



an NTT Communications Company

Transcription

Title: Elekta Q4 Report

Date: 29 May 2019

Speakers: Cecilia Ketels (Moderator), Richard Hausmann (President and CEO), Gustaf Salford (CFO)

Conference Ref. No: EV00090309

Duration: 01:01:33

Presentation

Operator

Welcome to the Elekta Q4 Report. For the first part of this call all participants will be in a listen only mode and afterwards there'll be a question and answer session. I will now hand over to Cecilia Ketels. Please begin.

Cecilia Ketels

Thank you very much. A warm welcome to Elekta's conference call, following the publication of our year-end report. I am Cecilia Ketels, the new head of investor relations at Elekta. So if you have questions that arise after this call please don't hesitate to call me. But questions arising during the call you can of course ask and get answered at the Q&A session at the end of this presentation. With me here in Stockholm, we have Richard Hausmann, Elekta's CEO, and Gustaf Salford, our CFO, who will be presenting our results. On the screen you can see today's agenda. Richard will start by presenting our development and highlights both in the first quarter and for the full year. Then Gustaf will give you more details on the financials. And at the end, Richard will summarize the key findings.

But before we start, let me just remind you that some of the information discussed on this call, including our projections regarding revenue, operating result, cash flow as well as products and product development, contain forward-looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statements.

With that, I hand over to Richard

Richard Hausmann

Thank you very much Cecilia and good morning everyone. Before I walk you through our latest development, let me start by stating what Elekta is.

We do precision radiation medicine and we are convinced that this will continue to drive our growth in the years to come.

We will work with the ability to treat exactly what a tumor is, saving surrounding tissues reducing side effects on the patient. Elekta has a history of innovation in this area with products and technologies such as Leksell Gamma Knife, VMAT, IGRT and most recently with our Unity, which combines high field MR imaging and high precision linac treatment. These help to deliver optimal, individualized treatments for every patient.

With the word radiation we focus on providing unmatched competence and expertise based on our heritage and catering to the global and increasing need for radiation therapy, a very cost-efficient cancer treatment. As a company we are committed to bringing high quality treatment to people in need anywhere around the world.

And with our focus on the word medicine we support cancer patient and clinicians throughout the treatment pathway through our market leading OIS software package MOASIQ Plaza, enabling better decisions and driving continuous learning and improvement of treatments and outcomes. We are convinced that precision is also realized with proper software modus and that software alone can fight cancer by improving outcomes, for example adhering to standard of care.

Let me first highlight some of the activities in the fourth quarter that strengthened our position within precision radiation medicine. To start off I would like to mention that we have won another international award for the functional and usability design of our Unity. In one of the largest design competitions in the world, the Red Dot Design Award, Elekta was selected for the best product design 2019. This prestigious award illustrates our commitment to designing patient-centric technologies that allow clinicians to deliver the best quality cancer care worldwide.

At the ESTRO conference in April we presented our new software MOSAIQ Plaza together with our innovative portfolio. We had many visitors interested in our demonstrations, especially around our software offering and Unity.

During the fourth quarter we reached a milestone in our linac business. We have now delivered 5,000 linear accelerators to clinics worldwide. A great corporate achievement and a receipt that patients in many parts of the world can receive high quality treatment. More clinics are also installing and treating patients with Elekta Unity and thereby experiencing the advantage of magnetic resonance imaging where you can monitor the therapy in real time and adapt the treatment if needed.

We have also acquired a minority stake in the German company iRT Systems, which has developed a system for a true real-time quality assurance by comparing the delivered to the planned treatment while the patient is on the table. This fits very well with the workflow of our integrated treatment solutions.

Looking at the financials, we had a strong finish of the year, delivering on what we promised in February. We had good order intake and a strong sales growth, outperforming the revised sales target. Compared to the third quarter we managed to improve our gross and EBITA margin significantly, mainly due to a better product mix. This had a positive effect on our operating cash flow and together with a relatively large reduction in net working capital we strengthened our cash flow for the period.

Our Unity business developed in line with our expectations. The sales funnel continued to grow, and we received 6 new orders in the quarter. However, some of the expected orders for Q4 took a bit longer to close due to longer procurement processes with Unity than with regular linac. These prospects shifted into the new fiscal year. As of today, we have in total received 45 Unity orders. On that basis and with our pipeline quality I am confident to reiterate the 75 orders we expect by mid-2020.

In March we received approval to sell Unity in Canada and before we closed the quarter we also got our first Canadian order, which came from Alberta Health. We now also have received our first commercial order from Cooper University Health Care in the USA.

In EMEA we had three Unity orders booked, coming from clinics in The Netherlands, France and Turkey. In APAC we now have 12 ordered Unities altogether including one order received from Thailand in the fourth quarter.

