

# CAPITAL MARKETS DAY 2015

*June 11, Stockholm*



# Important information

*This presentation includes forward-looking statements including, but not limited to, statements relating to operational and financial performance, market conditions, and other similar matters. These forward-looking statements are based on current expectations about future events. Although the expectations described in these statements are assumed to be reasonable, there is no guarantee that such forward-looking statements will materialize or are accurate. Because these statements involve assumptions and estimates that are subject to risks and uncertainties, results could differ materially from those set out in the statement. Certain of these risks and uncertainties are described further in the Annual Report in section “Risks”. Elekta undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or stock exchange regulation.*

*This presentation is intended for investors and analysts only. Some products are still in research and/or not cleared/approved in all markets. Cancer statistics are given to show the potential market in the respective area and does not mean that Elekta currently has products to treat these indications.*



# Capital Markets Day June 11, 2015

13:00	Elekta	Tomas Puusepp, <i>President and CEO</i>
13.20	Back to growth	Ian Alexander, <i>Chief Commercial Officer</i>
13.40	Q&A	
13:50	Driving profitability through improved efficiency	Johan Sedihn, <i>Chief Operating Officer</i>
14:10	Q&A	
14:20	Coffee	
14.40	The future of cranial radiosurgery	Veronica Byfield Sköld, <i>VP Product Commercialization, Elekta Neuroscience</i>
14:55	Atlantic – game changer	Kevin Brown, <i>Head of Scientific and Medical Affairs</i>
15:10	Q&A	
15.20	Financials	Håkan Bergström, <i>CFO</i>
15:40	Q&A	
15:50	Concluding remarks	Tomas Puusepp, <i>President and CEO</i>



# Elekta - Capital Markets Day 2015

Tomas Puusepp  
*President and CEO*



# Market drivers support long-term growth

- Cancer incidence growth and re treatments
- Increasing utilization of radiotherapy
- Closing the gap in emerging markets
- Higher technology content, more aftermarket revenues
- Need for information guidance and decision support through software
- Demand for real-time adaption (motion, shape, biology) to treat faster and better



# Priorities for short, mid and long term

- Growth
- Profitability
- Cash flow





# Strategic agenda

- Innovation leadership
- Commercial transformation
- Lifecycle management
- Expand addressable market



# Innovation leadership

*Leksell Gamma Knife® Icon™*



*Esteya®*



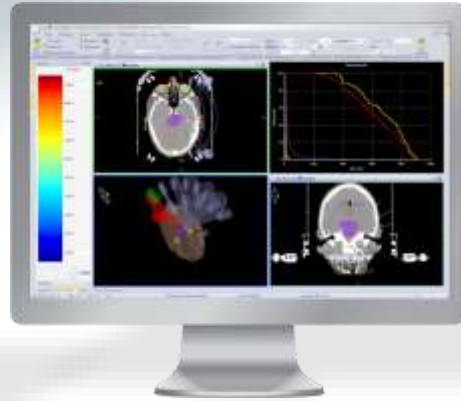
*Versa HD™*



*Atlantic  
– research program*



*Monaco®*



*MOSAIQ®*

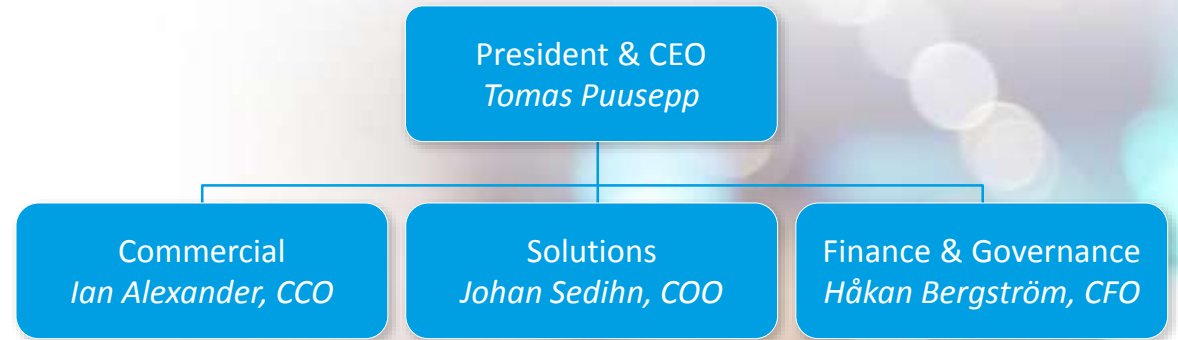




# Commercial transformation

- *Driving towards commercial and operational excellence*

- Drive integrated hardware and software solutions
- Create a platform for growth and cost base consolidation
- Capture upside in recurring revenues
- Improve capability to win and manage large, complex accounts
- Drive consistency in implementation across the company



# Lifecycle management - capture the upside in installed base

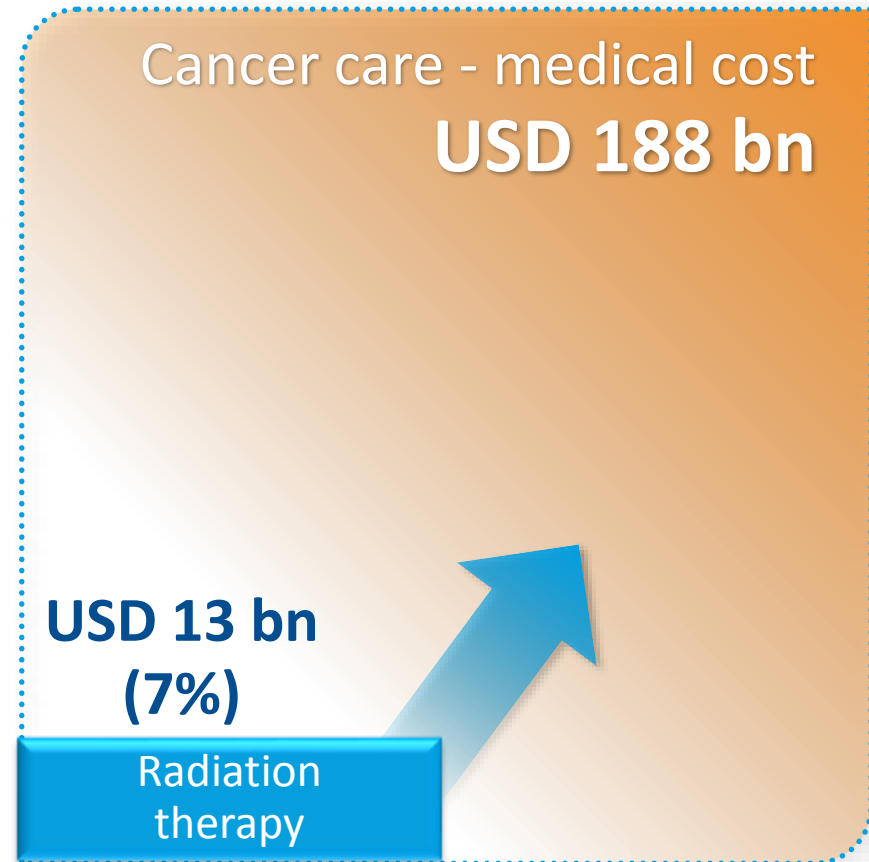
- Capitalize on customer base
- Enhance value offering
- Hardware and software upgrades
- Education and training

Installed  
base of over  
**>3,500**  
systems

3-year CAGR:  
**8%**



# Expand addressable market



- Evidence-based medicine
- Knowledge management
- Atlantic – MRI-guided radiation therapy
- Leksell Gamma Knife® Icon™





# Our financial ambitions

## Short-term (2015/16)

- Return to growth in H2 2015/16\*
- Improve EBITA margin
  - Cost reductions
  - Product mix and recurring revenue

## Mid-term (2016/17 – 2017/18)

- 3-5%\* net sales growth per year
- Improve EBITA margin with more than 6\*\* percentage points

## Long-term

- >10%\* net sales growth per year
- Growth in EBITA to exceed sales growth in SEK
- ROCE >20%
- Net debt / equity <0.5x

\* In local currency

\*\* Base year 2014/15, excluding currency effects



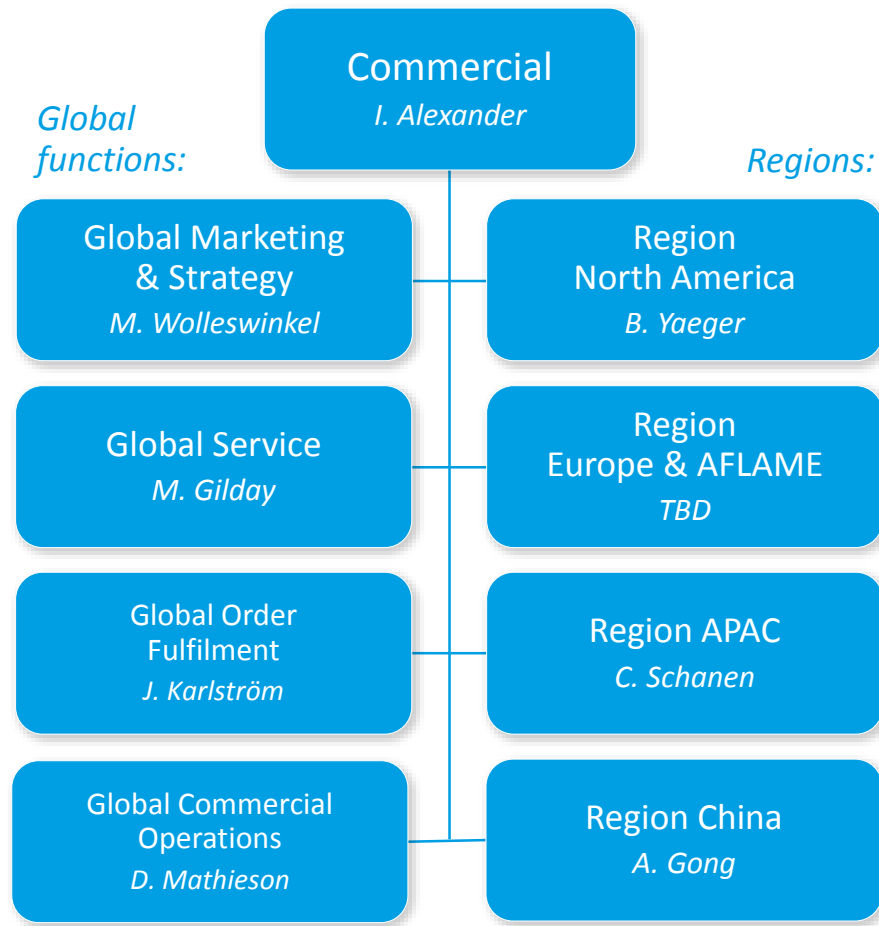
# Back to growth

Ian Alexander

*Chief Commercial Officer*



# A new, lean, global commercial organization focused on growth



One  
global organization  
focused on  
customers  
and sales



# Mid-term market growth: 3-5\*%

- *North America* – hospital consolidation drives large and complex orders with long sales process
- *Europe & AFLAME* – stable growth in line with GDP in mature markets: emerging markets continue to show positive growth although risks in some areas
- *Asia Pacific* – stable in Japan; inconsistent markets in Far East and good potential in India
- *China* – continued good growth in China.
- *Growth opportunities* within service and software



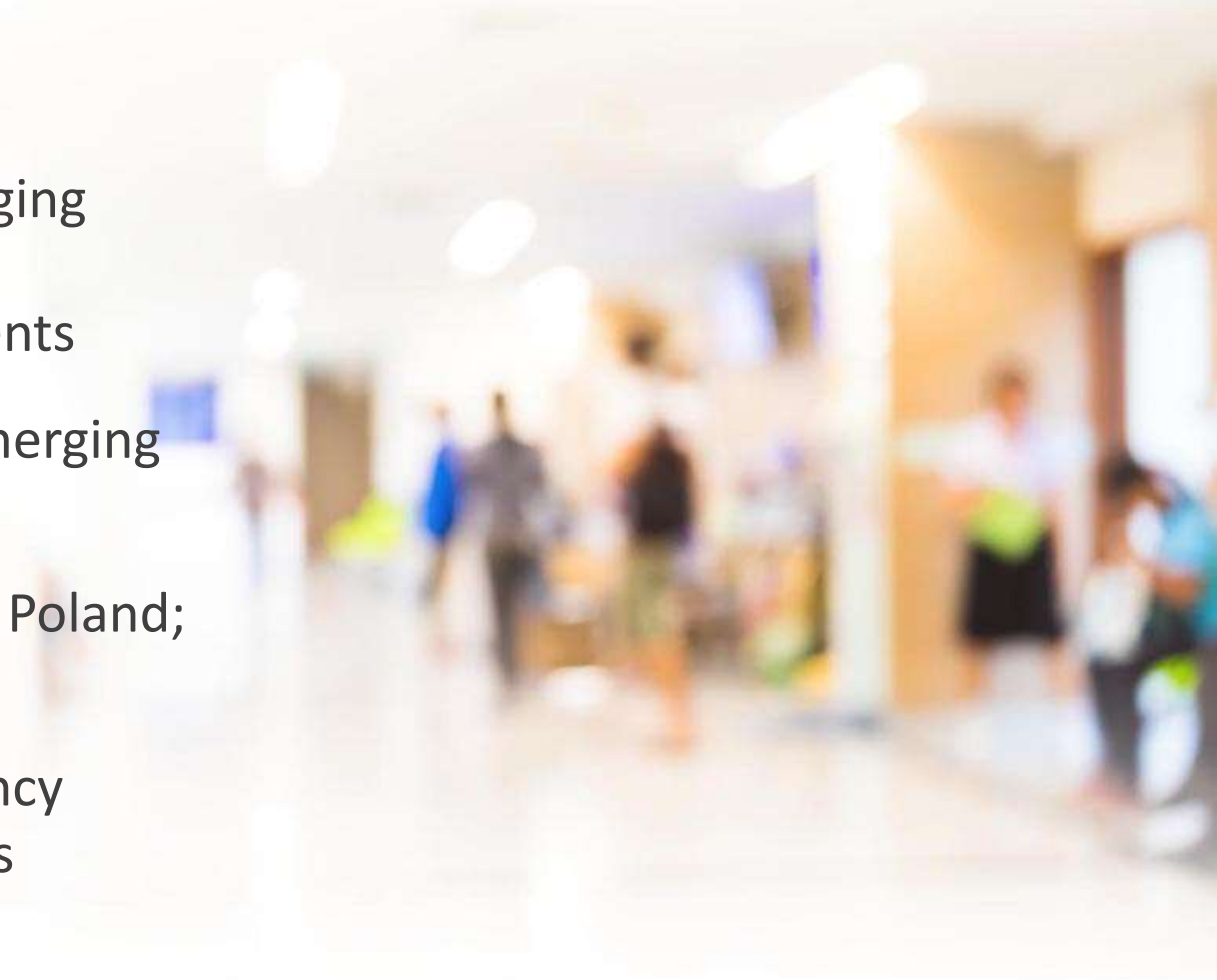
# Turn around and drive growth in North America

