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MANAGEMENT DISCUSSION SECTION

Cecilia Ketels
Head-Investor Relations, Elekta AB

Good morning everyone and warm welcome to the first quarter of Elekta's Fiscal Year 2023/2024. My name is Cecilia Ketels and I'm Head of Investor Relations at Elekta. And 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, and then Tobias will give you details on the financials, and the presentation ends with Gustav's view on Elekta's outlook. And 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 statements. This can include projections regarding revenue, operating result, cash flow, as well as product and product developments.

And these statements involve risk and uncertainty 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. And I would like to kick off with our strategy, ACCESS 2025. And in the quarter, we continued the improving trend from the previous quarters and we began our fiscal year with strong overall performance. We are delivering on our ACCESS 2025 strategy and its four key pillars. Since launching the strategy in June 2021, it has guided us successfully through the first two years of the period. We have launched products across our portfolio and we are now bringing online adaptive technology across our solutions and also increasing value to patients and outcomes. We have also entered into new markets and formed new partnerships. And a key focus area in the strategy is, of course, to drive shareholder value by delivering strong net sales growth and EBIT margin expansion, something we're doing in Q1.

In June, we provided an update on our strategy at the Capital Markets Day in Crawley. And we're now entering the second half of ACCESS 2025 with good momentum to focus on value creation for patients, customers and our shareholders. And the key priorities are really to get back to strong revenue growth and margin expansion like in Q1, continue product launches to accelerate order growth. We should leverage our market leader product portfolio and we'll have Unity in the lead. Services should be growing faster than installed base growth. We will continue our expansion on partnerships and will gradually increase the leverage of Elekta ONE, our new software suite. Elekta's model, as you know, is really focused on radiotherapy.

And we have some really key differentiators, and that is our versatile and open solutions, a true culture of innovation, and a commitment to partnerships. But if you now turn to the first quarter of our fiscal year 2023/2024 and order development, we saw that in the quarter we gained market shares in a bit slower market. In total, order intake declined by 7% in fixed currency. However, we saw large variations in the region. The moderate growth in the Americas was explained by weaker development in the US and Canada but very good growth in Latin America led by Mexico. And it's also important to note that within EMEA, both Europe and the Middle East and Africa orders declined. But it is important that this order intake was heavily impacted by tough comparables in Europe due to last year's large tenders in Southern Europe.

The order intake in APAC was strong with double-digit growth rates driven by strong momentum in China, India, and Thailand. In total, we expect that overall demand to improve in the coming quarters, already starting in Q2 in orders. If we then move to revenue, we saw that Q1 was the third consecutive quarter with strong revenue growth. We grew by 8% in the quarter, and that's higher than the market. Both mature and emerging markets grew. APAC and EMEA showed double-digit growth, and the European growth was driven by the installations from the recent large tenders in Italy and Spain. The development in APAC was really good throughout the region with particularly strong growth in India and Thailand. In the Americas, installations in the US and Canada were somewhat lower than last year while Mexico showed good growth.

Solutions or installations grew by 9% and Service grew with 7%, and that's higher than installed base growth you see to the right. But we also hosted the 18th MR-Linac Consortium Meeting in Amsterdam that brought together almost 90 centers and 600 participants with the common mission to improve patient care and optimize the MR-Linac as a standard treatment modality. With Unity, Elekta delivers ground-breaking MR-guided radiotherapy that will change the standard of care for many cancers over the coming years. But it's also a sound value proposition for clinics and healthcare systems. Treatments are becoming quicker and require less staff; it also will open the possibility for even more radical changes in the way that radiation is used in cancer care.

And I would like to specifically highlight three important areas of research where the unit is demonstrating very promising clinical results. Firstly, new and smarter workflows enables clinicians to reduce treatment times in prostate cancer which allow for a higher throughput and increasing efficiency. Secondly, our newly launched Comprehensive Motion Management enables 2-millimeter margins which is crucial in getting ablative doses to pancreatic cancer needed to enable better results and also improving survival rates. Thirdly, we're now going beyond seeing the tumor and its movements to actually see inside it which will be used to adapt the dose depending on how the tumor response, hopefully leading to much better outcomes for treatments of head and neck cancers. And these treatments are uniquely enabled by Unity.