We are happy about the great interest in our Unity. And as of last week the market widened further when the Japanese market opened up for our Unity as we received approval for clinical use in the country.

I would like to highlight some statistics of the usage of Unity so far. The clinical results of the installed Unity system look very convincing. As of today, almost 200 patients have completed treatment. During these treatments there have been more than 1,700 online adaptations, which underlines the capability and advantage of Unity.

A normal session time is about 25-30 min on average, but there have been session times as short as 16 min. As expected customers are using Unity for Stereotactic Body Radiation Therapy (SBRT) at a rate of over 50%. This rate will increase as clinical experience expand.

Unity has since the beginning been used to treat more than 12 different types of cancer. In the graph on the right-hand side you can see the share of the different treated cancer types. Prostate cancer, oligometastatic and rectum cancer are so far the most common ones, but the usage is growing and includes breast and bone cancer just to mention some more.

The momentum-project collecting co-rated clinical data from our consortium members and early adopters is in full swing and we expect further results and publications in due time.

These treatments are presently carried out on Elekta Unity-systems installed at 10 different sites. During the quarter The Christie in UK, Hong Kong Sanatorium and Shandong in China started treating patients. It is important to mention that the Shandong is the first clinic to install Unity for the CFDA clinical clearance in China. Then we have another 11 systems under installation right now.

As I mentioned in the beginning we had a very successful ESTRO in April. Our recently launched new edition of our oncology information system, MOSAIQ Plaza, got interest from both existing and potential customers. MOSAIQ Plaza has many advantages enabling for example process visualization and automated streamlined care coordination with much fewer clicks and portability. It makes the doctors totally mobile in their workflow. In the scientific sessions at ESTRO Elekta Unity had been covered in 60 presentations, which was significantly higher than competition. This is actually quite amazing considering the relatively short period Unity has been clinical.

Let me talk about the regional order development, first for the isolated fourth quarter. The positive development we saw in North America in Q3 continued in Q4. Together North and South America increased order bookings by 9 percent. Good contribution came from the 2 new Unity orders in North America and the strong software development.

EMEA continued to show great organic growth at 18 percent in the quarter. Middle East and Africa were driving this growth and we saw large orders coming from South Africa and Turkey. Western Europe also had a good order intake from mature markets such as the Netherlands and France. The new regional managers in Europe and Middle East & Africa showed great performance and team building.

Asia Pacific had a weaker order intake in the quarter, - 8 percent. Especially Australia and Korea were weak, mainly due to tough comparables and the volatile Korean market. We had good order intake from Thailand, among others one Unity as I mentioned before, and a strong intake in for example India and Japan. Despite lower growth in Asia Pacific in the quarter we maintain a positive outlook for the region.

If we look at the full year order numbers, North and South America came in at -1%. The decline is due to challenging market conditions on the South American market – North America grew with 5% for the full year. Order growth in Europe, Middle East and Asia Pacific was strong throughout the year with 18 percent growth. The performance was good in the whole region. The strongest performers were Southern Europe and the Netherlands as well as North and Sub-Saharan Africa.

In spite of the weak Q4 in Asia Pacific, we delivered a healthy order growth at 6% for the full year. In China order intake was stronger than the regional average.

We continue to leverage our market leading position in China and see high activity levels linked to the linac procurement plan to be realized in the coming quarters. At the same time the effect of the ongoing trade war between China and the USA is hard to predict.

Summing up our annual performance, we reached a record base of installed Elekta units of approximately 4,300. This implies an annual growth rate of 6%.

Our record installed base is a good foundation for our service business going forward. We are steadily growing our service share of revenue, a development I am happy about to secure a stable and recurrent revenue flow over time.

I am also happy to state that our gamma knife business had a very strong year and that the market is showing high interest in the advantages of our new oncology information system.

Last but not least, we received very good clinical feedback from the performance of Unity. With strong clinical back up, the commercial approvals in the markets we had expected, and good order bookings and an increasing pipeline for Unity I can only describe 2018/19 as a successful year for Elekta.

I would like to add that I'm happy and proud, but I'm also not surprised. We turned the company around the last three years, and we now have a great foundation. If we look at our performance overall during the year, we managed to increase our previous year's sales growth by reporting a 10 percent sales growth. We managed to do this at the same time as we shortened the time from shipment to installments.

If we look at our performance overall during the year we reported good organic order growth of 8 percent and we outperformed our previous year's sales growth by reporting 10 percent growth. We managed to do this at the same time as we shortened the process from shipment to installation. This makes me very proud and shows our power to deliver!

The gross margin stabilized over the year and for the full year we delivered a good gross margin of almost 42 percent. EBITA margin came in as expected around 18 percent for the year.