- Bill Yaeger - New Executive Vice President North America
- Reorganize sales force and bring focus to service organization
- Grow in large competitor accounts
  - Expansion of team focused in this area
- Launch of Leksell Gamma Knife<sup>®</sup> Icon<sup>™</sup> expected 2015
  - 120 installed systems
  - Expect a high level of interest
- Drive growth potential in large software installed base
  - MOSAIQ<sup>®</sup> present in over 50% of all treatment centers in US



# Strengthen our No.1 position in Europe and AFLAME

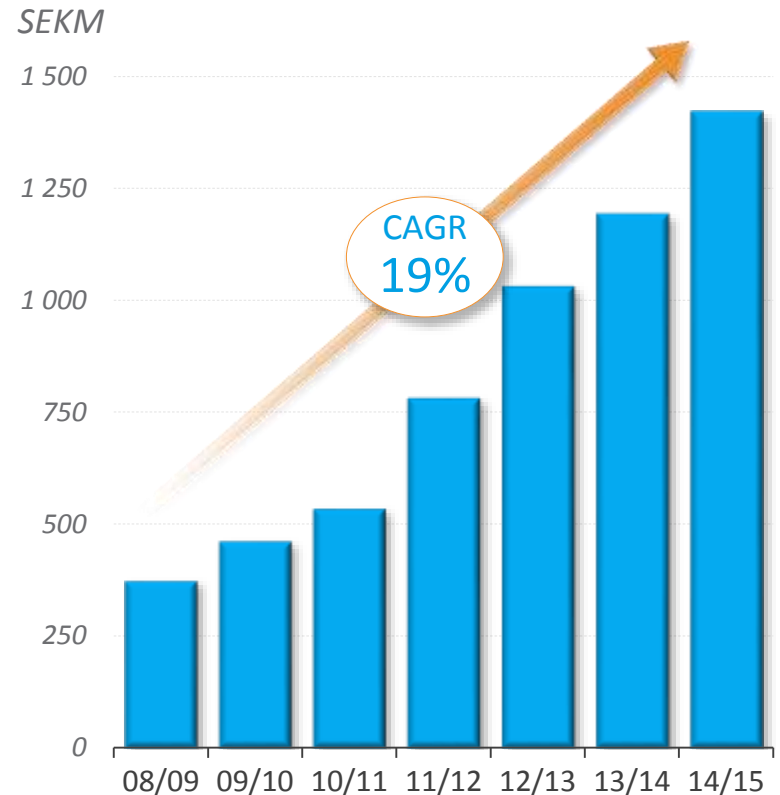
- Drive sales focus to large installed base, managing customer requirements for service contracts, leveraging software and hardware enhancements
- Manage risk and drive growth in prioritized emerging markets
- Capitalize on recent acquisitions in Turkey and Poland; drive the resurgence seen last year in LATAM
- Continue to develop the organizational efficiency in service & support, order fulfilment and sales





# Capitalize on our success in China

## Net sales



- Market growth to continue:
  - Health care reform – clear direction
  - Unmet need – 1.4 linacs/million, vs target of 2 to 3 linacs/million
- Growth within private sector
  - Growing trend of acquisition of hospitals
  - Target of 20% capacity for private sector



# Growth opportunities in Asia Pacific

## *Japan*

- Elekta gained share on weak market
- Strong partnership with Toshiba – large upgrade potential and excellent market access
- Newly approved Versa HD™ - major opportunity and cyclical upswing in market anticipated

## *India*

- Strengthened organization and sales team
- Benefits of improved support in service and order fulfilment from new structure
- Expect to see market expansion as demand for improved healthcare access continues

## *Rest of Asia*

Australia:

- Great partnership with Genesis Care

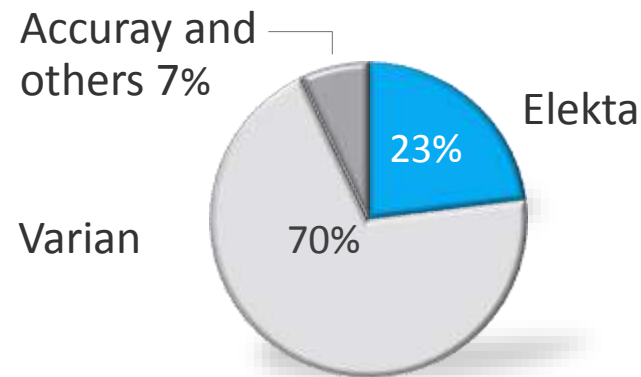
Rest of Asia:

- Emerging markets
  - Selective opportunities
  - Some markets affected by weak currencies

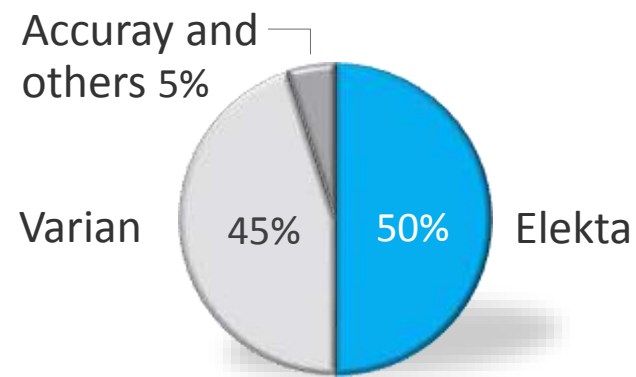
*Driving operational consistency through the new organizational structure*

# Relative market shares for linear accelerators

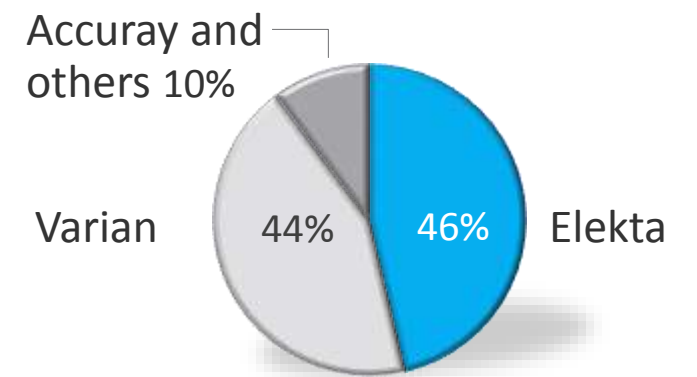
## North America



## EMEA



## Asia Pacific



# Commercial excellence in new organization

- Global marketing

- Going from decentralized marketing approach to single global team
- Drive global messaging and alignment
- Brand strength
- Product launches
- Business focus/market strategy

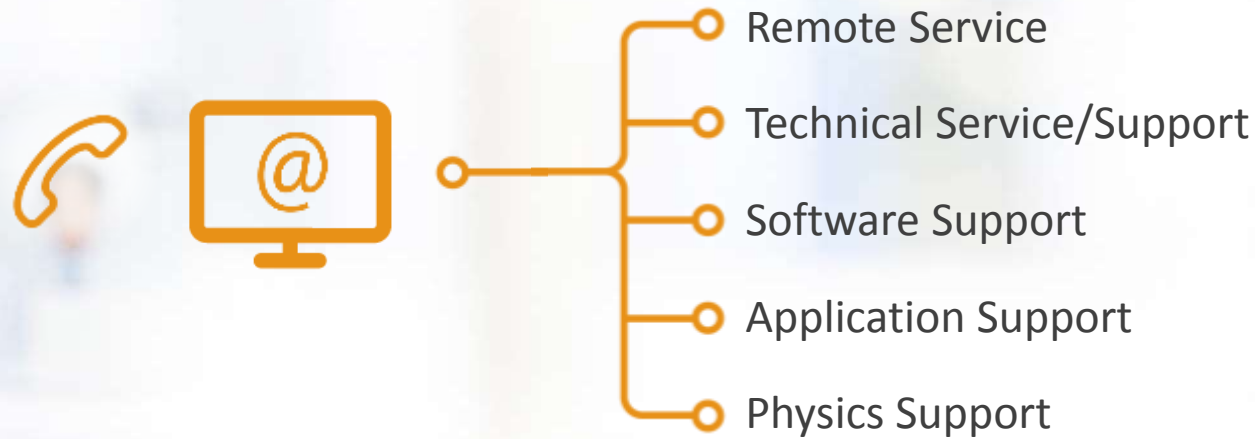
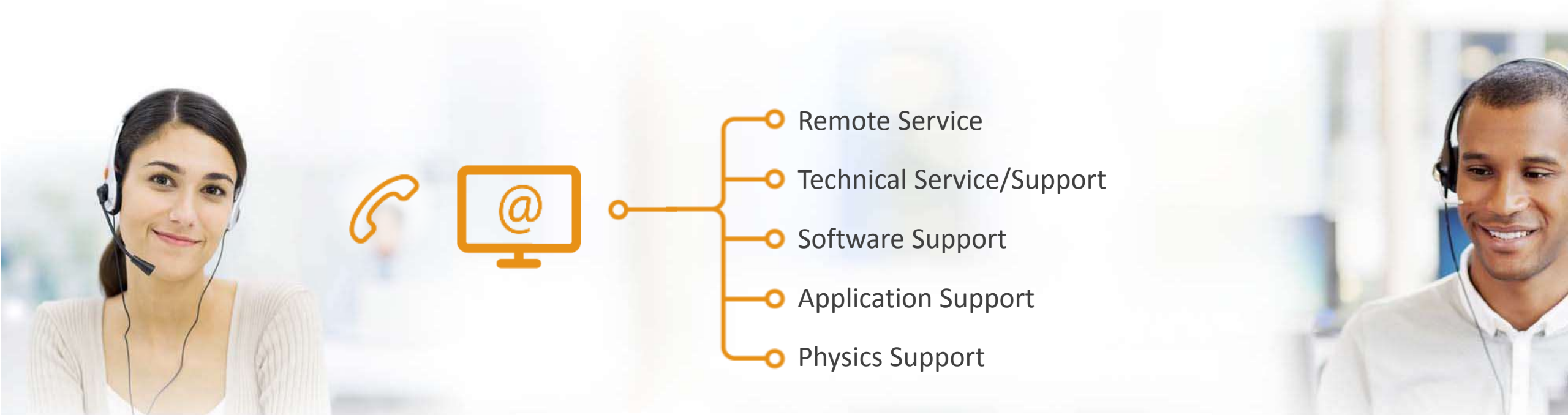
- Sales transformation activities

- Focus on installed base and competitor accounts
- Ensure consistency and performance
- Leverage global expertise





# Global rollout of Elekta Care



Elekta Care Silver



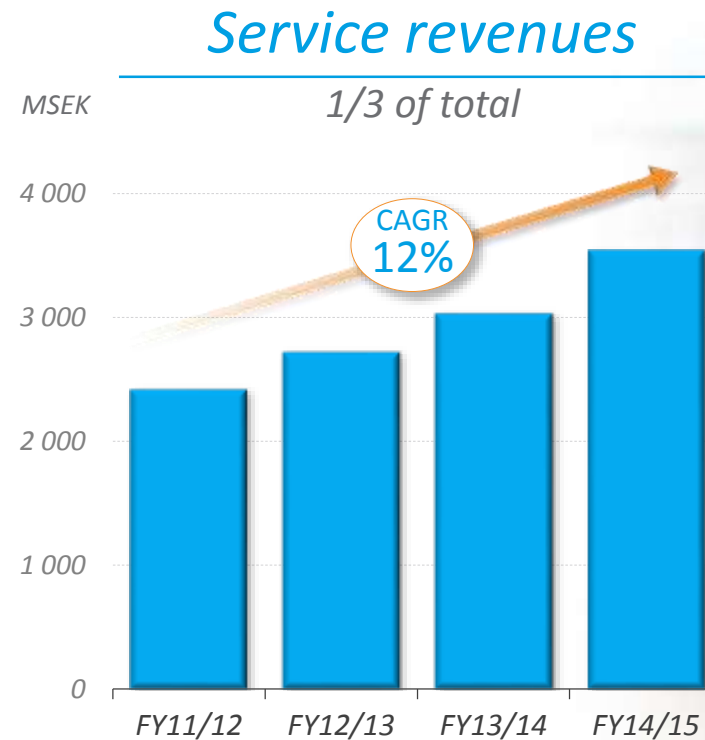
Elekta Care Gold



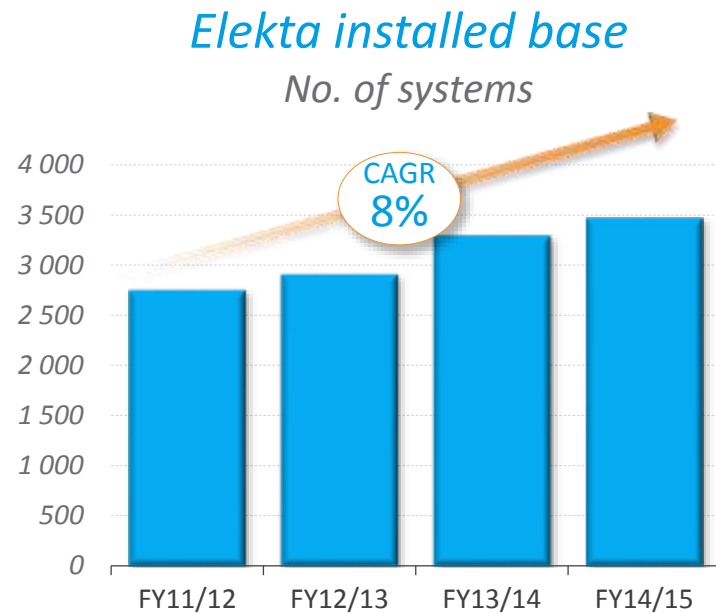
Elekta Care Platinum

# Significant growth potential in service revenue

- Capture growth in installed base
- Service contract penetration
- Service growth higher than linac hardware
- Elekta Care is driving positive impact on margin