But we have also focused a lot on software and our newly launched Elekta ONE software suite, and it's designed to increase productivity while managing clinicians' need for more complex workflows and personalized care. And Elekta ONE delivers increased value to our customers and drives operational efficiencies and cost savings in the cancer clinics, up to 50% cost reduction per treatment. It also offers an attractive Software-as-a-Service or SaaS commercial model, and SaaS now accounts for 15% of our oncology information system software orders. And Elekta ONE gives us really opportunity for increased market shares, improved operations, strong revenue growth, and margin contribution going forward.

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

Tobias Hägglöv

Chief Financial Officer, Elekta AB

Thank you, Gustaf, and good morning, everyone. Before moving into the details, I would like to start where we ended at our Capital Markets Day. Elekta has continued the momentum we have seen in the last quarters. Our revenue continue to grow at a healthy level in the quarter. And combined with successful cost reduction execution, we are now seeing a substantial margin expansion. Then, looking into the Q1 financials. Net sales increased by 8% in constant exchange rates supported by double-digit growth in EMEA and APAC. Profitability rose sharply with a gross margin improvement of 260 basis points and an EBIT margin expansion of 720 basis points. Earnings per share increased strongly despite a higher finance net.

If you look at the drivers in more details, we can see that currencies impacted our sales and to a lesser extent, earnings and margins. Foreign exchange rates contributed with 7 percentage points of growth, a negative impact on gross margin by 70 basis points and a positive contribution to our EBIT margin of 100 basis points. Operationally, Elekta delivered strong profitable growth. The improvement was mainly driven by strong revenue growth and successful execution of cost reduction. We also benefited from lower logistic cost compared to the peak in Q1 last year. In the quarter, we also recognized a positive year-over-year impact of 130 basis points from inventory revaluation driven by the inflationary pressure. As previous quarters, inflation continue to pressure our gross margin.

When it comes to the operating margin, the revenue growth and lower level of cost give further leverage to our margin on top of the improved gross margin. The positive effect from the inventory revaluation will not be seen in the next quarter and the inflationary pressure will continue. In addition, in Q1, we had a large share of high-margin Service revenues. Then looking into our expenses in constant currencies and adjusted for the items affecting comparability. All-in-all, the operating expenses decreased by 1% year-over-year, driven by cost reductions. Selling expenses increased by 6%, driven by more customer events. Administrative expenses declined following improved cost control and net R&D expenses declined as a consequence of lower gross R&D.

Looking at then the R&D. Gross R&D has continued to decline and on a rolling 12-month basis and ended at 12.4% of net sales. Net R&D decreased year-over-year as lower gross R&D more than offset higher amortization. Sequentially, net R&D increased following a seasonal lower capitalization rate and somewhat higher amortizations. Then moving over to the balance sheet. Net working capital was on the same level as end of Q1 last year. Sequentially, net working capital increased following a seasonal buildup of inventories and the inflation-based revaluation. Higher sales towards the end of the quarter generated higher accounts receivable and larger share of installations in Southern Europe drove a higher level of accrued income. Finally, higher shipments generated higher customer advances.

Following the record strong Q4, cash flow in the first quarter amounted to a negative SEK 900 million. Higher earnings was offset by the aforementioned seasonal increase of working capital. Operational cash conversion was 55% on a rolling 12-month basis. Our continuous investments amounted to SEK 348 million, mainly driven by investments in our innovation pipeline. Over to you, Gustaf.

Gustaf Salford

President & Chief Executive Officer, Elekta AB

Thank you, Tobias. And I will just say some words about the outlook. And for those of you that were in Crawley at the Capital Markets Day in June, we talked a lot about the outlook until 2024/2025, and it is a net sales of CAGR more than 7%. It is EBIT margin expansion throughout the period and also dividend policy of more than 50% of annual net profit. And we are really focusing on driving shareholder value quarter-by-quarter. And if we'll look into the next quarter here and our outlook, we expect that the revenue growth and EBIT margin expansion to continue in the quarter, but we also see continued inflation in the quarter and that impact. And I think it's important to note, as Tobias also mentioned, that the positive effect in Q1 from the inventory revaluation will not be seen in the next quarter.

But in the long-term, market trends is really about supporting growth and investment in high-end radiotherapy equipment and margin expansion. So, if we then summarize our first quarter, we have shown that we are delivering on our strategy ACCESS 2025. We are gaining market shares in all our regions in the quarter. It is the third consecutive quarter with strong revenue growth and we'll also see strong improvements in our margins.

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

Cecilia Ketels

Head-Investor Relations, Elekta AB

Thank you, Gustaf. So, we will continue with the Q&A sessions and I know we have a lineup ready. So, please, operator, can you open up the first person in line?