So if I compare this to our targets I state that we delivered on our guidance. Actually, we over delivered on this. We were growing, even more than we expected. With an organic growth rate of 10 percent we even outperformed the revised target from February. We also fulfilled our revised EBITA target by reporting an EBITA of 18.3%. Now I hand over to Gustaf to give you more details on how the profitability development.

Gustaf Salford

Thank you, Richard. I will now run through the financials.

So, let's start with the P&L for Q4 in isolation. Net sales came in at a strong 12% for the quarter – which was higher than plan due to strong installation base and service volumes and no negative impact on the supply chain due to the delayed Brexit.

The growth was especially strong in Asia Pacific that came in at +29%.

An improved product mix with a high share of software and service drove a higher gross margin, which ended up at 45.2% for the quarter.

EBITA margin came in at a strong 24.1% for the quarter.

Let's turn to the full year numbers. Net sales was up 10% for the full year and we are showing growth in all regions – North and South America growing +8%, EMEA at +9% and Asia Pacific at +16%.

Our solutions sales grew with +12% for the full year with growth across all business lines, Service revenue came in a +7%.

In term of gross margin, we had a strong finish and come in at 41,9% for the full year. I'll go through the EBITA bridge in more details on the next slide. Tax rate came in higher than plan at 24% - which was a result of a change in product mix, this was a one-off effect and we expect tax rates to be at 22-23% going forward.

Let's turn to the EBITA bridge for the full year. The volume growth continued with record level linac installation levels and roll-out of Unity amounting to 866 million kronor.

In the full year price and COGS impact had an effect of negative 242 million kronor which was a reduction vs. Q3 levels. We have seen price levels improving during the last quarters and we have also achieved higher levels of COGS savings.

For the full year the commercialization costs of Unity and the reduction of capitalization post CE mark amounted to 585 million SEK.

The FX effect on EBITA came in lower than projected – and ended up at +84 million SEK. All in all, EBITA margin for the full year was in at 18.3%.

Now to the expenses. We have a continued focus on cost control, but there is a significant impact from R&D capitalization and amortization impacting Q4 and full year expense numbers.

Net R&D expenses increased with 37% for the year and 68% for the quarter due to higher amortization and lower capitalization following the CE-mark of Elekta Unity earlier in the fiscal year. If you adjust for this effect you'll see that our gross R&D spend was down with -3% vs. last year and -5% vs. last quarter.

In relation to net sales our gross R&D spend is now at 10 percent on a rolling 12 months basis. In the fourth quarter amortization increased somewhat compared to Q3 levels due to some one-off impacts of around 20

million SEK. Going forward, we expect capitalization rates to increase, when more R&D projects reach the development phase.

Now I'll turn to the balance sheet and working capital development. During Q4 we have focused on collecting the Q3 invoicing of service contracts and projects with a reduction of accounts receivables as an effect. We continue to carry somewhat higher inventory levels as part of our long term brexit mitigation plan.

On the liabilities side, volume drove up accounts payable and prepaid income. Overall net working capital levels are at -15% percent to net sales – and we project to continue to operate at negative working capital levels at around -10% also going forward.

Our cash conversion came in at +151% for the quarter and +61% for the full year. As shown previously it was the reduction in working capital that primarily drove the improvement in cash conversion in the quarter. Financial net came in lower after one-off effects in last quarter. During the coming periods we will continue to focus of achieving a more stable and stronger cash flow. Our ambition is to be at a cash conversion of >70%.

And now to our financial position and capital allocation. Our balance sheet is strong, and our net debt amounted to 439 million kronor at the end of the period representing 0.2 times EBITDA.

We have four key capital allocation areas. Dividend policy of >30% and during the year we distributed a dividend of 1.40 kronor per share corresponding to 49% of net profit. We made selective acquisitions, Acumyn in July 2019 and an investment of a minority stake in IRT in April 2019. We increased footprint in emerging markets with investments in Middle East & Africa. We did a debt payback to improve our long-term financial net. A payment of 50 million USD loan in Q3 and 50 million in Q1.

I will now briefly describe the impact from IFRS16. You can find more detailed information in our quarterly report. IFRS16 is a new standard on accounting for leases that Elekta will apply as of May 2019. The standard requires leases to be recognized in the balance sheet. We will use the modified retrospective approach doing an adjustment on the opening balances to show the cumulative effect.

The effect on the balance sheet will be 1.2 bn SEK in total assets primarily from our long term site lease in Crawley We will see a small effect on our profit and loss statement with around 200 million SEK full year impact on EBITDA level and around 20 million SEK on EBITA level.

Cecilia Ketels

It sounds like we have problems with the sound, and I hope you can hear us now. We will repeat the presentation from the IFR16-page, so we get everything because we don't really know when you were cut off.

