accrued income (China)

Net working capital at 8% to sales

- Lower accounts receivable

*DSO calculation based on: Accounts receivables, Accrued income, Advances from customers, Prepaid income
Transformation program: net working capital ratio to sales below 5%

- Net working capital will be reduced to below 5% of net sales by end of next FY (2016/17) with a more efficient produce to order process
  - Historically we have accepted to take orders late in the quarter and ship in the same quarter. To manage these shipments we pre-produce

- This has led to high levels of inventory of finished goods and components
  - We will change this practice and only produce to customer order without allowing for pre-produced equipment

- The change will result in a temporary lower production and shipment volume during H1 2016/17. This is a one-off effect impacting net sales of some SEK 500 M in H1 2016/17. This will result in:
  - Reduced need for components in inventory
  - Minimized risk for having finished goods in inventory

- We estimate that the inventory will be structurally reduced with ca SEK 500 M from current levels
Transformation: savings target increased to SEK 700* M

Transformation program expanded, leading to additional savings:

- Increased financial management and control
- Shared Service Centre to reduce G&A cost
- Efficiency improvement in “produce to order process”
- Consolidation of sales offices
- Optimization of marketing spend
- Ongoing program for material cost reduction

*Base year 2014/15, excluding currency effects
Order backlog

Visibility of future revenue

Order backlog maturity by year (bnSEK)

Q3 Order backlog
SEK ~2.7 bn from backlog expected as revenue in Q4

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Tomas Puusepp

CEO
Need for cancer care unchanged

Cancer growth

People, million

Cancer incidence

Mortality

2012A 2015E 2020E 2025E 2030E 2035E

WHO forecast of new cancer, excluding melanoma

Cancer Care Spending
USD 188 bn

Chemotherapy
Radiation therapy
Surgery
Immunotherapy
Stem Cell transplant
Growth perspective

Mid-term
› Mature markets offer stable low single digit growth
› Continued growth in China
› Service and software growth from the installed base

Long-term
› Cancer incidence growth and retreatments
› Increased utilization of radiotherapy
› Closing the gap in emerging markets
› Improved world economy and political stability

3-5%
6-7%
## Atlantic investment on track for launch in 2017

<table>
<thead>
<tr>
<th>Planning</th>
<th>Ambition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery of all consortium systems</td>
<td>During 2016</td>
</tr>
<tr>
<td>Regulatory approvals - CE Mark, 510(k)</td>
<td>During 2017</td>
</tr>
<tr>
<td>Launch and taking commercial orders</td>
<td>2017</td>
</tr>
<tr>
<td>Total orders during ramp up (until 2019)</td>
<td>75</td>
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<tr>
<td>Expected market price</td>
<td>USD 8-10 M</td>
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700 MUSD order opportunity until 2019
Updated fiscal year 2015/16 outlook

2015/16
Slightly negative growth in net sales for fiscal year 2015/16*
Improved EBITA** margin
  - Cost reductions
  - Product mix improved
  - Growth in service

2016/17
Improved EBITA margin
  - Growth in service
  - Cost reductions
  - Positive Y/Y EBITA effect of ca 250 MSEK expected on FX for FY 2016/17
Working capital reduction

* Based on constant exchange rates
** Base year 2014/15, adjusted for non-recurring items