QUESTION AND ANSWER SECTION

Operator: The first question comes from the line of Mattias Vadsten with SEB. Please go ahead.

Mattias Vadsten
Analyst, Skandinaviska Enskilda Banken AB
Q

Hi. Thanks for taking my questions. First one is on orders and perhaps starting more specifically on China. If you could quantify how much it grew this quarter. And also, I think we need to cover what is happening there with anti-corruption crackdowns. And from this, do you expect over the near-term sort of any softness in terms of China orders and maybe go through what you are seeing and hearing in the region? That's my first one.

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

Yes, thank you, Mattias. So, if you look at the strong, as we say, growth in China, it was low-double digit. So, it was a strong growth in the country and also in the APAC region. And then, if you look at the ongoing demand and ongoing discussions, I think it's important to say that the plan, the five-year plan for CapEx investments in radiotherapy in China is set and there's a huge need for cancer care throughout the country. The number of Linacs per 1 million population is very low. So, over the long-term, of course, we expect a lot of investments and drive for additional Linacs and our solutions in the country. And we have a very strong position in China and we also have local operations with manufacturing facilities, software development sales, marketing organization, a strong partnership and joint venture with Sinopharm.

But then if you look at the coming quarters and so on, probably the market will slow down a bit based on the investigations that's done throughout the life science sector. And that's difficult for us to exactly know how that will pan out. But I still, I mean, we have a strong quarter this quarter as I mentioned on the order side. And I think we have good opportunities throughout the year to grow in China. But it's difficult to say exactly how that will impact our orders quarter-over-quarter. But a bit of a slowdown in the market we are expecting. But in the long-term, a very positive outlook.

Mattias Vadsten
Analyst, Skandinaviska Enskilda Banken AB
Q

Thanks so much for that. Gustaf sorry to stay here a bit, but are there any sort of specific incidents that are – we're talking about here, anything in particular? Or is it just that you expect sort of broader market slowdown?

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

There's no specifics. I mean, we have ongoing sales discussions. And going through, I mean, this investment needs in the different regions of China as – I mean, in the long-term, we are very optimistic on China. In the short-term, there is no specific incidents or anything like that impacting Elekta, and I think that's very important to say. But a bit of a slowdown in the market maybe the next couple of quarters, but not longer than that is what we expect.

Mattias Vadsten
Analyst, Skandinaviska Enskilda Banken AB
Q

Thank you very much. Moving on to the gross margin, very strong in the quarter. If you could go through the drivers a bit more in detail and I'm after the mix perhaps in the Solutions part, how that looked? And if we look on it more broadly, sort of you have inflation is probably the thing remaining against you, but you have better volume coverage, freight costs should be much, much lower. How much from here do you expect to reach that going forward sort of from headwinds that you said, because it looks very strong now in Q1?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes. Thank you, Mattias. And you are rightly so, that I think that – I mean, overall, what you see here is a structural positive trend on margin expansion and key really here and now I talk on the full P&L here is really what we have been driving here with the strong revenue growth combined with improved cost control. And that is fundamental key for essentially driving shareholder value here. Then if we actually look at the gross margin as such, you are right in the sense that the – if you look at the seasonality here in Q1, the share of the Service is higher than for the rest of the quarters. And you could also see that we had a healthy service growth.

So, we see that – I mean, what we stated here in the Capital Markets Day with a healthy momentum and healthy margin expansion that stays, but also looking into – when you model that into the next quarter that we had a positive impact here from the inventory revaluation and also that the mix here in the quarter is strong, but it doesn't take away fundamental the profitability route that we are on.

Mattias Vadsten
Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thanks for that. And then maybe again, more broadly, I guess we've seen high investments into R&D in recent years, yet the order momentum continue to be a bit soft, of course driven by sort of macro factors and so on. But when do you see these new launches and new solutions improving this momentum? Sort of when do we expect the turning point to again grow orders? That's my last one.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah. Q2 is the easy answer. But if I look at the technology launches, yes, we have been accelerating innovation since the last year. A lot of products that come out from those investments, if you look at Harmony on the Linac side, Esprit on the Gamma Knife side, Elekta ONE on the software side, Elekta Studio on the brachy side, and now also Comprehensive Motion Management for Unity, that will be key growth driver for all of those products but also on the Unity side with the new functionality with Comprehensive Motion Management; I think that's important to say. And we have a positive outlook in the coming quarters on orders, and I want to highlight that as well already from Q2.