Gustaf Salford

Yes, Cecilia. [Gustaf repeating the message from the last page]. And with his I hand over to Richard.

Richard Hausmann

Thanks Gustaf. With the fiscal year closed the Board of Directors suggest a dividend of 1.80 SEK per share. This implies a pay-out ratio of 57 percent, well above our dividend policy of 30 percent. Looking ahead we have the following guidance for the fiscal year 2019/20.

We expect organic net sales growth to follow our previous communicated mid-term guidance, that is a sales growth in the range of 8-10 percent. Our EBITA margin for FY 2019/20 is expected to improve to around 19 percent. This is based on continued commercialization efforts of Elekta Unity as well as investments into innovations such as Elekta Digital. Our mid-term scenario from FY 2020/21 to 22/23 remains unchanged.

Sales growth and orders, gross margin picked up at year end. We have a strong financial position, high interest for Unity and great customer feedback and prospects. And with that, I hand over to Cecilia.

Cecilia Ketels

Thank you, Richard. We will now open for question session and I'm very sorry for the quality of the conference call and the sound. I hope this is now fixed and you can hear us, and we can hear you. When we do the questions may I ask you to just say one question at a time? Of course, you can ask more than one question but let us first respond to the question asked. Operator, do you have any in line for questions?

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press zero one on your telephone keypad. We now have a question from Annette Lykke from Handelsbanken.

Annette Lykke First of all congrats with an excellent result. My first question in respect to your Unity installations, you are saying that you have now ten hospitals in use and you have installed another 11 Unitys. My question is then when should we expect to see sales from the systems you have already installed?

Richard Hausmann

May I correct? What I said is that we have 11 systems installed or under installation. So, they're not completely installed. So, we are typically handing over one system a month, going up to two now in the outcoming month. So that's the pace which we expect the revenue.

Annette Lykke

Yes, but my question is more that for example I know that you have installed five systems in China, not being sales recognized.

Richard Hausmann

No, the five systems in China cannot be recognized until the CFDA clearance is done which is expected to be in the first half of next calendar year.

Annette Lykke

I am astounded. I'm just trying to figure out how much additional Unity sales you have out being installed or close to being installed that could be recognized during 19/20.

Richard Hausmann

Annette, I think it's this ramp up from around one per month up to two per month during the year. That's how I see it. The main revenue trigger point is the start of installation of the machine and then we have also when we hand over the system. What we showed as ten, was the system that is now clinical and can treat patients. Then on the five China machines you referred to, they will happen sometime in spring next year. That's unknown if it will be Q4 or Q1 impact. In our guidance for next year, they're not included.

Annette Lykke

OK. As you are [inaudible 00:27:24:05] right now I think it could be interesting to hear a bit more [inaudible 00:27:27:12]. Are you considering buying that? Or should we expect a change in the overall dividend policy? Or do you see some variance from the M&A opportunities for example within software?

Richard Hausmann

Yes, if you look at our capital allocation model, it is still the four main areas; dividend, the M&A expansion, geographically and maturing debt. So, dividend, we can be over the 30% that we mentioned. We are looking for an interesting M&A candidate especially in software, but also those in geographic distribution and technology as we will continue to build up

our office network around the world because we want to be close to the emerging markets. And then we see also opportunities to pay back maturing debts. It will be those four main areas.

Annette Lykke

Yes. Thanks a lot.

Operator

Our next question comes from the line of Sebastian Walker from UBS. Please go ahead, your line is now open.

Sebastian Walker

Hi there, thanks for taking my questions. So, first of all on the China quota. Maybe if you could comment on what you're seeing in the Chinese market that gives you confidence on the quota impact over the remainder of the year? And then if you could maybe just comment on the timing of when we should start to see those orders come through over the course of the year.

Richard Hausmann

A good question, thanks for that. The true effect of this investment quota we don't see yet. We expect it in the next quarters to come. It's difficult for us to say. I always say the individual deals are not earmarked as being from the investment program or a normal one because they're still normal. But we will expect to see the effect in the next few quarters.

Sebastian Walker

Great, thank you. Maybe longer term, thinking about the commercialization strategy for Unity. Could you talk about whether or not you have made any progress in trying to secure the higher reimbursement for Unity or what milestones you have ahead of you?

Richard Hausmann

Yes. I cannot unfortunately say that we've secured the higher reimbursement rate, but what I can say is a few things. Number one, the clinical results are really convincing. They have not yet got the statistics, but they show exactly what the system promised and is. So that's a very important starting point. The second thing is that a momentum study has started and a few additional earlier doctors are pooling corated data of the Unity systems into one database, so the increase of statistics we expect at ASTRO in the fall, quite significant publications coming from our customers, maybe even some data analysis already from the momentum study. And then later on, let's say in a year from now, we expect a major milestone of a momentum study, first data analysis in stronger statistics and that can help us then, or our customers in a way, to apply different regions of the world for potential reimbursement increases or separations or reimbursement for MR guided, or for MR based linac systems.