# Capture upside in installed base

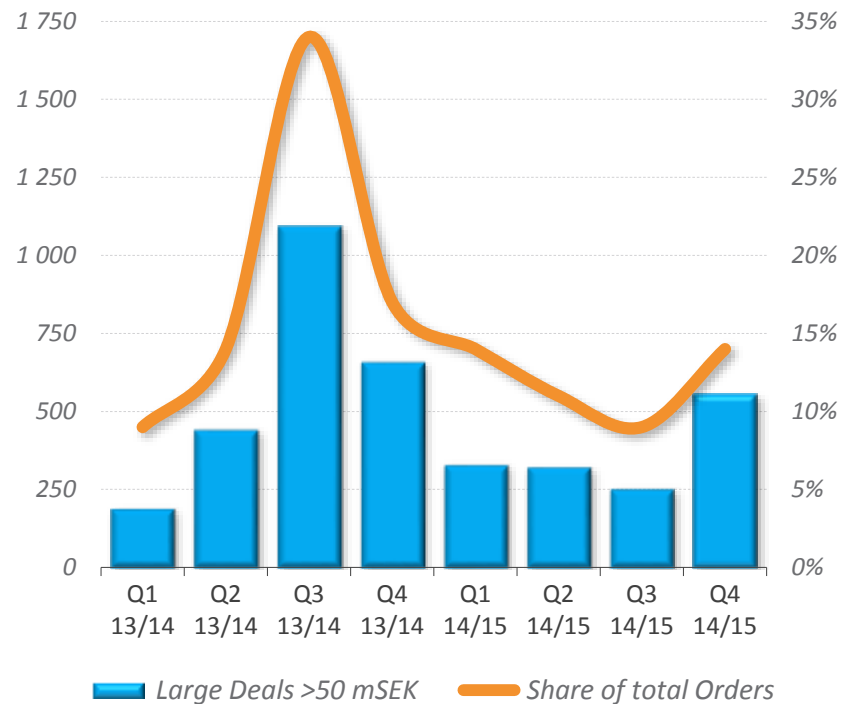


- Dedicated sales force and tools to:
  - Upsell software
  - Upgrade hardware
  - Cross-selling opportunities
- Maximize opportunity from many recent product releases:
  - Agility™/FFF
  - Versa HD™
  - Monaco® 5
  - MOSAIQ® 2.6
  - XVI 5
  - Leksell Gamma Knife® Icon™



# Strengthen global capabilities with larger opportunities

## Booked large orders and share of total



- Elekta has a strong offering as long-term partner
- Support national cancer programs
- Good value proposition with software/services
- Higher complexity in negotiating/closing driving higher volatility in forecasting

FY13/14: 2,4 bnSEK

19%  
of total

FY14/15: 1,5 bnSEK

12%  
of total



# Expected long-term growth

- Improving world economy and political stability
- Cancer incidence growth and retreatments
- Increased utilization of radiotherapy
- Closing the gap in emerging markets
- Higher technology content, more aftermarket revenues



- Atlantic
- Software and knowledge management
- Elekta target - to grow faster than market



Long-term market  
growth rate of

6-7%

Elekta growth  
ambition

>10%

# Our financial ambitions

## Short-term (2015/16)

- Return to growth in H2 2015/16\*

## Mid-term (2016/17 – 2017/18)

- 3-5%\* net sales growth per year

## Long-term

- >10%\* net sales growth per year

\* In local currency



# Driving profitability through improved efficiency

Johan Sedihn  
*Chief Operating Officer*



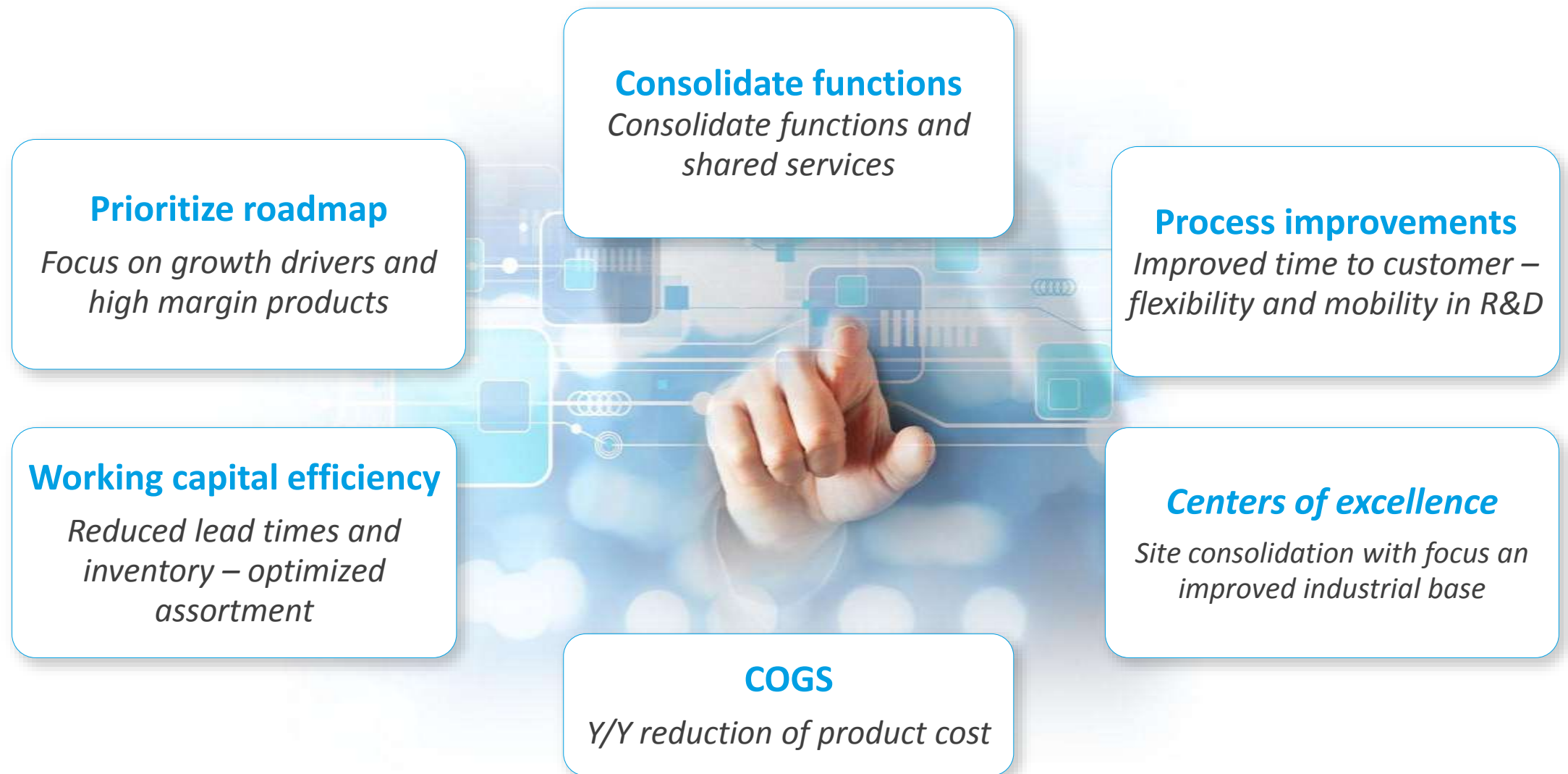
# Drive efficiency – 2-year program

- Cost base reduction with  
**> 300 MSEK**
  - Implementation to start during the next 6 months
- COGS efficiency programs  
**> 150 MSEK**
  - Focus on material costs
- Working capital efficiency (balance sheet)  
**> 200 MSEK**
  - Initiated – reduction of inventory levels

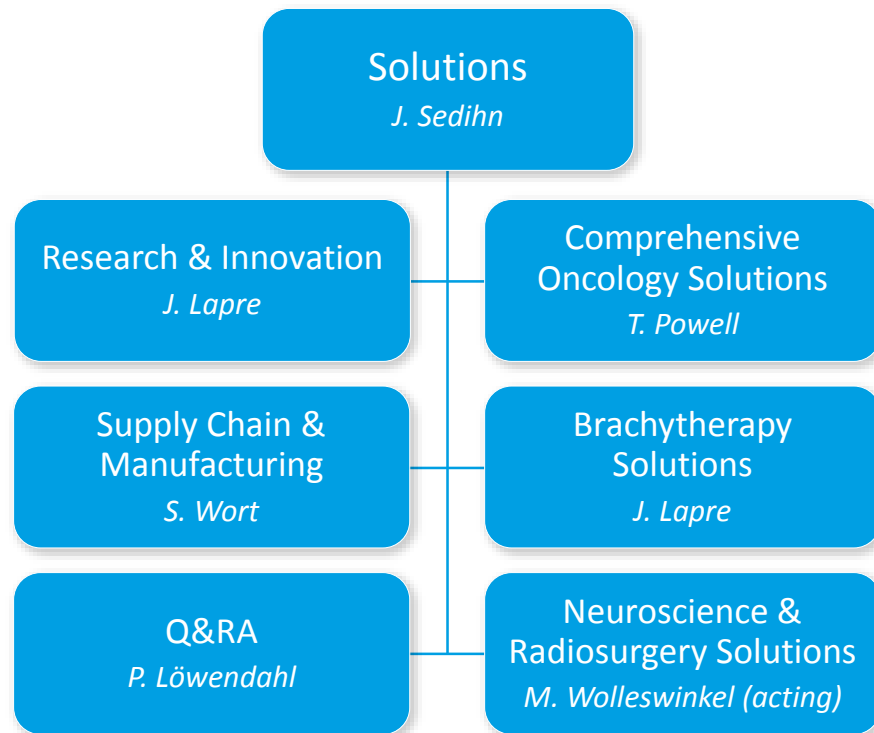




# Efficiency program drivers



# New lean global organization focused on customer offerings



Integrated solutions organized around customer needs

Global supply chain and manufacturing

- Focus on cost base
- A lean organization
- Global view on capital efficiency
- Time to market

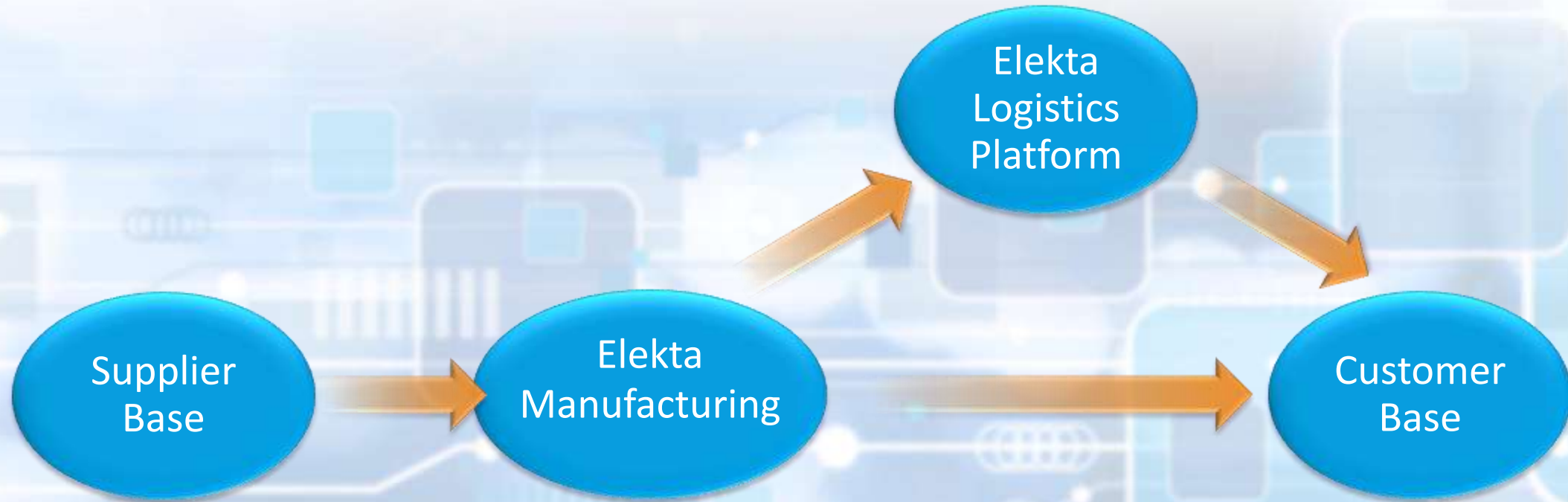
# Global efficiency in R&D



## *Objectives*

- Integrate to fewer hubs
- Leaner organization  
Faster time to market
- Cost base reduction
- Capital efficiency

# COGS efficiency in the Elekta value chain



# Efficiency programs in supply chain to improve productivity and performance

## Manufacturing

### - example from Elekta Beijing -

- *Productivity of 10% per year*
- *Table production moved to Beijing*
  - *Reduction of headcount*
  - *Reduction of space*
  - *Quality improved further*
- *Next: Increased manufacturing capabilities in Beijing*

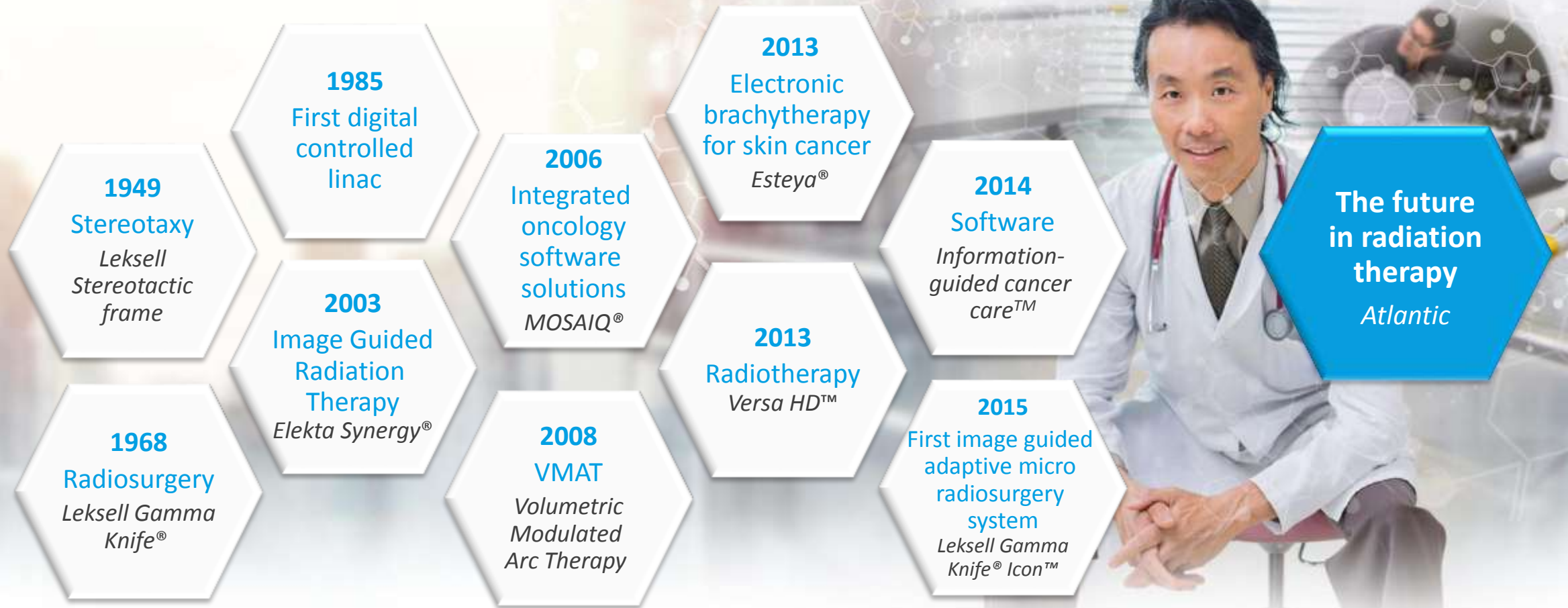
## Elekta Logistics Platform

### Supply chain management, inventory goods

- *Currently 80% of installed base for next day delivery*
- *Performance 2014/15*
  - *Availability 97%*
  - *Delivery precision 98%*
  - *Cost reduction per shipment 11%*