And then, I think we will continue to launch products, a lot around Elekta ONE but also in new functionality, adaptive functionality around our product portfolio. And I think that's what you also see, a big demand, the need for around our customer base. So, we will continue to drive order growth. I think it's also important to say that if you look at rolling 12 months, our book-to-bill ratio is 1.2 and in the quarter it's 1 as we have a strong backlog to also continue to drive a very healthy revenue growth from with margin expansion.

Mattias Vadsten
Analyst, Skandinaviska Enskilda Banken AB

Q

Thanks so much for the answers.

Operator: The next question comes from the line of Kristofer Liljeberg with Carnegie. Please go ahead.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Yeah, thank you. Great to see the operating leverage finally happen here on the EBIT line. I don't know; could you quantify maybe how much operating costs were maybe down in local currencies? I guess there must have been some FX impact there. And how to think about operating costs now going forward from the current level? That's my first question.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yeah. Hi, Kristofer, and thanks for the question. I think we actually specified, and maybe I hope I answer your question correctly, but we had actually a decline here in the operating expenses, if that was your question, despite the inflationary pressure that we had here and the drivers...

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Tobias, did you specify that level? I missed it.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

We have it on the slide 15 there on the expenses, if I got your answer...

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

Okay. Sorry, okay. I misunderstood. Okay, that's helpful. Then about – you seem pretty optimistic here about orders. Could you maybe specify a little bit what markets will drive that and what products? We saw on the screen – I think, Gustaf, you were talking about MR-Linacs, for example. Some more color there would be helpful. Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Of course, Kristofer. I mean, if you look at the different regions as we see them in the kind of Q2 and coming quarter, I think we see a good opportunity in the Americas with the product suite we have, and maybe especially on the MR-Linac side units aside, that we see strong opportunities there at the moment. But it's also around the whole software suite Elekta ONE because we have a large installed base in the US of course, so Americas I kind of have a positive outlook for. If you take Europe, yes, there are ongoing larger tenders in Europe driving demand, not as big as the Spanish, Italian ones but large tenders. So, good opportunities for growth in EMEA region.

Then we discussed China a bit, so maybe a bit slower in the coming quarter based on everything happening. But, overall, I have also positive outlook in the other areas of the APAC region. But if I would highlight one area, I would say good opportunities in Americas.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank

Q

And what's your visibility here for the second quarter specifically...

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

I think everything is...

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank
Q

... to orders?

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

Yeah. I think things has changed a lot during the last year, so our visibility is much better overall. It's much easier to look at supply chains, logistics cost, customers. It's easier to get the customer access, et cetera, as I think the predictability has improved a lot. On the order side, since it's more difficult to forecast orders of course, and bigger tenders and so on, but I would say overall, the visibility have improved a lot compared to say 12 months ago.

Kristofer Liljeberg-Svensson
Analyst, Carnegie Investment Bank
Q

Great. Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

Thank you.

Operator: The next question comes from the line of Erik Cassel with Danske Bank. Please go ahead.

Erik Cassel
Analyst, ABG Sundal Collier
Q

Hi. Good morning, everyone. So, first question is on the impact of the inventory revaluation. I mean, I heard you, Tobias, saying that there was 130-bp impact on gross margins and actually I can probably figure out based on that. But just for clarity, I mean, could you tell us the absolute impact on adjusted EBIT so we can get that sort of underlying profitability?

Tobias Hägglöv
Chief Financial Officer, Elekta AB
A

You'll have a year-over-year impact of SEK 50 million. That is just rough calculation, yes.

Erik Cassel
Analyst, ABG Sundal Collier
Q

Okay. And then to follow-up on Mattias' questions. I've heard the competitors talk about like the 25% drop in orders for the coming three quarters. I mean, is that a ballpark figure for Elekta as well? Or do you see that sort of delta going in a different direction, up or down?

Gustaf Salford
President & Chief Executive Officer, Elekta AB
A

Sorry, can you take that question again? The line was a bit bad. Competitors order outlook, was that the question?

Erik Cassel
Analyst, ABG Sundal Collier

Q

Basically on China, it's a follow-up on Mattias' question. I mean, I heard a competitor talk about a likely 25% drop in orders. I just want to know how you think about that. Is that likely to be more or less than that number?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

I don't want to comment on a competitor's outlook. I think for Elekta, as I mentioned, there are some slowness in the coming quarter, but I don't have any specific number on it. And I am, as I also said, if you take a couple of quarters positive on the development in China.