Sebastian Walker

Perfect, thank you. Just one last one as well. If you could comment on the number of Unity's that you've started installation on or started revenue recognition on in Q4 versus Q3, that would be helpful.

Richard Hausmann

Yes, we had a good build up in Q4 so a positive thing that we're ramping up for two per month rather than one per month. Then, as you know, during the year we have also had these machines that we've taken from consortium members up to full clinical machines.

Gustaf Salford

We also see a speed up of the installations right now by having learned installing the systems. Of course, it's a learning curve. We have for example handed over the Hong Kong Sanatorium system last Friday to the customer and they're planning patients for this week already.

Sebastian Walker

Great, thank you very much.

Operator

Our next question comes from the line of Christopher Liljeberg, from Carnegie. Please go ahead, your line is now open.

Christopher Liljeberg

Thank you and congratulations to a good report. My question is related to gross margin and the improvement to your EBITDA margin. What will be the driver for that? Is it mainly the [inaudible 00:32:35:00] and the reason I'm asking is that it seems operating costs were rather accelerating here in the fourth quarter?

Gustaf Salford

Yes, so we will get good leverage from our top line on gross margin. That's one of the drivers. Although we have seen a bit of this price point for linacs stabilizing we see some improvements there as well. We also see further opportunities to continue to work with the product mix, and also COGS to have a strong gross margin effect. If we look at the expenses, you see the big effect especially on R&D expenses in the last quarter, but we expect to be on those levels into the next year as well. So, then you get some leverage on SG&A and R&D expenses down to the EBITA margin. However, we will continue to invest in key areas, and innovation, and for example further geographical expansion, so that will drive some additional investments. And that then takes us to around 19% that we guide for on EBITA. We also look at cutting COGS for each major product line, cost reduction programs so that we focus next year on implementing these and getting improvements in the quarters to come.

Christopher Liljeberg

Thanks. When you say expenses will remain at these levels. Do you mean the Q4 level and then we multiply that by four more or less and of course account for some seasonality?

Gustaf Salford

There will be some higher expenses related to investments in say the marketing and then a bit on the admin side because there is quite a lot of requirements when it comes to the MDR and QA/RA requirements going forward. But I still say we can get some leverage on those investments.

Christopher Liljeberg

Great, and then very quickly, the shifted Unity orders, do you think they will show up in Q1 or later in the year?

Gustaf Salford

Yes, as I mentioned in our report, the time frames between start-up of discussion in a Unity project to final signed order is kind of longer and that's natural, compared to a linac. It's a larger deal. It's more money and more budget. It is all the different bunker situation. A magnet situation needs to be evaluated etcetera, so that's what we saw now in the last year. That's why all the income was a little bumpy also I would say and not as fast as we have originally thought, and you remember Q2. But now we have that steady state and we of course are trying to optimize that. But a few orders which we have expected to maybe close even in Q4 have shifted now into Q1 or Q2. If it's Q1 or Q2 I cannot say because clearly

there are some ongoing discussions about some financing aspects etcetera which are typically happening at the end and contractual aspects. But there's nothing lost but it's just shifted.

Christopher Liljeberg

Right, thank you very much.

Operator

Our next question comes from the line of Michael Jungling, from Morgan Stanley. Please go ahead, your line is now open.

Michael Jungling

Thank you and good morning everyone. I would like to ask two questions. Firstly, on Unity, in which regions were you hopeful in capturing orders, but did not? Was this primarily the United States or was it the other regions that you disclosed on a quarterly basis? And then question number two is, on the 2020 guidance, the next fiscal year, when it comes to the sales growth of 8-10%, how much comes from Unity? In the very simple calculation of taking ten Unities times eight to ten million dollars, and therefore it's 5%? Or is there some more science behind that? And also part of the guidance, what amount do you include in the EBIT line for the line item Exchange Rate Differences? That would be helpful, thank you.

Gustaf Salford

Thanks Michael. I take the first one. It's not a question that we were hopeful to get the deals. It's more about the closing of deals. But it is mostly, if I recall the ones which are under closing, there are quite a few in Europe, Middle East and we also have active projects in the United States which we'd like to close soon.

Richard Hausmann

If I understood it correctly, Michael, the revenue impact from the additional Unity orders compared to this year was that correct?

Michael Jungling

If I look at your guidance for next year, 8-10% constant net sales growth, how much of that is Unity? If I take ten Unities for the year...is it two per month? Yes, so two per month. If I then multiply that up I virtually get no growth coming from your base business. I'm trying to get some colour on how much Unity will impact growth in the guidance of 8-10%.