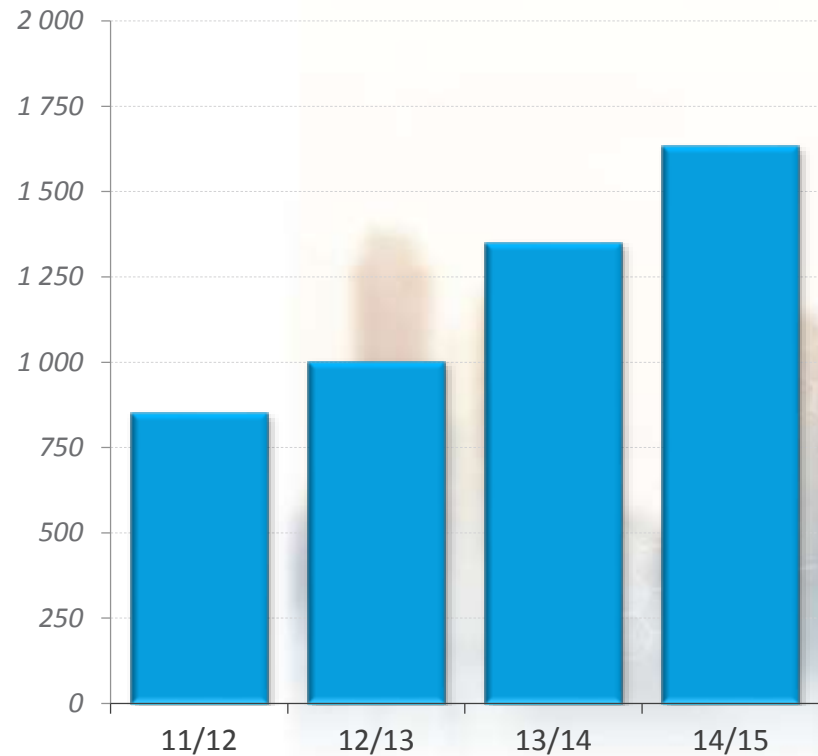


# Innovation is in our DNA



# R&D investments for future growth

*R&D expenditures (gross), SEK M*



- Significant increase in R&D investments
  - *Atlantic*
  - *Software*

# Prioritizing R&D drives profitability

- Further integration of our radiotherapy solutions
- Atlantic
- Information-guided cancer care™
- Brachytherapy HDR
- Maintenance releases to drive customer satisfaction



# Summary

- Cost savings
- Working capital efficiency
- R&D effectiveness





# The future of cranial radiosurgery

Veronica Byfield Sköld

*VP Product Commercialization, Elekta Neuroscience*



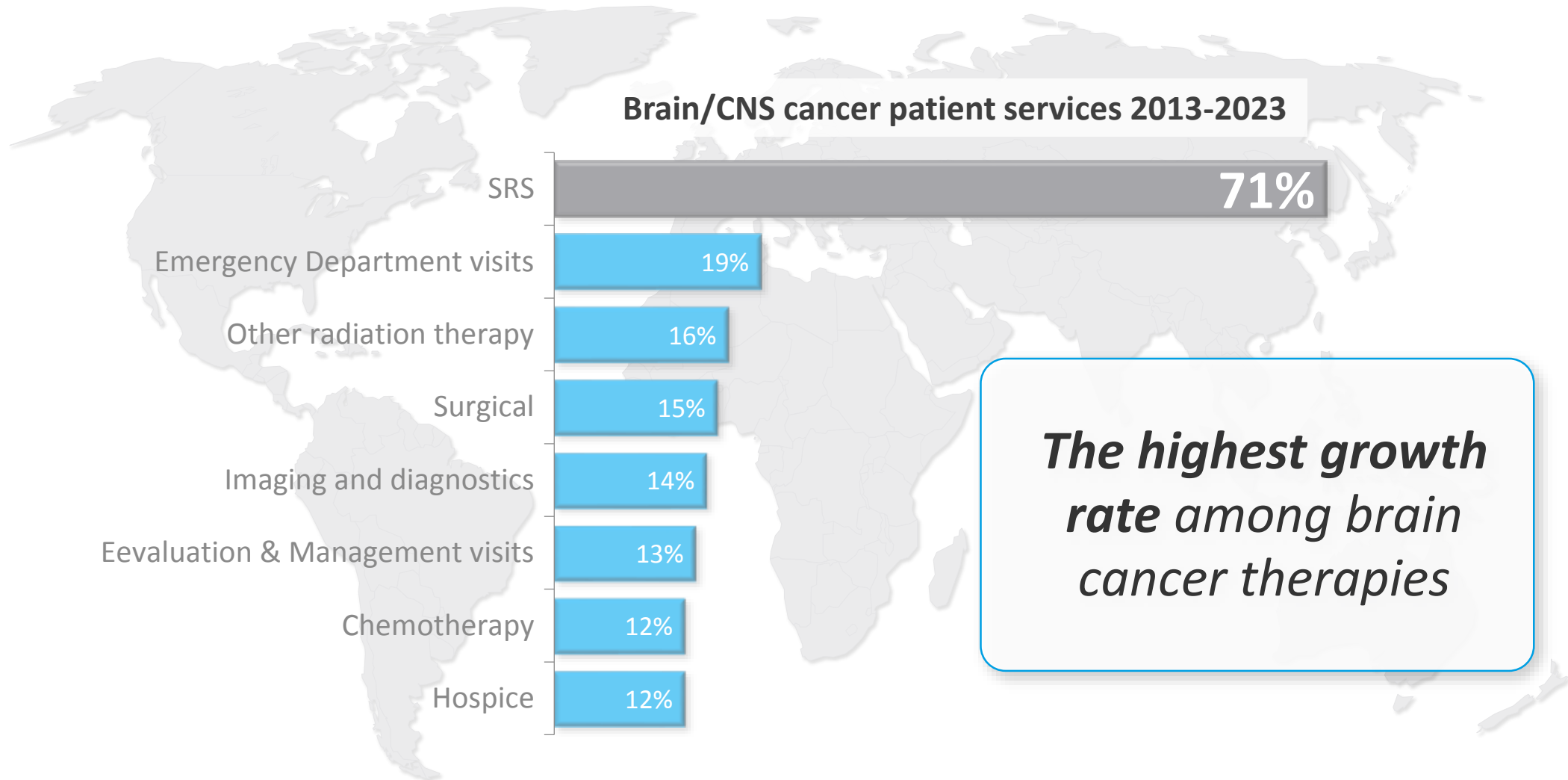


The potential of

# radiosurgery (SRS)

Increasing importance for both  
cancer & functional disease

# Strong growth of radiosurgery expected



*Hot off the press*

## New landmark study supporting radiosurgery

- Multicenter, randomized trial
- 213 patients: WBRT + SRS vs SRS alone
- +50% risk of neurocognitive decline with WBRT added to SRS, no survival benefit

Initial treatment with **SRS only** and close monitoring is recommended



Cancer Newsline - 6/1/15



# Potential of radiosurgery for functional disease

## *Large patient populations*

*Incidence per million (% potentially treatable w/ GKRS)*

Trigeminal Neuralgia	126-289	(50%)
Essential Tremor	237	(50%)
Parkinson's Disease	120-146	(15%)
Epilepsy	450	(5%)
Behavioral Disorders	160-2,000	(2%)

*Science is  
building*



# 50%

growth of functional  
cases treated with  
Gamma Knife in  
the last five years

# What will it take

to tap into this potential?



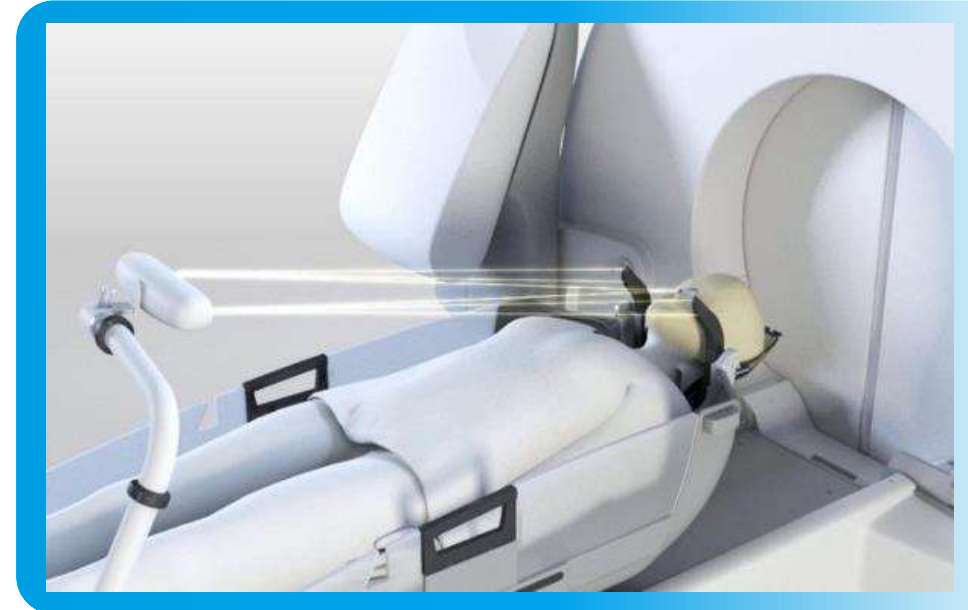
# Leksell Gamma Knife® Icon™

*Precision Radiosurgery with Online Adaptive DoseControl™*



Leksell Gamma Knife® Icon™  
New technology

- Precise **frameless** workflow
- Integrated **stereotactic CBCT** imaging
- **Online Adaptive DoseControl™** for continuous quality control



Leksell Gamma Knife® Icon™

## Significant customer value



### UNLIMITED FLEXIBILITY FOR CRANIAL SRS

- Frame/frameless, single session/fractionation, any target(s), SRS/microradiosurgery

### THE HIGHEST PRECISION

- The most targeted dose delivery with the highest accuracy – for all workflows

### CONTINUOUS QUALITY CONTROL

- Through Online Adaptive DoseControl™

### EFFICIENCY AND SAFETY THROUGH INTEGRATION

- Safe, reliable and cost effective – the safe and sound choice

# Successful launch at ESTRO

*Barcelona April 24-27, 2015*



# Successful launch at ESTRO

*Barcelona April 24-27, 2015*

- Great interest throughout the congress
- Positive customer feedback – relevant technology in radiation oncology segment
- Several leads identified for a strong pipeline going forward





# Leksell Gamma Knife® Icon™ commercial status

- CE mark on June 5
- FDA 510(k) filed on June 8, expecting clearance in September/October
- Registration in Japan within 12 months
- First sites lined up for acquisition and/or installation
- La Timone, Marseille (FR) surveillance site – clinical start early July

# Significant potential

Installed  
base

**Upgrade installed base**

- Increased flexibility and broader application
- Easy upgrade available for Perfexion (200 systems)

New  
customers

**Solidify position in  
neurosurgery**

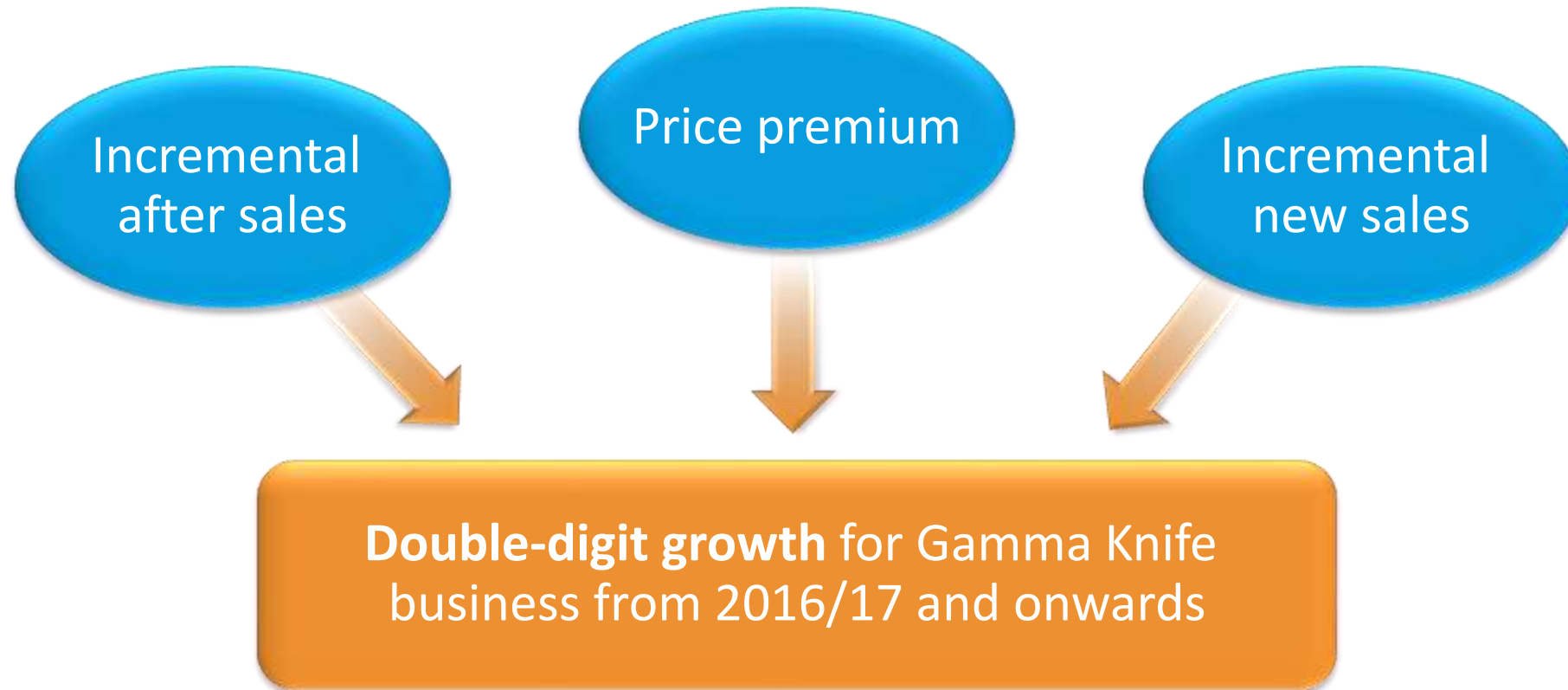
- Broader application of precision in neurosurgical setting
- Superior tool for functional treatments