Erik Cassel
Analyst, ABG Sundal Collier

Q

Okay. And then I just want to get what happens to sales in China? I mean, how much of a run rate in deliveries do you have now until a potential slump in orders become an issue there?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

If you look at our installation volumes going forward, we both have a very healthy and quite large backlog to continue to install our backlog into China across the country. We have good opportunities on the MR-Linac side as well because that's opening up again when we got the licenses and so on. So, I don't want to predict, I mean, exactly how the order backlog will develop in China over coming quarters. But overall, I think with our strong position, with the big need and our big backlog, I see strong performance if you take the rolling 12 months perspective on China going forward.

Erik Cassel
Analyst, ABG Sundal Collier

Q

Okay. Perfect. Then just the last one, if I may. I mean, just as costs seem to have mostly eased now, but how are you thinking about offsetting cost inflation? I mean, how close are we to a better delivery mix of, say, higher price Linacs, and a mix more tilted to say Harmony as well?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yeah. Thank you, Erik. I can answer upon that. I think that we really stick to actually what we communicated at the Capital Markets Day. I mean, we are not sitting still here. We provide here and that we drive this profitable growth. When it comes to the gross margin, we talked about the important price increases and that these – so with these two years' time period mostly impact next year, but you will start to see it towards the end of this fiscal year. We see the positive impact on prices on our orders. So that is a healthy momentum and a great job by the organization.

Erik Cassel
Analyst, ABG Sundal Collier

Q

Okay, perfect. Thanks very much, guys. I'll jump back in queue.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Thank you.

Operator: The next question comes from the line of Robert Davies with Morgan Stanley. Please go ahead.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc

Q

Yes, thanks for taking my questions. I had three. The first one was just on the development, I guess, on margins to the rest of the year, given you obviously posted 11%. I know you had highlighted some of that inventory benefit in the margin. But just if you can kind of help map out the seasonality because, obviously, looking back, there's only a couple of years where you've done 11% margins in the first quarter, and I think on a full-year basis, you ended up in a somewhere between sort of 14% and 16% full-year margin. So, why would this year be any different? Is that due to the sort of savings phasing or seasonality? Or could you just kind of walk us through that, your expectations? That was the first question.

The second one was just around the order development in – sorry, revenue development in Europe with the growth down 38%. I know you had sort of flagged the comps, but they didn't look that high to me from the previous year. I think they were any sort of plus 11% or so. So, just maybe if you could flesh out that 38% decline there and in a little more color, that would be helpful. And then the last bit, just in terms of the contribution or the breakdown between the logistics, the cost savings and the FX in the overall margin development, I know those are the three buckets you kind of called out, but just if you could help quantify those three, that would be great. Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Okay. That was a good list. So, let's start. I'll kick off with the EBIT margin development and then hand it over to Tobias and then come back on the order side in EMEA. But if we take the EBIT margin in the first quarter, yes, it's a strong start. We see that also in historical comparison. You have to go back, I think, two, three years in order to find out such a strong EBIT percentage start of the year. Looking ahead, I mean, we are driving for revenue growth, like we said, and margin expansion. And then we have some downward pressures on the inflation, on especially our salaries that we have kind of increased now based on inflation, as well as some component prices that still are relatively high in a historical comparison.

But overall, I think we have the strong cost program. We have a good cost discipline at the moment. And – but we have some of these factors that is driving pressure on gross margin and EBIT margin from an inflation perspective.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yeah, no, I think it was well put together, Gustaf. And just to mention, I mean, the core of this, when you look at the revenue growth combined with the improved cost control, I mean, that will remain here in the next quarter. But then also to consider, I mean, the strong mix here in Q1 and the inventory revaluation that will not be repeated. So – but important for us is that if we continue this healthy journey now and step-by-step, as we said, improve our financial performance, both by driving a healthy level of growth and also driving margin expansion, and that we are determined to continue to do.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

And then, if we move to, I think it was an order question and the explanation of the minus SEK 38 million in EMEA. And for me, it is – last year we had growth based on the larger tenders in South Europe. And the year before as well, we had quite a lot of Spain and Italy in those numbers. And if you look on a historical comparison, since EMEA is quite a tender-driven market, it can be quite fluctuation if you look at specific quarters in that market. So, I think that's a bit what we've seen in the first quarter that we haven't had any of these larger European tenders. But I can say there are quite a few of those in the pipeline as well coming in the coming quarters. So, I think that's the quarterization of the order demand in Europe and the impacts on these larger tenders. If we go to the FX, Tobias.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