Richard Hausmann

OK. We don't carve Unity out in our guidance in that way. We have had Unity revenue this year both from upgrades of consortia sites, but also of course the new installations. So, it is a significant part of our guided number on revenue. But we don't disclose the specific percentage.

Michael Jungling

Right. And then on the EBIT question, the FX differences line? You have a foreign exchange tail wind for this year. How much is the impact going to be on that line item in EBIT?

Richard Hausmann

Yes, so we tried to rather talk about the EBITA impact from exchange rates if you go through the full P&L and this year, as we mentioned, we were at 84, 85 million SEK. If we look into next year, with current exchange rates, today's rates, we come to plus 140 million SEK.

Michael Jungling

OK, thank you. And may I just follow up on this Unity in the United States Richard? Are you disappointed that in the market where hospitals can do DTC advertising and therefore really market a Unity that you haven't received more orders since the FDA approval? Is that kind of a surprise to you?

Richard Hausmann

Oh, I know. No, that means we had that last time already. We really started active marketing only after the FDA clearance that's now five and a half, six months back. The time frame for closing a deal is longer, so I'm not disappointed on that topic. I'm happy that we got this one order in US and another order in Canada. As I said, we have a strong pipeline generally all over the world, but also in the United States quite a few discussions on ongoing negotiations on the Unity side.

Michael Jungling

And finally, Gustaf, on the guidance again. If I assume that maybe you do one to two installations per month or so for Unity, if I take that number and I times it by eight, nine or ten million, use the exchange rate, it seems to me that your guidance implies that there virtually is no growth or perhaps even negative growth for your base business of solutions and software. Where am I going wrong in the math, because that to me seems highly unlikely that that would happen.

Gustaf Salford

That's absolutely highly unlikely and as I said, on the order side this year and our view going forward as well, we are seeing good growth in the rest of the business lines, solutions, software, brachy therapy, service. So maybe in your calculations it's how you see the base for this year. So, we've had revenue this year as well and then it's how many installations we get into next year. And as we say, we have a shipment plan or supply chain for 24 slots, and now as we speak, we're filling up those slots going forward. So, we have good growth in the underlying business.

Michael Jungling

OK thank you.

Operator

Our next question comes from the line of Romain Bernard from Exane. Please go ahead your line is now open.

Romain Bernard

Thanks for taking my questions. I have three please, the first one is regarding Gamma Knife, if you could please detail the constant currency growth that you had over the full year and maybe how much Gamma Knife now stands for the group sales. Second question is regarding the profitability and I was just wondering what has really changed at profitability level compared to your initial plan of delivering a EBITA margin of more than 20% in the short term because you are still not guiding this for the next fiscal year. Is it purely related to rising pressure and what makes you confident that this will improve as your mid-term ambition is still intact? Last question is more on accounting and the balance sheet. It seems that you have restated the element of accrued income for the year ending in 18, so 2,160 from 1,600 so can you just explain the mechanism here please? Thank you.

Richard Hausmann

Let me take the Gamma Knife. Gamma Knife had a very good year with 30 orders of new Gamma Knives in this fiscal year. That shows actually that our initiatives on focusing on this particular strong, great product, and enlarging the market into the oncology market with our Icon introduced a few years ago is really successful right now. We don't comment or detail on individual margins, but I can tell you that this product is definitely margin increasing on the average, so from that point of view I am happy about these good dynamics in the Gamma Knife.

Gustaf Salford

On the question of some guidance why we reguiled from 20 to 18 of the Q3, I think we talked a lot about it in Q3 but there were two main reasons. There was a bit more price pressure than expected on the existing linac platforms that I mentioned are now stabilized and actually is improving. That was one of the factors. The other one was that the capitalization levels compared to the initial plan was a bit delayed or lower. Those were the two main factors why we reguiled. And the later one, if you look at accrued income, the effect from, if I understood your question right, from accrued income at the start of the year we talked a lot about that in the Q4 and Q1 reports as well. But the key effect is that previously we took revenue on shipment and then according to the new accounting principle, IFRS 15, we take on start of installation. The effect from that is that accrued income reduced, and inventory increased, but that was the main effect. And we can take a detailed call on that if you want to understand it in more depth.

Romain Bernard

Thank you, very helpful. And just on Gamma Knife, so the gross for the fiscal year was [inaudible 00:45:34:13] or more?

Richard Hausmann

So, we saw strong Gamma Knife business throughout the year, both on the order side and on the installation side. We don't disclose the margin. It's not our segment to talk about product margins, but overall Gamma Knife is a very good margin contributor.

Romain Bernard

OK thank you.

Operator

Our next question comes from the line of Kit Lee from Jefferies. Please go ahead, your line is now open.