**Expansion in  
radiation oncology**

- Online image-guidance for precise frameless treatments; motion management
- Workflow efficiency

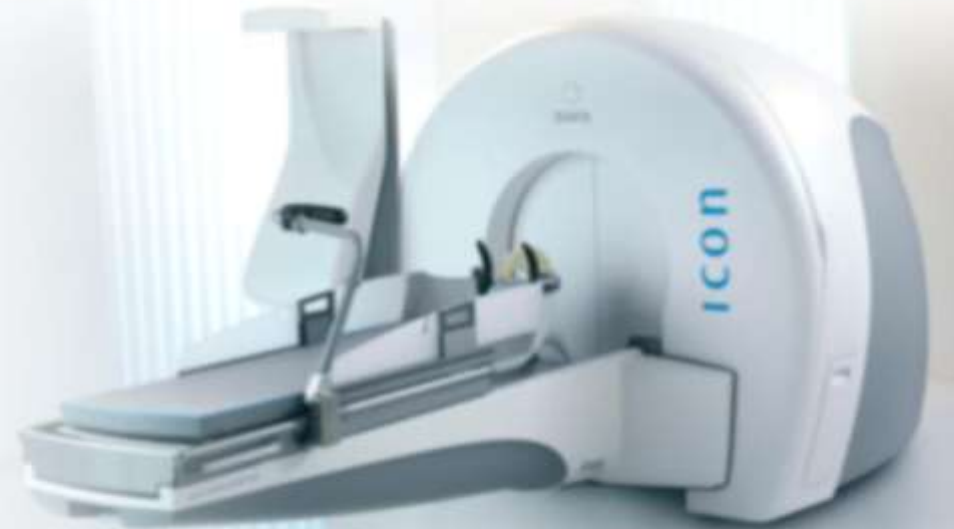


# Significant potential



# Summary

- Icon uniquely positioned to leverage strong growth in cranial SRS segment
- CE mark in Europe, 510(k) pending
- First sites lined up for acquisition and/or installation
- Competitive platform for continued growth





# Atlantic – game changer

Kevin Brown

*Global Vice President Scientific Research*





# The future of cancer care

## Today's RT:

IGRT with VMAT is standard of care

## Atlantic

Better knowledge of the patient and disease

Increased accuracy and precision

Real-time adaption (motion, shape, biology)

## Tomorrow's RT:

- Better outcomes
- Lower costs
- Potential for new indications



# Atlantic project is on track for commercial launch



## Demonstrated

- 1.5 T MRI imaging quality for both 3D and 2D Cine
- *Image quality not affected by:*
  - Radiation
  - Presence or rotation of linac gantry
- Linac fully operational simultaneous with MRI



## Crawley Atlantic facility completed

- The project team will be testing 12 systems in the next 12 months
- Consortium members are preparing their bunkers for their systems
- We expect to deliver and commission all the consortium systems in the next 18 months

# Leading consortium members




*Over 100 people conducting research to demonstrate the clinical value of Atlantic*

**7 sites**  
have signed up

# How we demonstrate clinical value

- **Planning and imaging studies**
  - Virtually validate clinical hypotheses and estimate dosimetric benefit
- **Feasibility studies**
  - Optimize work flow, establish safety and confirm dosimetric benefit
- **Single arm studies**
  - Estimate clinical outcome effect sizes (cancer control and/or toxicity) associated with DVH benefits
- **Comparative studies**
  - Compare Atlantic-based treatment with most relevant alternative.

This approach is based on the R-IDEAL Study Framework\* consisting of 5 distinct phases which is considered more suitable for radiotherapy innovation than the pharma approach



Increasing strength of evidence; time and investment

# Nine tumour sites prioritized

*The consortium members submitted 77 proposals*

- BLADDER all
- BREAST locally advanced, N+
- CERVIX PAN +ve
- ESOPHAGUS
- KIDNEY all
- LIVER all
- LUNG, central, N+
- MESOTHELIOMA
- NPC
- PANCREAS all
- PROSTATE locally advanced, N+
- RECTUM locally advanced
- SARCOMA retroperitoneal
- STOMACH

*Prioritization of sites*

*Size of the value*

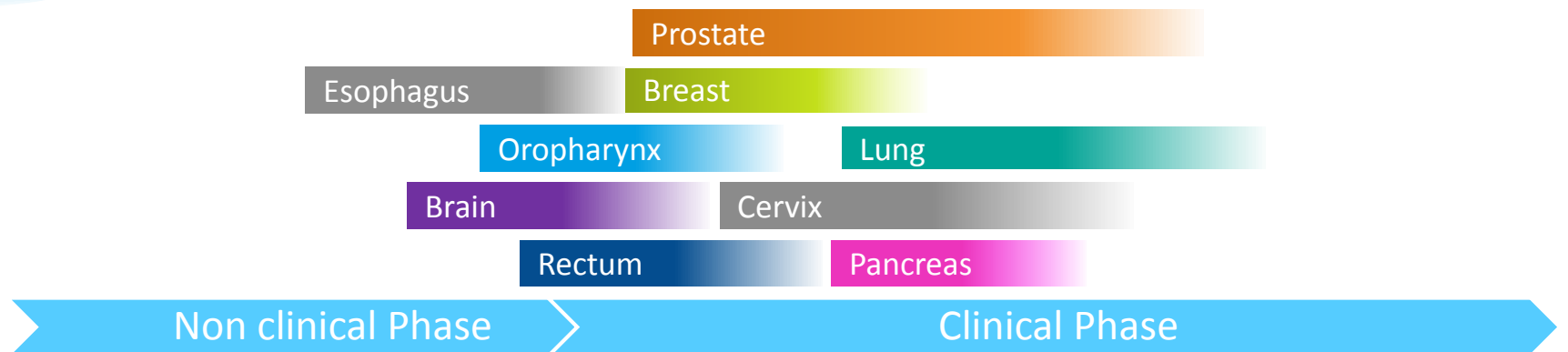
*Technical capability*



*Access*

- Number of patients that will benefit
  - Incidence of disease and stage
- Size of benefit per patient
  - Quality and extension of life
- Ease to demonstrate benefit
  - # of patients and study duration
- Economic benefits

*Design and execution of clinical studies*

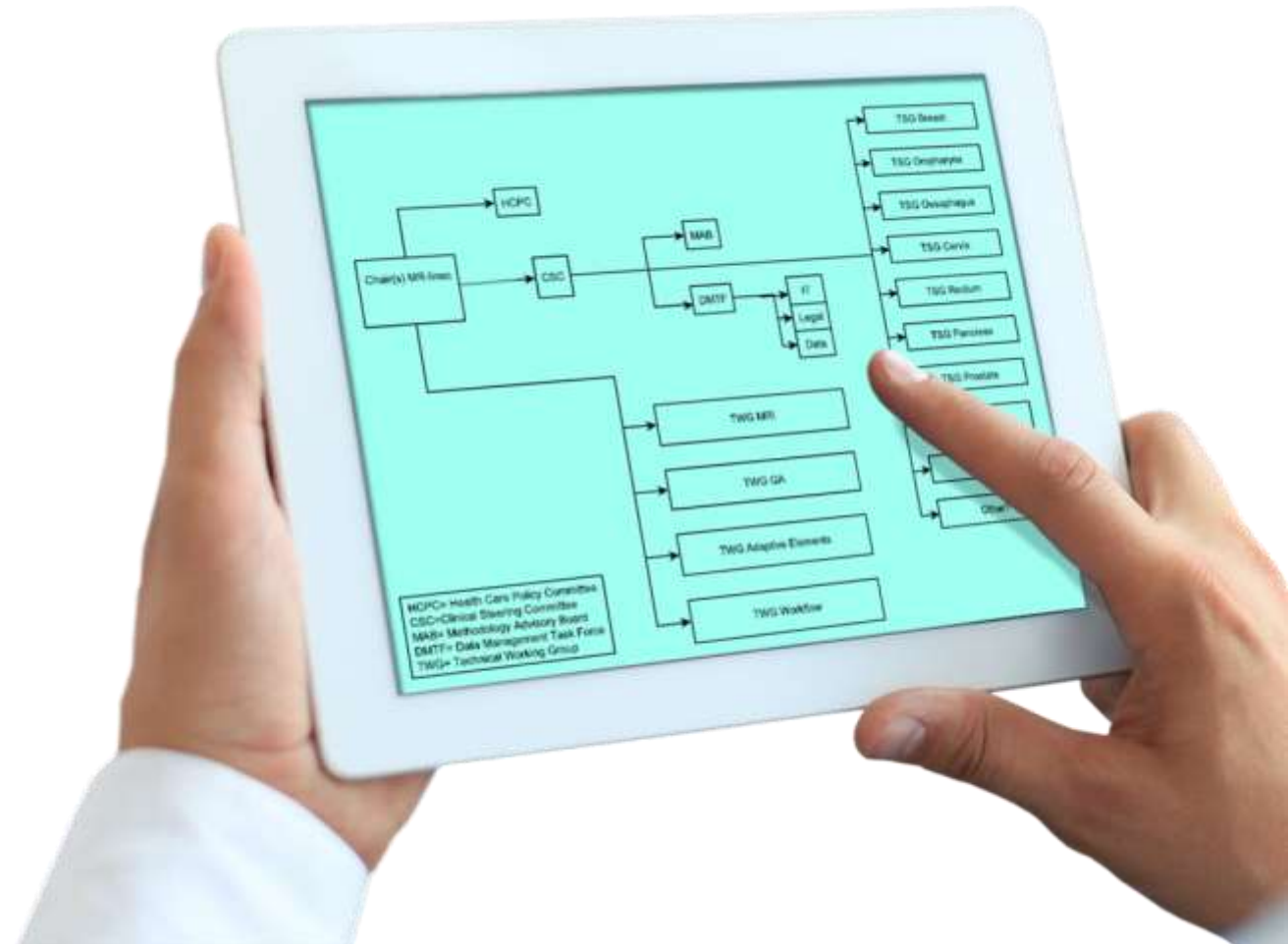


*Note: Timelines purely illustrative*



# Tumor site groups established

- Each tumor site group is formed from clinical experts from each of the 7 consortium members
- Planning and imaging studies defined; many have begun
- Detailed timelines for pre-clinical and clinical studies being developed
- Data management approach and infrastructure being developed



# Atlantic – launch and commercial orders from 2017



<i>Planning</i>	<i>Ambition</i>
Consortium orders – research systems	8
Regulatory approvals - CE Mark, 510(k)	During 2017
Launch and taking commercial orders	2017
Total orders during ramp up ( <i>until 2019</i> )	75
Expected market price	8-10 MUSD

# Summary

- Project on track
- Market interactions confirm our commercial expectations
- Consortium is making good progress developing trials and performing initial studies to demonstrate clinical value
- Preparation for the delivery of the consortium systems is underway





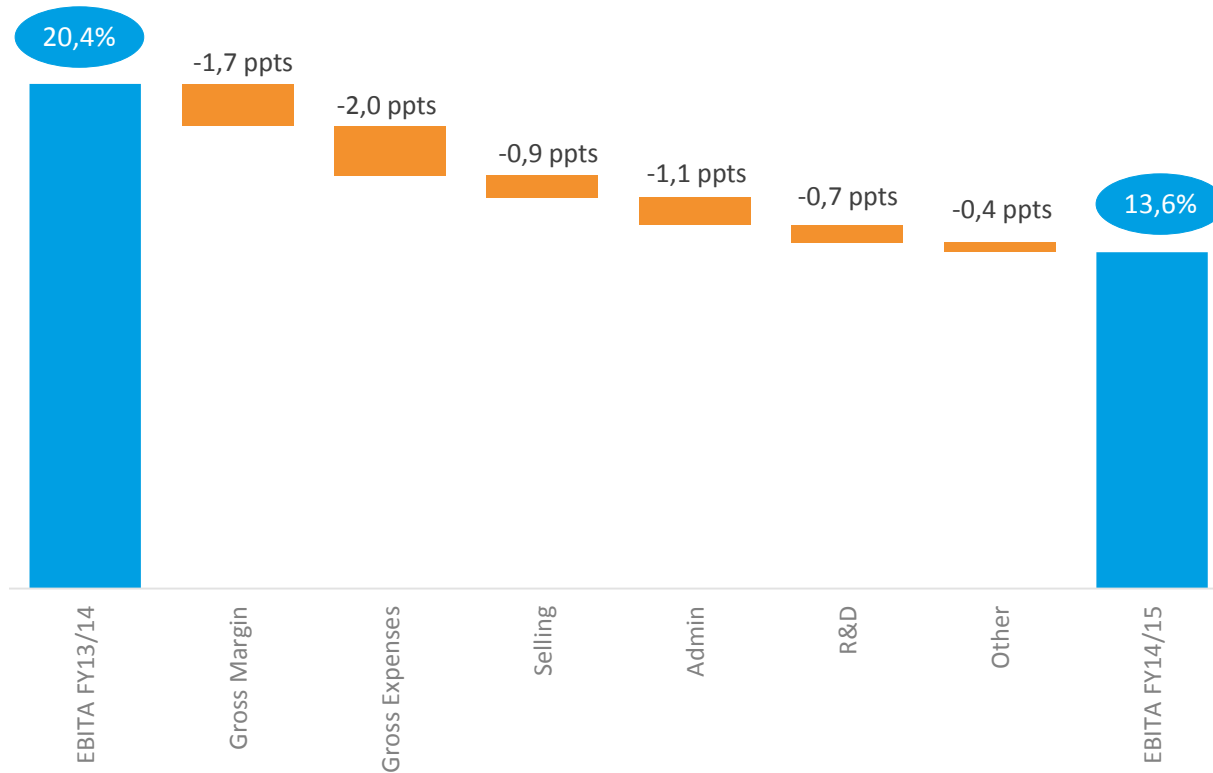
# Financials

Håkan Bergström

*CFO*



# EBITA margin drop mainly driven by decline in sales volumes



EBITA margin drop of 6,8 ppts mainly driven by decline in sales volumes of 8%:

*Price and mix: -1,7 ppts*

- Unfavorable product mix
- Price pressure in some emerging markets

*Leverage in expenses: -4,7 ppts*

- Gross expenses -2,0 ppts
- Operating expenses -2,7 ppts

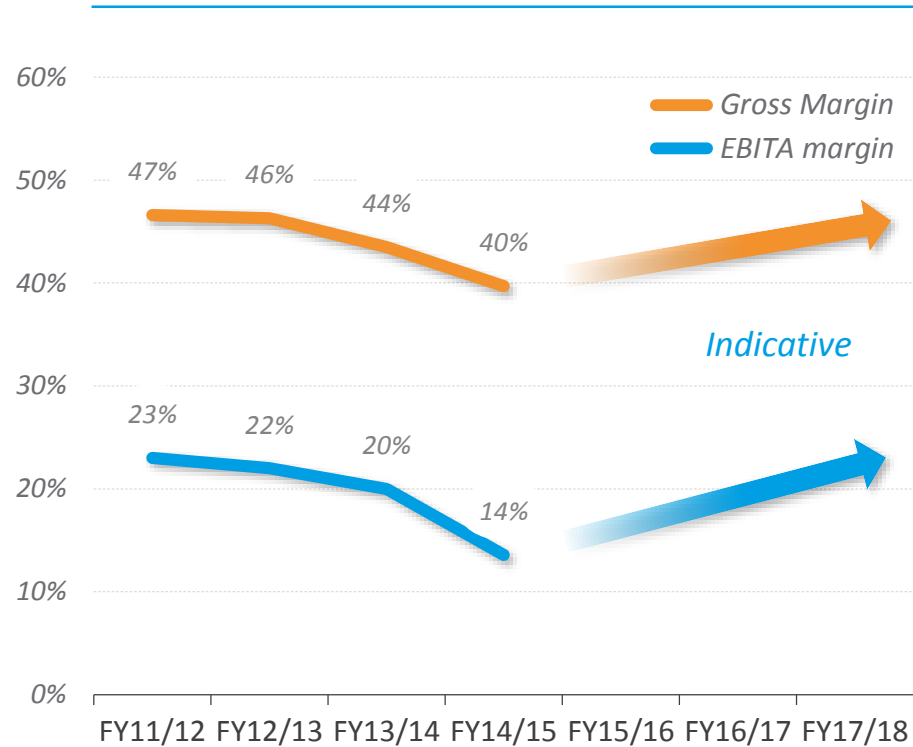
*Other: -0,4 ppts*

- Amortization
- Hedging



# Ambition to improve EBITA-margin

## Margin Development



**Underlying potential  
- excluding FX effects**

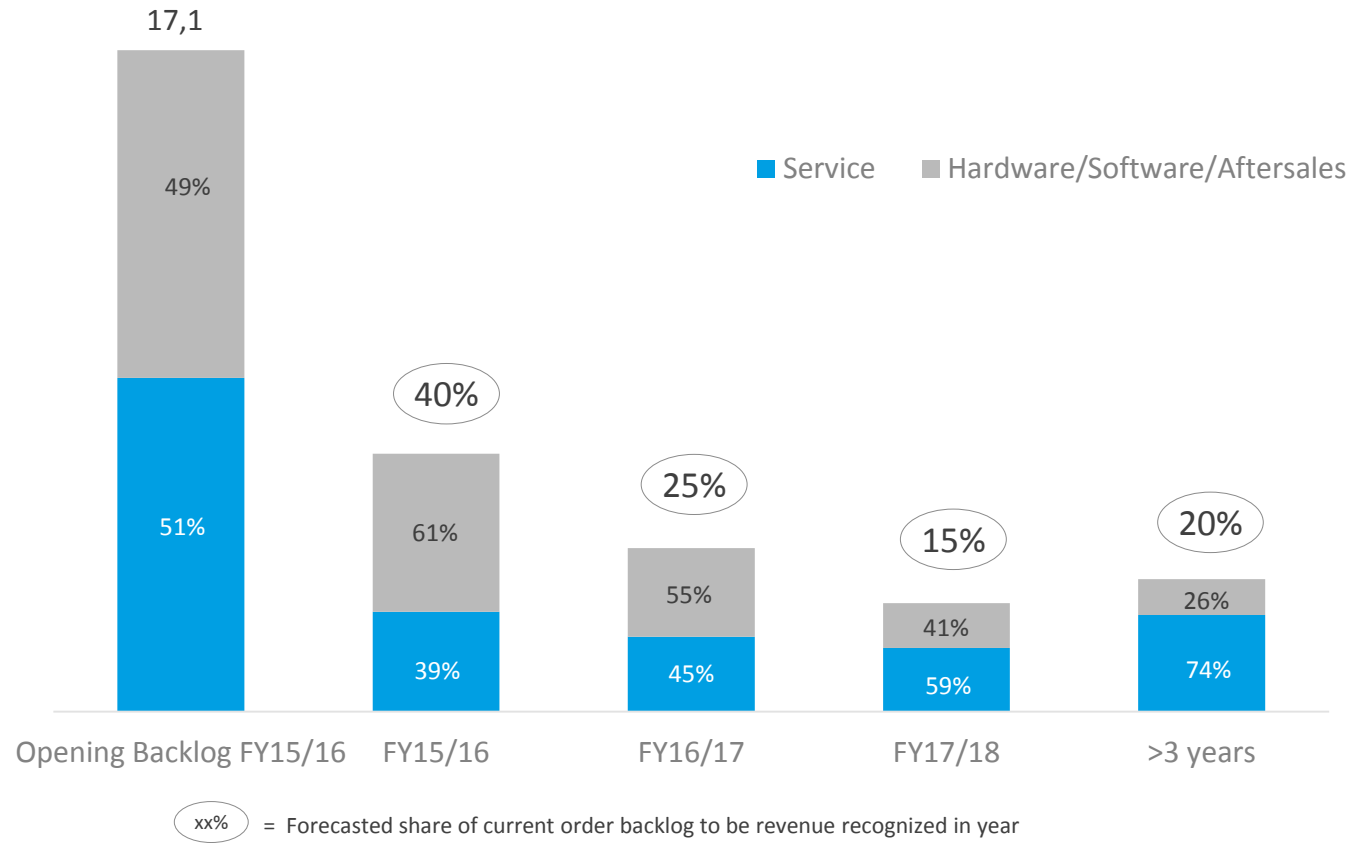
Margin improvement ambition* <i>Mid-term (3-year perspective)</i>	Effect on margin%
Higher share of service revenues	~1.0%
Mix improvement in high margin products	~1.0%
COGS efficiency program	~1.5%
Leverage gross expenses	~0.5%
<b>Operating expense improvements</b>	<b>~4.0%</b>

Improve EBITA-margin\*

>6%

# Order backlog - visibility of future revenue

Order backlog maturity by year (bnSEK)



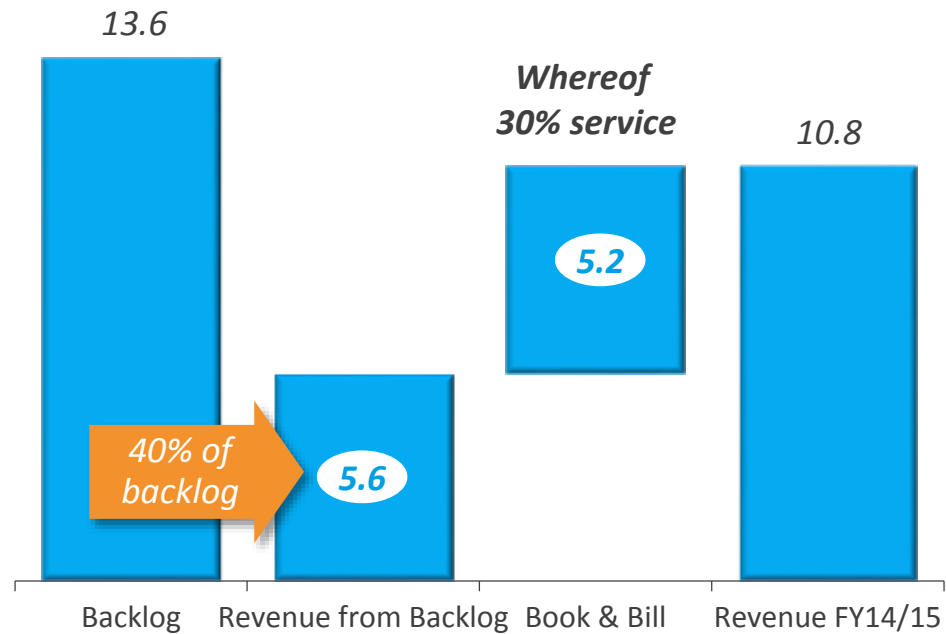
## Order backlog:

- Longest maturity in service - mostly in US
- Multiyear contracts - part of larger deals

# Order backlog to revenue

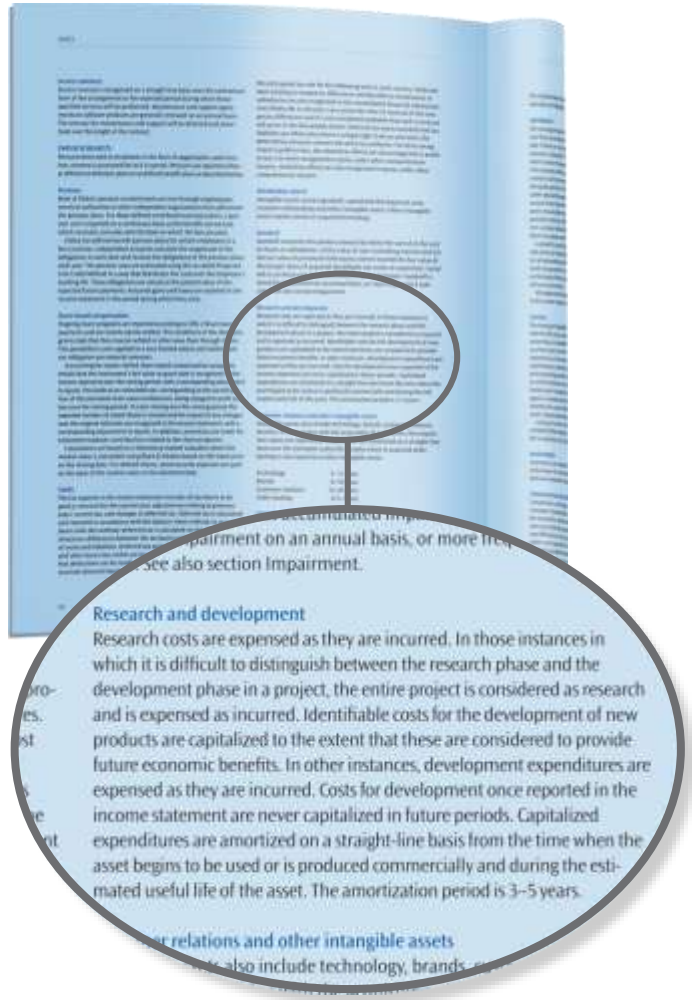
## Revenue and book & bill – 2014/15

(bnSEK)



# Principles for capitalizing R&D

According to IAS 38 and described in annual report



## IAS 38 Intangible Asset

Requires development expenditures to be capitalized as an intangible asset while research cost must be expensed when incurred

Research costs are expensed as they are incurred.

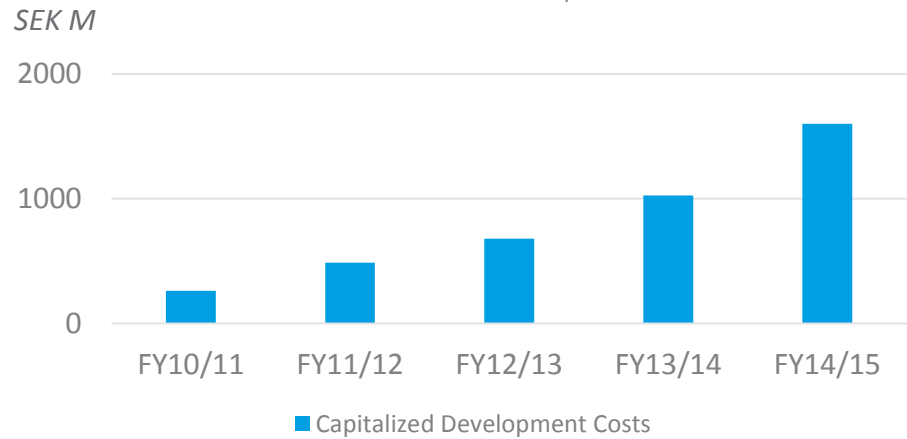
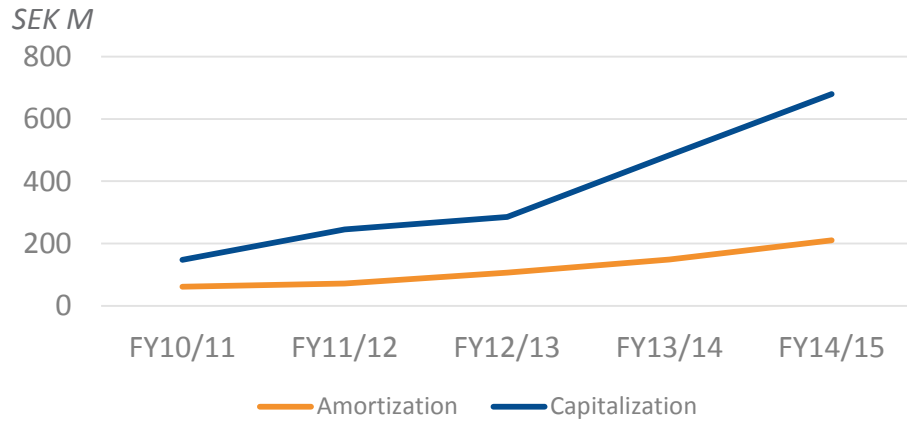
Identifiable costs for the development of new products are capitalized to the extent that these are considered to provide future economic benefits.

Capitalized expenditures are amortized on a straight-line basis from the time when the asset begins to be used.

The amortization period is 3–5 years.