If we talk about FX impact there, could you repeat that question, what specific part? We specify that if you look at the FX in total, we do have a quite positive contribution here on the sales level, mainly driven by the strengthening of the US dollar. Then actually what you see here on the gross margin level is actually a negative impact on the gross margin, which sequentially both at a year-over-year comparison compared to the US dollar has changed now and much higher levels on that. We have also seen an increase on the British pound, which is also impacting that but overall down. Then to year-over-year here, since you also have the hedges year-over-year to consider on operating margin level, you'll see that those have in total, the currencies have a positive impact of 100 basis points.

So that is the impact from currencies in the quarter.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc

Q

So sorry, a 100 basis points positive impact on adjusted EBIT margins?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes. And you have that actually on the slide when we talked about margin improvement, those negative 70 basis points on gross margin and 100 basis points positive on EBIT. So, those are specified. Actually, Elekta delivers both from an operational point of view and how FX are impacting the financial development.

Robert J. Davies
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. That's great. Thank you for the clarity. Thank you.

Operator: The next question comes from the line of Oliver Reinberg with Kepler Cheuvreux. Please go ahead.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Yeah. Thanks very much for taking my questions. Also, three for my side. The first is just generally on the visibility. I mean, last quarter, I think you basically put your two-year margin outlook, which was still a bit unclear what drove this decision back then. And now just one quarter later, actually, we're seeing a major positive surprise on the kind of margin development. So, can you just talk to what visibility do you have on the margin profile and maybe you can share some more color what drove the decision back on Q4 to basically pull that kind of 2024/2025 margin outlook? That will be the first question, please.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yes. Hi, Oliver. Thank you for that question. So, I mean, we communicated our outlook at the Capital Markets Day, and it was very much in line with what we said two years before. It is about more than 7% revenue, to grow on a CAGR basis until 2024/2025, and the EBIT margin expansion throughout the period. So, I mean, we maintained that, and of course the ambition is to come back to the levels we were before and higher, and we were at I think it was 13.8% or 13.9%. So, say 14% and higher, but we haven't committed to a specific quarter or year that that will happen. But I think that's the maybe the clarity that I wanted to add to that discussion around our guidance for or outlook for the year until 2024/2025 and onwards.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Okay. Fair enough. The second question, just getting a bit of more color also on the kind of gross margin. Thanks for the clarity of the fact for the inventory. I think in your prepared remarks, you talked about a higher margin in the Service business. So, I'm just checking do you just mean that the mix was better between Solutions and Services, or have you also seen the kind of higher profitability within your Service business? And if we look at going forward, if we strip out the effect from inventories, you're still above 40% gross margin. Is that a level we can assume going forward?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah. If you look – I start with the first question and the second one to Tobias. But the first one, we saw a strong Service growth. I mean, 7% is a strong number when it comes to Service because the installed base growth was 5%, so Service was strong. So, we had a good Service-Solution mix as we call it in the quarter. We also see that the Service contract pricing linked to CPI clauses comes closer from the backlog into the revenue, so that is driving and will drive improved margins from, I would say, faster than Solutions because it takes a bit longer from an order to revenue on the Solutions side.

So, I think we'll continue to drive both top line growth on Service and margin improvement in that area as well linked to price increases that we have worked so hard with over the last couple of quarters. But most of it you will see in the end of this fiscal year when it comes to the impact from price increases.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

And Oliver, could you repeat your second question there?

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Yeah. I mean, effectively, the question was whether this Service business itself also had a kind of higher than usual margin? I mean, from what Gustaf just said, there was just like the underlying improvement but there were no special effects in the profitability of Service. Is that correct?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Okay. So, we had a bit of impact in the quarter from the sales that our inventories [indiscernible] (39:40) inflationary-driven. But other than that, yeah, it was a solid quarter, but not anything in particular I would say. So that's how I would frame it.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

And the Service margins were very similar, so there was no specific Service margin improvement in the quarter. It was more the mix between the overall Service and Solution revenues, if that clarifies.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Super. And therefore, if we strip out the inventory effect, we're still tracking above 40%. Is that something we can assume going forward or is that too ambitious?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