Kit Lee

Thank you and good morning. I have two questions please. Firstly, on the order growth. I think it was down 8%, but just wondering what was the growth in China? And is that still growing at a healthy rate? I'm just trying to get more colour in that region please. And the second question is on the gross margin just on your expectations for 2019 and 2020. What's in your pipeline currently, is that largely in line with what you have seen in Q4? How should we think about gross margin or project mix for the current year? Thank you.

Richard Hausmann

Thank you, Kit. If you look at the APAC orders, it was not the strong number in Q4, we agree. The main reason for it was difficult comps in Australia, New Zealand and Korea and Japan, so that's positive, off the long period of more challenging market conditions there. It was not the great development in China, but we maintain our view and we have a very positive view here in Q1 and Q2 and Q3, for China.

Gustaf Salford

And the whole year for China was the largest growth in the whole Asia Pacific region.

Richard Hausmann

Yes. If you look at the gross margin question for next year, we don't guide on gross margin, but we can say that we're focusing on a couple of areas, and it is about the COGS reductions by business lines. It's also about working with a product mix so we've seen very promising software for the growth in the US for example, that's about delivering that in the next

year. Then of course also the Gamma Knife business and so on, so we have a positive perspective on gross margin there as well. And it's also about growing the service business. Now we saw a strong growth in Q4 of around 9% and 7% for the full year, so it's really to continue this strong growth going forward to support the gross margin.

Kit Lee

And maybe just to follow up on China, do you think that's just a temporary blip on the market demand? If I look at variance numbers in the same quarter, they seem to be doing quite well in that market, so I'm just wondering what were the factors in this quarter in China?

Richard Hausmann

We see that absolutely as a temporary thing. There's always a certain variability from quarter to quarter. Overall China is our stronghold. We're market leaders there. We strongly connected and our customer base is extremely happy also with our products. Good situation to grow further. We're bringing out now during this fiscal year what we call the value linac, which will cater to the small bunker situations which are there from the cobalt system so we see quite a good momentum still. I'm a deep believer in China actually, overall as a company we're investing significantly into China in our engineering and productive processes, so from that point of view I see unbroken dynamics.

Kit Lee

OK. Thank you.

Operator

Our next question comes from the line of Veronica Dubayova, from Goldman Sachs. Please go ahead, your line is now open.

Veronica Dubayova

Yes, good morning gentlemen, and thank you for taking my questions. I'd like to start with Unity please. I'm just curious Richard, when do you think we see further acceleration in the order of momentum for Unity? I mean, we've been at this six to eight for a couple of quarters now. What needs to happen for you to start seeing faster growth in Unity orders than where you've been tracking the last few quarters?

Richard Hausmann

Yes, you're right what you're saying. I think we will accelerate in the quarters this year; we're confirming our 75 for the middle of next year which means we're 30 away from it. We have 45 Unity orders in the backlog. I'm optimistic about that target. And it could also be more. But let's see how the whole timeline goes. We realize really that the order process takes longer for clinics and hospitals. It's not only for us by the way. But the others have started a little bit earlier. So, from that point of view, I'm optimistic that we're getting to this level of seven, eight or more. Then of course the big push will come as soon as more clinical results are out and initiatives for different reimbursement. As I said before, the clinical results individually right now from what we hear from our customers and their patient, is just outstanding. So, from that point of view I'm bullish on this Unity thing.

Veronica Dubayova

So, you think the only thing other than time, the only other thing you need to see further growth is clinical data which will not come for another year?

Richard Hausmann

Yes, clinical data, and more systems being in use, more data coming, more statistics, different applications. We now have seen 12 different cancer types. There is more to be done. That I agree.

Veronica Dubayova

OK. Thank you. And then my other question for you, although I have a couple of financial questions for Gustaf after that, is thinking about the guidance. Obviously 8-10% may be a slightly wider range than what we've been used to from you guys in the past. What would leave you at the lower end versus the upper end of that revenue growth rate range for the year?

Richard Hausmann

If you look around the world, I would call it not the most stable world right now. From the overall financial situation, tariffs back and forth, Brexit still in the air. So, it's not unnatural I would say that in particular situations we are a little bit more cautious in our guidance. But you know me, I'm also quite optimistic that we will hit this guidance quite well.

Veronica Dubayova

OK, thank you very much. And then Gustaf, two questions from my side for you. One is I might have missed this in your prepared remarks, but the guidance you have for R&D capitalization and R&D amortization for the year if you could clarify that, that would be helpful.

Gustaf Salford

We had one-off costs of 20 million SEK so if you exclude that that's the level I would expect into next year. On the capitalization rate that 124, that will be built up over the next couple of months and quarters up to around 150, 160 level I would say, throughout the next year.