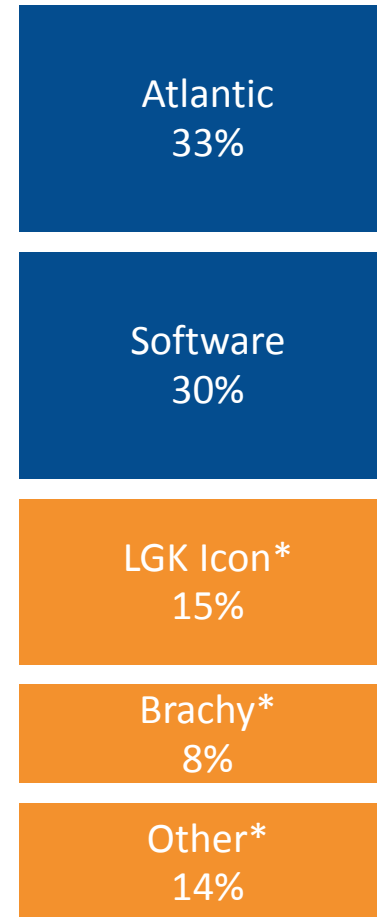
# R&D capitalization

## Capitalized development costs



Capitalized R&D

1,6 bn SEK

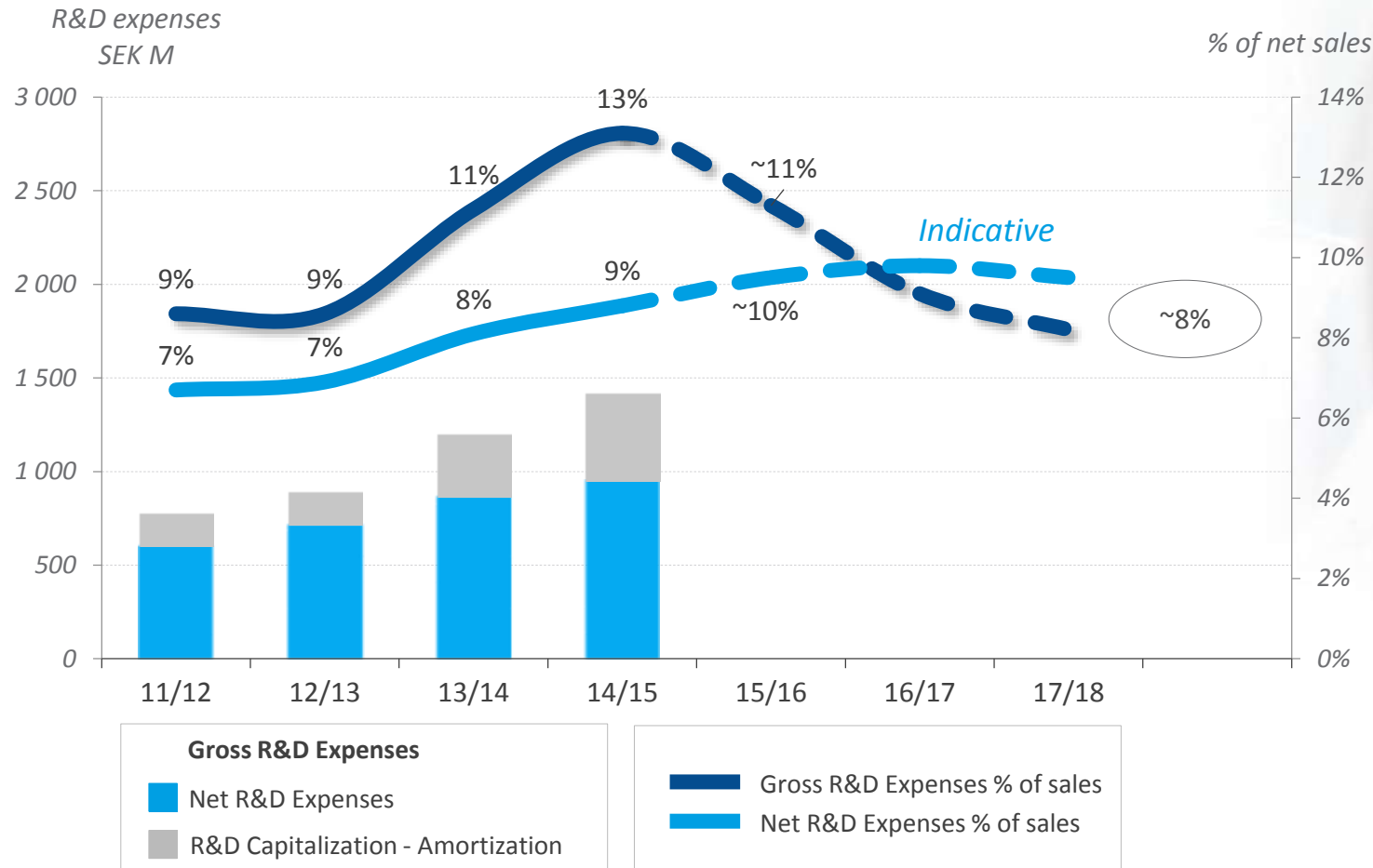


- Still in capitalization phase
- Continued capitalization linked to knowledge mgmt, OIS, TPS
- Launched in Q4 FY14/15
- Afterloaders & Esteya launched

\* Amortization > Capitalization



# R&D commitment continues for future growth

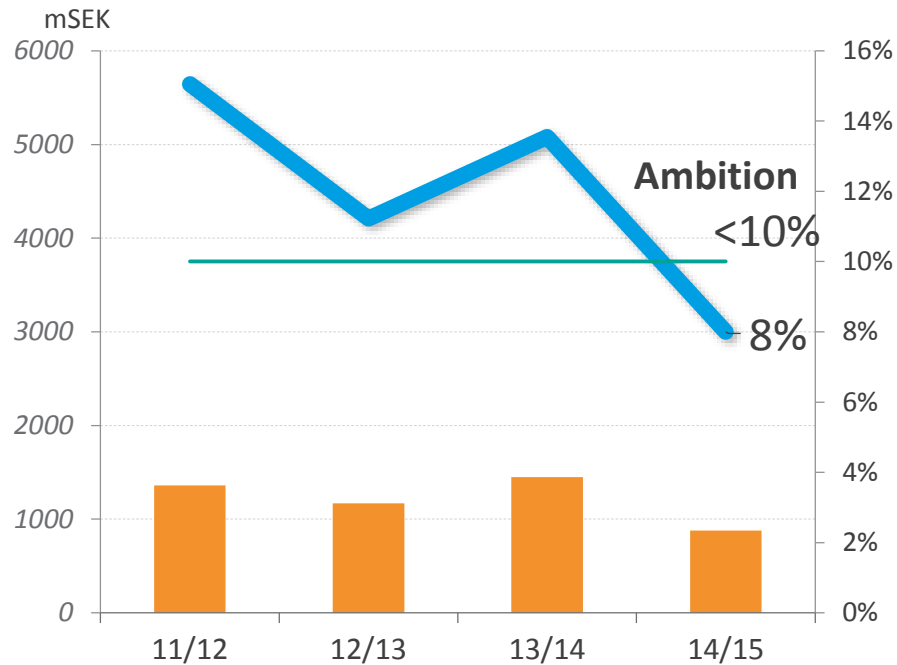


- Gross R&D investments will normalize
- Net R&D trailing behind due to amortizations

\* Start of amortization for Atlantic and LGK Icon drives increase in amortization in FY15/16

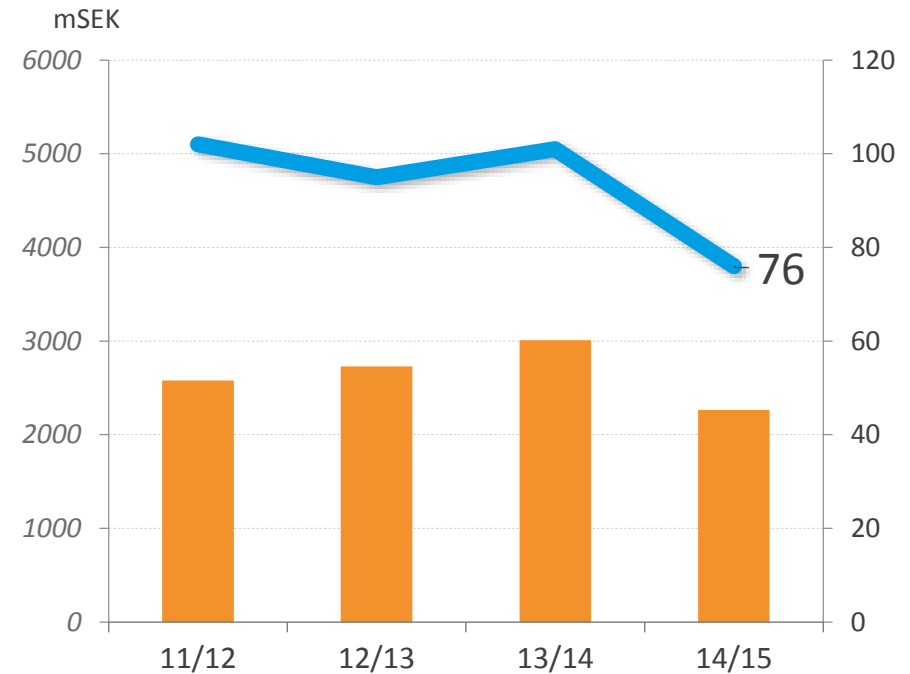
# Reduction in net working capital

## Net working capital / net sales



Improved DSO

## DSO\* development



Improvement drivers US and China

# Revenue recognition and project-based operations

## Revenue recognition

- Revenue recognized when risk and rewards have been transferred to the customer
- Linacs on average: 85% shipment, 15% acceptance

## Risk transfer

- Revenue recognition based on transfer of risk and reward. Most cases INCOTERM CIP
  - Elekta initiates the procurement of transportation and insurance services.
  - Risk is transferred by contract when the goods are handed over to the first carrier

## Invoicing – Payments

Revenue recognition often does not coincide with invoicing and payments from customers

- Invoiced revenue is reported as **Accounts Receivables**
- Revenue recognized exceeding invoiced amounts is reported as **Accrued Income**
- Invoiced amounts exceeding revenue recognized are reported as **Customer Advances**
- Payment exceeding revenue is reported as **Prepaid Income**

## Lead times and timing

- Lead times often depending on:
  - Transportation
  - Customs clearance – license – permits - regulatory
  - Installation, construction

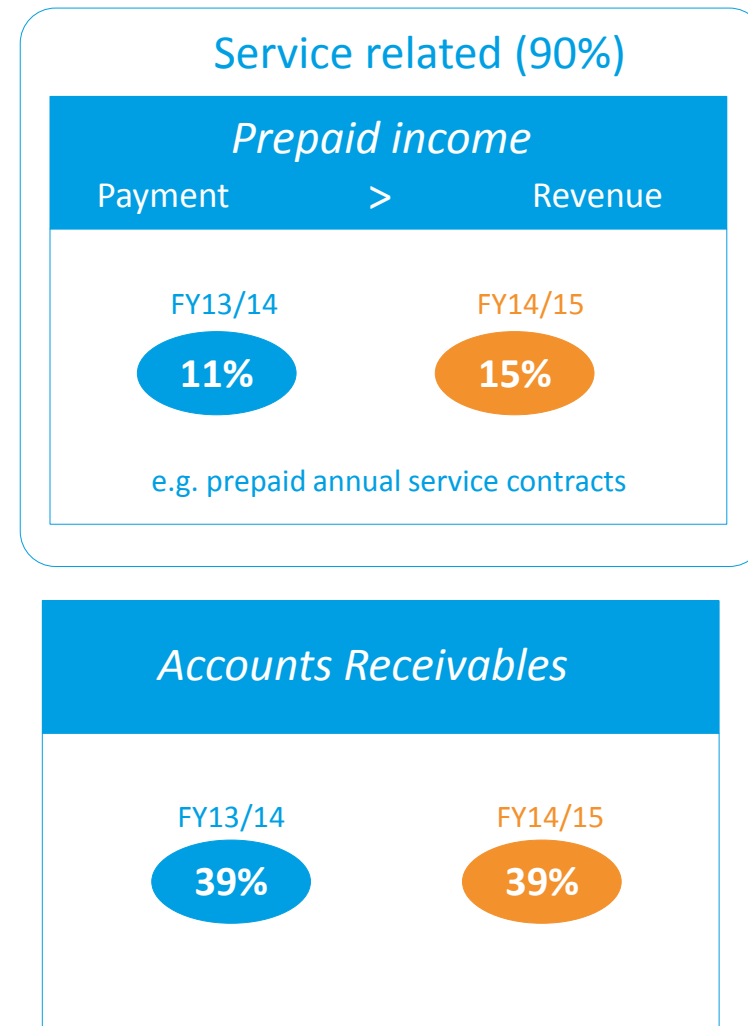
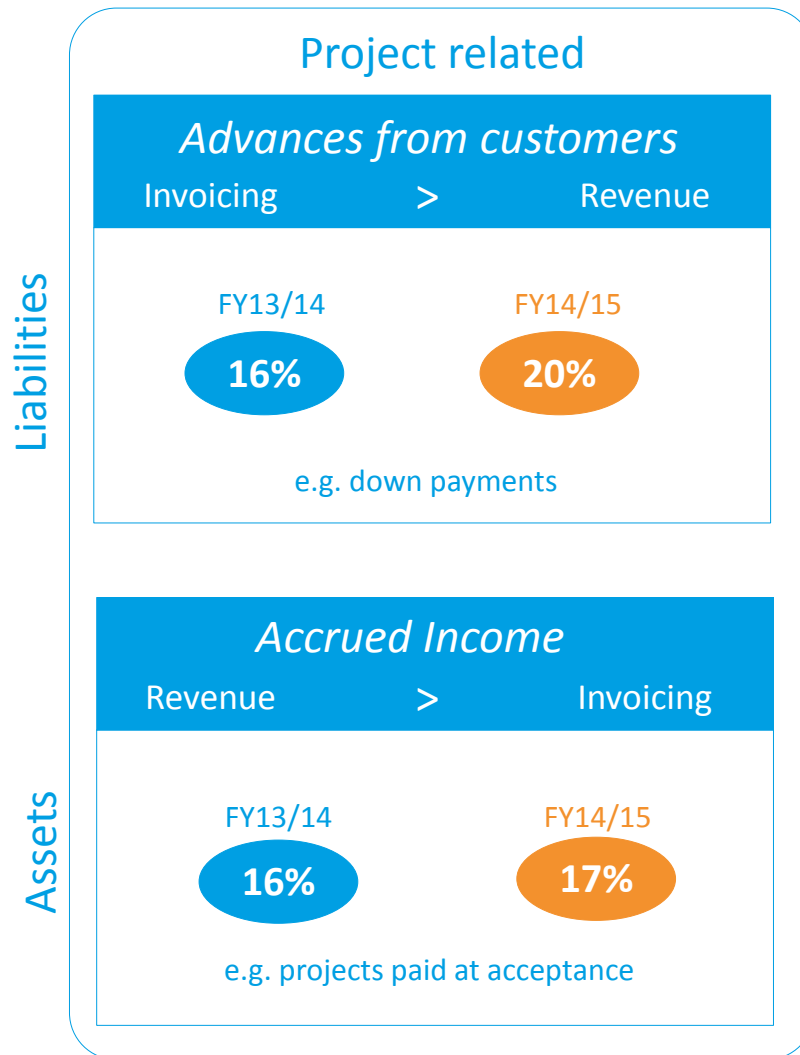