I think here, also consider when you look at that, the seasonality of the high share of Service in the quarter, when you look at that and split that between Q1 and for the remaining quarters, I think that is also to be considering when you model for Q2 here, for example.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Okay, perfect. And then last question just on GenesisCare. I think you talked in the report about the fact that you have seen – we see some kind of payments. Has this been the kind of full amount of payment that you expected and can you just also provide some kind of color when you expect to have more visibility, whether any kind of write-downs are required or not?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah. Thank you, Oliver. No, so GenesisCare is of course a long-term customer of Elekta and a customer that we support throughout this process as well, and that's the Chapter 11 process. They are still, I mean, of course treating patients. It's a Chapter 11 process and we continue also to deliver Linacs and we also get paid, so I think that's important to say. But we also need to look at the Chapter 11 process when it looks at the total order backlog. But that's a bit too early to say now, but I think we will have a clearer view exactly on the order backlog impacts from what's happening on the GenesisCare side after Q2 is my expectation. But that's not really up to us to decide, that's the Chapter 11 process.

But I think it's important to say we have a good relationship with GenesisCare. We continue to deliver and we also get paid for what we deliver, and then we will see order backlog impact after Q2.

Oliver Reinberg
Analyst, Kepler Cheuvreux SA /Germany/

Q

Yes. Perfect. Thanks very much.

Operator: The next question comes from the line of Rickard Anderkrans with Handelsbanken. Please go ahead.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

Right. Good morning and thank you for taking my questions. So, first one, if you could clarify the year-over-year impact from supply chain and inflation on the gross margin. You have reported this previous quarters, so it will be helpful to just get a number on that. Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Thank you, Rickard. So, we have not specified this indeed. But when you look at the year-over-year impact from that specific, it's roughly in line with the previous quarters. We have an ongoing inflationary pressure which actually pressure our gross margin.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

So, around the 200 basis points negative impact similar to this quarter, around that?

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

That is what you – we haven't specified the number but it is a clear negative impact, yes.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

Okay. And looking a bit on orders, so orders in EMEA close to SEK 1 billion level. Is that the type of level we should expect on absolute basis going forward or can you help us think about the EMEA orders side in the coming quarters? And for the record as well, do you expect to deliver positive order growth or sort of deliver year-over-year growth in orders organically in Q2? Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yes, I really want to highlight this and I've said it I think many times during the call. We have a positive outlook for Q2 when it comes to order growth globally. If you look at the full year, we expect order growth for the full year as well. And then specifically for EMEA, I think you need to look more on a rolling 12 months basis because there's so much tenders and going on, so it's difficult to just judge the performance on one quarter. And then, if you look at the demand for radiotherapy in Europe, there's big demand still. There's still big gaps. And you can see that the European Beating Cancer Plan, that there's still a big investment needs and also in a lot of software initiatives across the region.

When you look at Middle East-Africa, it's a more volatile region, of course, but we still see big investment needs and a lot of activity going around in Africa, but also in the Middle East region, and that they will continue to invest in building up their cancer care and radiotherapy treatment capacity. So that's my input on more the specifics on EMEA.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

It's very helpful. Just a super quick follow-up. What are the largest tenders from – what countries or regions are the ones that you're looking forward to here in the next few quarters, if you could specify?

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

We don't specify specific ongoing discussions in that way, but I think it's in multiple areas in Europe and in countries that has ongoing and larger tenders. But you can highlight a large part of the need of more capacity in Europe. For new capacity, you would find that in Central and Eastern Europe, I would say. Then, of course, you have replacement cycles and also customers wanting new technology like Adaptive or MR-Linac and that I would say that's across all countries, but maybe more a tilt towards a mature Europe.

Rickard Anderkrans
Analyst, Svenska Handelsbanken AB

Q

Thank you. That's all for me. Thanks for taking my questions.

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 the line of Veronika Dubajova with Citi. Please go ahead.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Hi, guys. Good morning and thank you for taking my questions. I have three please and apologies to harp on this, but Gustaf maybe just back to your comment on order growth and your expectations for positive order growth in Q2. I want to confirm that reflects the impact that you're anticipating from the China anti-corruption campaign or is that a source of uncertainty? And maybe just quickly related to that, when it does come to China, are you seeing any signs of delayed installations, not just delayed orders, but also delayed installations? We're picking out some comments from some of the local players about that. So, I just want to confirm what you're seeing and how you're thinking about that risk. So that's my first question.