Veronica Dubayova

OK. That's great, and my second question, can I just confirm, I wasn't clear in your response to one of the previous questions. Do you expect gross margins to improve in fiscal year 20? Or to remain stable at around the 42%? What is embedded in the guidance that you've given for the year?

Gustaf Salford

We don't guide on 42%. I'm more talking about the driving forces there.

Veronica Dubayova

OK thank you.

Gustaf Salford

So, we're not guiding.

Veronica Dubayova

You're not ready to comment on whether gross margins are flat or they go up from here?

Gustaf Salford

We see good opportunity and good drivers to increase and the primary driver would then be cost reduction across the business line and the second driver would be product mix, to work with that on the software service and solutions side. That's the two main drivers.

Veronica Dubayova

OK, thank you very much.

Richard Hausmann

One or two things Veronica, which you also need to add on that is that on our development of the linacs because this is the biggest business as you know, the price stabilization in the last few quarters is quite potentially increasing prices with our configuration management etcetera and our marketing activities around that. I'm quite happy about that too.

Veronica Dubayova

Understood. Thank you both very much.

Operator

OK our final question comes from the line of Scott Bardo, from Berenberg. Please go ahead, your line is now open.

Scott Bardo

Yes, thanks for taking my questions and I'm sorry if I'm going over old ground. The call was not legible for the first 30 minutes or so. First question Richard just on Unity please, can you give us a bit of an update as to where we are with some of the features and functionality of Unity? Do you have automatic gating now, or are you still in a manual gating scenario? Perhaps some update on functional MRI and real time treatment planning just some sense there please. Second question just really coming back to your capital markets day in September 2018 so eight, nine months ago. Where you guided for around 20% margins for the fiscal year you've just presented and the upcoming fiscal year and out to 22% margins out to 2022, 2023. Now clearly growth has been a bit better, currencies have been favorable, yet you posted an 18% margin this current fiscal and are now guiding for a 19% in the next fiscal. So, just can you give us some sense as to what has really changed? Why did you underperform your capital market expectation? And why are you guiding slightly softer than you anticipated nine months ago and are you still confident in the mid-term margin outlook? Thank you.

Richard Hausmann

Great, good questions. Let me start with the Unity. The automatic gating will now be released in a first version towards the end of this calendar year. And we're working on that. That is not yet released to the full market but will be. We also see our customers using the manual gating, or the dialing gating which actually is working quite well too, because the doctor sits behind the console anyway in these adapted procedures. The diffusion is on the research model available already and clearly shows on those sides which are using it the advantage of high versus low field systems, in MR and it shows much better diffusions imaging as it shows overall much better image quality anyway. In particular in the real time mode which is also a requirement of a good visual gating, which we can provide on the system. So, I would say from the functionality point of view, we are quite on track and we will fill the gaps which we still have on the gating in due time as we move forward. Coming to the capital market, I agree with you that we didn't fulfill for last year for sure. That was a little bumpy I would say start of the year which we couldn't completely recover to the end. It was also partly related to this transition into this new accounting regime. It was the first year and the start was a bit influenced by that. We are now in the mode that we are completely running that new method. I'm very pleased to see that we have delivered and started installations of more systems than ever for Elekta in the last fiscal year. From that point of view, we are on much more stable ground. Still we have to do some investments into Unity commercialization. We wanted to do a few more things on Elekta Digital. The full momentum for Mosaik Plaza which actually a bit overwhelmed us, even the interest, so we want to be a bit faster implementing all the topics and get it to market. So that is the other reasons why we guide not the full 20 for this fiscal year but to 19. But we confirm the mid-term scenario of the year afterwards, its 20% then also 22 in the last two years of this guidance period.

Scott Bardo

OK, very clear, thank you very much. And just perhaps on a very quick financial related follow up for Gustaf please, I think you mentioned this on the call, but it broke off. Just IFRS 16, not 15, with respect to operating leases. Was there any impact, positive or negative to EBIT margins this year and EPS please?

Gustaf Salford

Yes. So, the effect, you have it in the pack as well, but there's a very small effect on the EBIT level of positive 20 million SEK when we look at our long-term leases and cars and so on, and then translate it. So that's 20. So, on the guidance or the margin it would 10-15 basis points. Cash flow is unchanged. EBITDA then get a bit higher impact, so there you have around 200 positive effect, in million SEK. So, 200 million on EBITDA and 20 million on EBIT.

Scott Bardo

Very clear, thanks Gus.

Operator

That concludes our Q&A session. I'd like to now hand back to the speakers.

Cecilia Ketels

Yes, thank you. We have to stop the conference call now. But I'm sure we have the possibility to discuss further and take more questions on a one by one basis. So, I want to thank you for participating today and wish you a nice day. Thank you and goodbye.

Operator

Thank you. This now concludes our conference call. Thank you all for attending. You may now disconnect.