*Elekta reports according to IFRS / IAS 18*

# Elekta's DSO components

Share of sales%

- Payment terms are not always linked to revenue recognition and vary by project and market
  - **Example 1: US project**  
25% down payment  
50% at shipment  
25% at acceptance
  - **Example 2: Public Tender in Europe** 100% at acceptance



Total of sales:      FY13/14    28%      FY14/15    21%

# Agenda for improved DSO – target 70 days

## *New organization*

- Strengthened focus on order fulfillment

## *Improved cash management*

- Payment terms and collections

## *Incentives in place...*

...to deliver cash flow performance

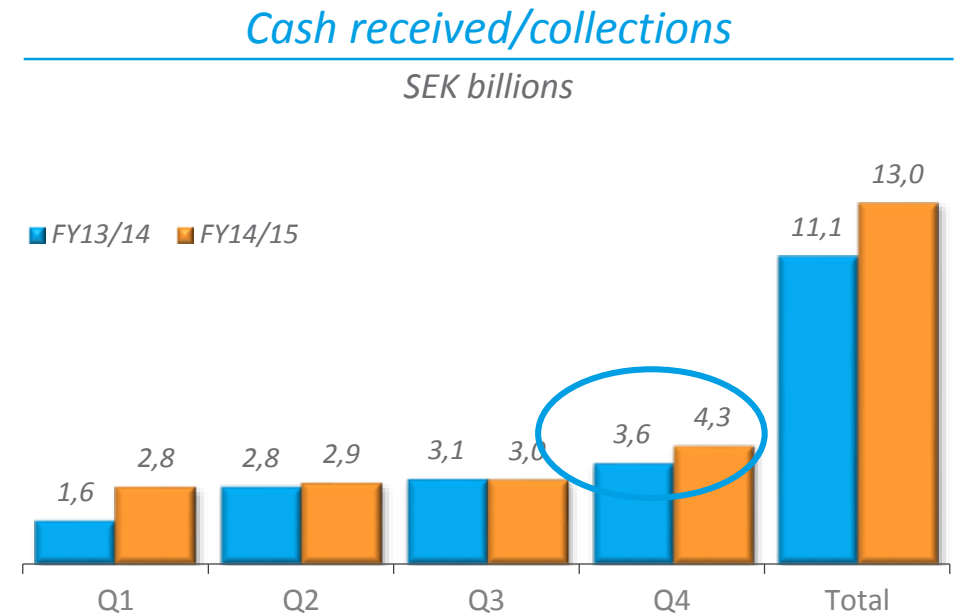
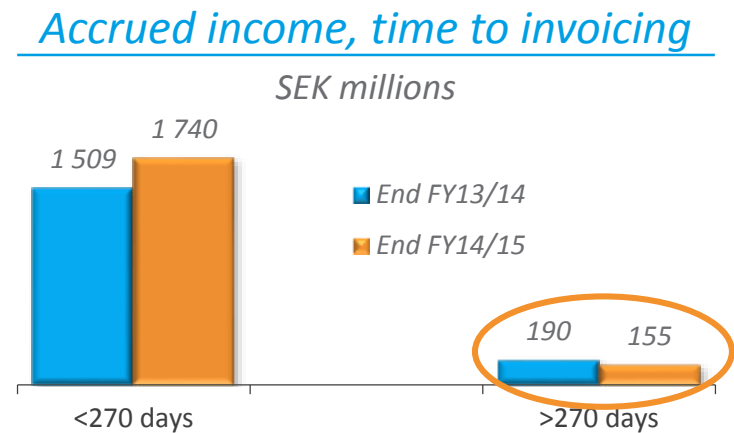
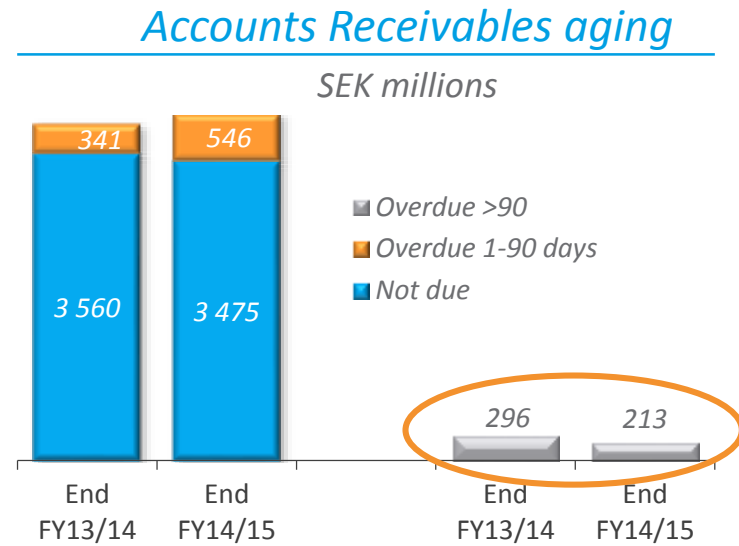
## *Centralized functions for*

Contract administration - Credit assessments - Customer Financing



**DSO at 70 days**

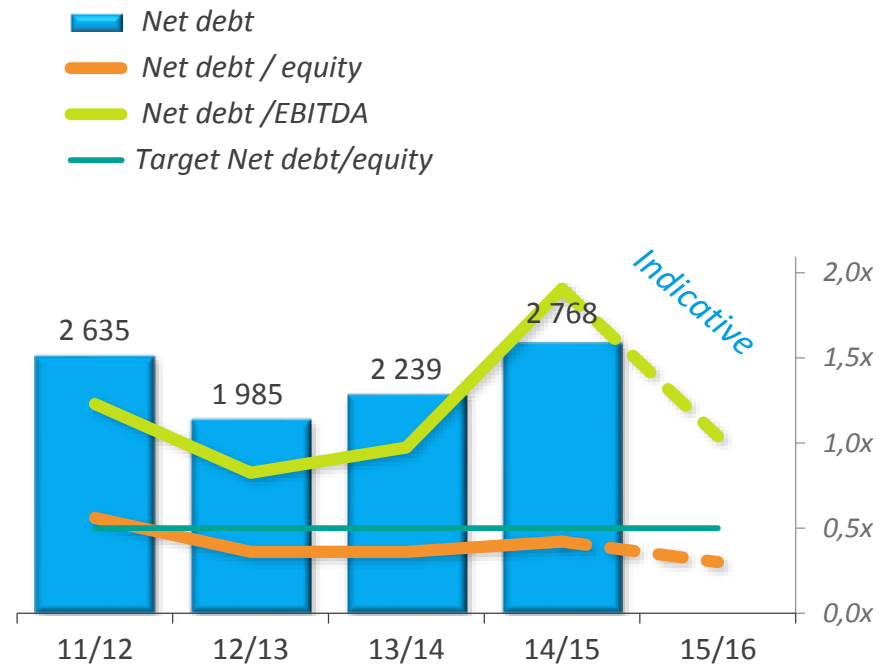
# Focus on collections and to close old projects



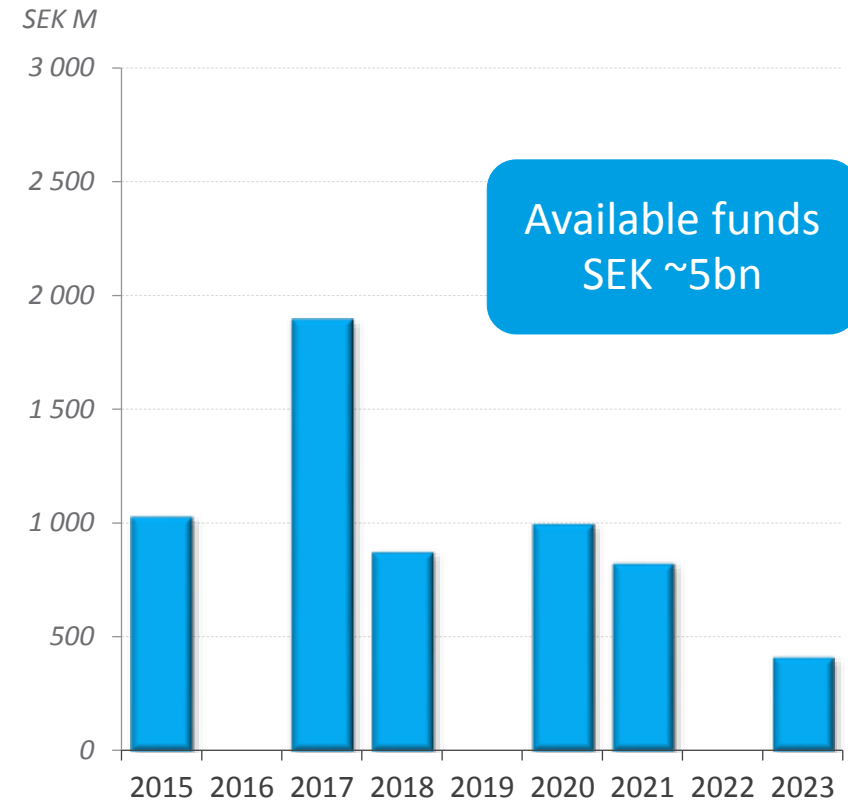


# Financial position – debt profile

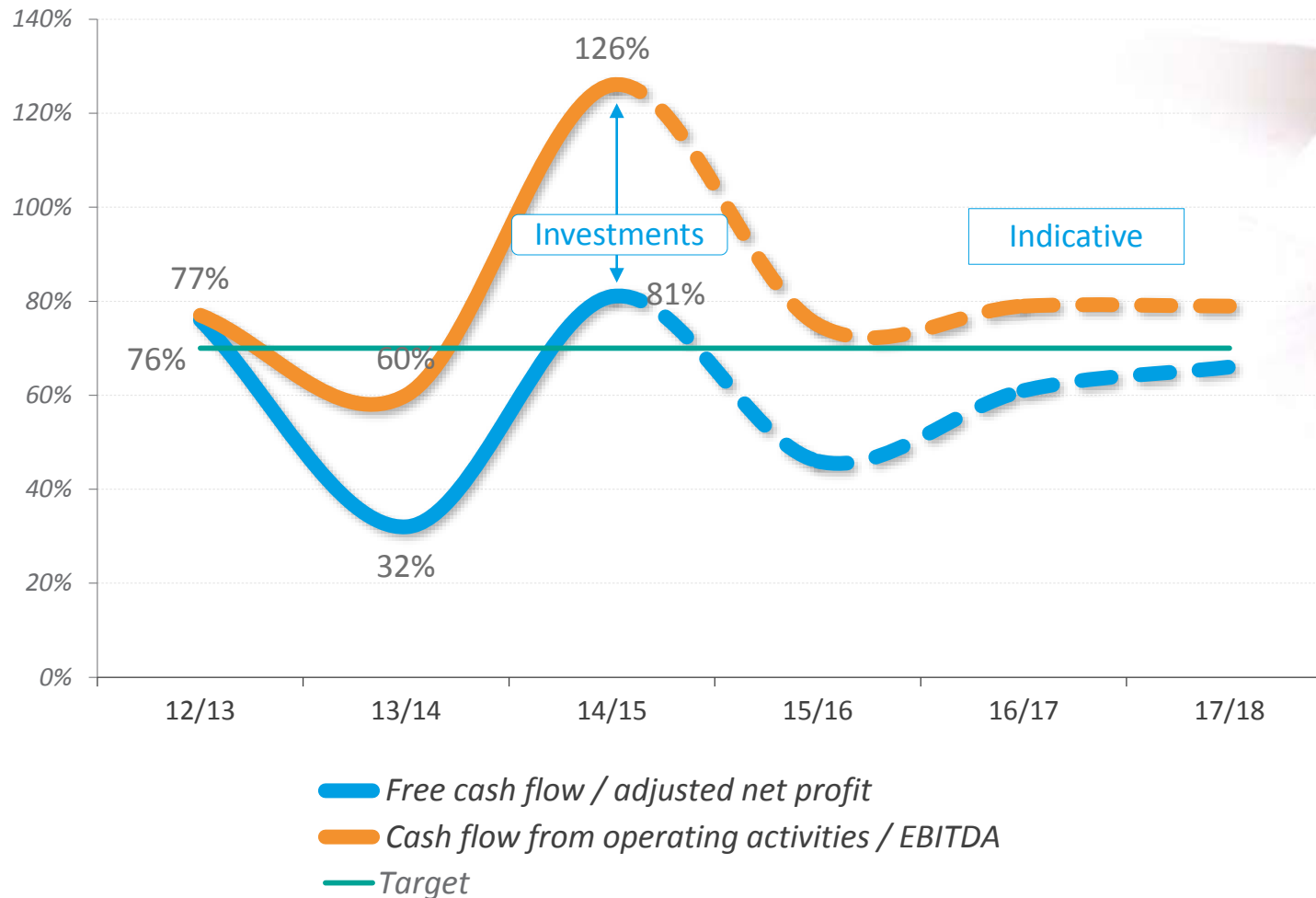
## Leverage profile



## Maturity profile



# Cash conversion – ambition > 70%



- Cash conversion target in relation to EBITDA
- Lower levels of investment
- Working Capital <10% of sales



**ELEKTA**

# Priorities for short, mid and long term

- Growth
- Profitability
- Cash flow



# Our financial ambitions

## Short-term (2015/16)

- Return to growth in H2 2015/16\*
- Improve EBITA margin
  - Lower cost base
  - Product mix and recurring revenue

## Mid-term (2016/17 – 2017/18)

- 3-5%\* net sales growth per year
- Improve EBITA margin with more than 6\*\* percentage points

## Long-term

- >10%\* net sales growth per year
- Growth in EBITA to exceed sales growth in SEK
- ROCE >20%
- Net debt / equity <0.5x

\* In local currency

\*\* Base year 2014/15, excluding currency effects