My second question, just circling back to the gross margin comment and currencies, as you see them evolving through the rest of the year. By our math, we certainly see an increasing gross margin headwind from currencies. I was just curious if you could confirm and quantify that and to what extent you anticipate to be able to offset that through hedges at least through this year? And then my final question, slightly bigger picture question. I kind of appreciate your comments through the report that you believe you're winning market share. But obviously the 12-month rolling order growth is standing at zero and that includes some pretty strong tenders where you have done very well. But it would suggest certainly that there are regions including the US, where you have continued to remain in share donor mode.

So, just kind of a question on how you think you're doing in the US and your thoughts about your ability to drive some improved order momentum in the US in particular. Thanks, guys.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yes. So thank you, Veronika. If we start with Q2, I reiterate that we expect order growth. And then if you look specifically on China, that is around 15% of our orders and revenue. So, of course, is a big market for us, but we still have the 85% as well. And – but we need to go through the quarter and see to what to expect there. But as I mentioned, I'm optimistic about the long-term trend in China, and I don't think we should evaluate that country reading just based on next quarter's demand. So, we'll need to get back to that and follow that process. When it comes to the installations, the installation volumes in China has been growing and are high, and we have a great order fulfillment in installation and service organization driving that in the different parts of China.

So, we haven't seen any delays there or anything like that. So that's my perspective on China. Maybe I jump to the market share question and then I will hand it over to Tobias on the gross margin side. So, looking at market share, how we track it is we look at Linac, I mean units in the different parts of the world and we see that we gain significant market share when you look at devices around the world in all regions. And then I think it's not the big Services orders and so on. So, the comparisons are getting more difficult based on where our main competitors are kind of developing their offering more into Services in different areas. But if you look at the core part of the market, the linear accelerators, we have been gaining shares in all our regions in the last quarter.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes, thank you. And I can also talk here about the gross margin development. I think it's – we had a slight negative impact here on the gross margin level. I think it will be essentially on this level, maybe slightly more negative in coming quarters than, as you know, Veronika, here, when you look at the full year-over-year impact from currencies, it will be a more positive impact in the coming quarters on an EBIT margin level.

Veronika Dubajova
Analyst, Citigroup Global Markets Ltd.

Q

Okay. Thank you, guys.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you.

Operator: The last question for today comes from the line of Richard Felton with Goldman Sachs. Please go ahead.

Richard Felton
Analyst, Goldman Sachs International

Q

Thanks. Good morning. So, a follow -up on gross margin, please. And as you think about sort of the outlook for the rest of the year that you're giving us some good clarity on sort of the headwinds and tailwinds. But the message that I had picked up in some of your communications around full-year results back in May sounded like fiscal 2024 would only see a flattish or very modest gross margin progression. So, now you've got Q1 under your belt. Just interested to know that if anything has changed in your thinking around that. And secondly, is there anything that you can share around how much of your order book or receivables is related to GenesisCare? Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

A

Yes, so I can talk about the gross margin. But I think for the full year, we have – we talked about this rationale to consider about the specifics in the quarters. We are on a healthier trajectory when you look at the margin expansion. I think this year, the – what mainly we'll see is an expansion on the operating margin level and then consider the effects. But it's – we do see, I mean, overall a positive trajectory on gross margin and very important here is actually the pricing increases that we are working on and that we see results and will come towards the end of this year. So – but when you look at the margin expansion [indiscernible] (52:26) this year, it's more on the operating margin level. And then you had the – yeah, Gustaf.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Yeah. On the GenesisCare question, I think that's important to say that I mean, we are supporting GenesisCare through this. They are our customer and our key partner. And I think what we have in the order backlog, we have sent out press releases and so on that on that before. But it's important to note that the ambition is of course that GenesisCare, I think the plan is that there will be two different parts, but that will continued operation. And we want to be their partners and deliver parts of the order backlog to those sites around the world that we have. And that's what I expect the outcome to be. So, I don't see the risk to be a full cancellation of everything we have in the backlog. It will be parts of it based on the Chapter 11 process and we need to get back to that off the next quarter when we have the clarity we need.

Richard Felton
Analyst, Goldman Sachs International

Q

Great. Thank you very much.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

A

Thank you.

Cecilia Ketels
Head-Investor Relations, Elekta AB

Okay. We are approaching the hour, so we would like to thank you for listening in today. And please don't hesitate to reach out if you have any further questions later on. However, this afternoon, we will host our AGM, but we will of course take as many calls as we can anyway. We wish you a remaining great day. Thank you.

Gustaf Salford
President & Chief Executive Officer, Elekta AB

Thank you.

Tobias Hägglöv
Chief Financial Officer, Elekta AB

Thank you.