Interim Report 3 Months 2018/19

Interim Report of the Carl Zeiss Meditec Group for 3M 2018/19

- Carl Zeiss Meditec posts further growth in both strategic business units
- Revenue increased by 9.8% to €323.6m
- Significant increase in adjusted EBIT margin to 15.1% (prior year: 13.5%) due to temporary decline in research and development costs

Business development within the Group

- In the first three months of the current financial year, the Carl Zeiss Meditec Group posted revenue of €323.6m, corresponding to an increase of 9.8% compared with the same period of the previous year (prior year: €294.7m). Adjusted for currency effects, revenue increased by 9.0%.
- In particular, the Refractive Laser segment and the strong demand for Surgical Ophthalmology products within the Ophthalmic Devices SBU (Strategic Business Unit), but also the Microsurgery SBU contributed to the revenue increase.
- From a regional perspective, the EMEA (Europe/Middle East/Africa) region made a significant contribution to growth. Business in the Asia/Pacific region (APAC) also continued to grow.
- On 22 October 2018, Carl Zeiss Meditec signed an agreement to acquire IanTECH, Inc. This company is based in Reno, NV, and specializes in consumables for cataract surgery. The company is being integrated into the Ophthalmic Devices strategic business unit. This acquisition is an important strategic step for the Carl Zeiss Meditec Group in terms of its technological position in the cataract surgery market. The transaction agreement was concluded on 14 December 2018. At the same time, IanTECH, Inc. was renamed Carl Zeiss Meditec Cataract Technology, Inc.

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Table 1: Summary of key ratios in the consolidated income statement

	3 months 2018/19	3 months 2017/18	Change
Unless otherwise stated	€m	€m	in %
Revenue	323.6	294.7	+9.8
Gross margin	54.9%	55.3%	-0.4% pts
EBIT	48.1	38.9	+23.6
EBIT margin	14.9%	13.2%	+1.7 % pts
Adjusted EBIT[1]	49.0	39.8	+23.0
Adjusted EBIT in % of revenue	15.1%	13.5%	+1.6 % pts
EPS	0.32	0.32	0.0

Business development by strategic business unit

- The Ophthalmic Devices SBU increased its revenue by 10.7%, to €239.5m compared with the same period of the previous year (prior year: €216.3m). Adjusted for currency effects, revenue increased by 9.8%. The main contributory factors to this increase were refractive laser systems and the strong demand in Surgical Ophthalmology. The EBIT margin increased significantly compared with the prior year.

- The Microsurgery SBU posted revenue of €84.2m, which is an increase of 7.4% (adjusted for currency effects: +6.7%) compared with the same period of the previous year (prior year: €78.4m). In particular, sales of the new Robotic Visualization System™ KINEVO® 900 for neurosurgery continued to grow. The EBIT margin declined year-on-year, partly due to a change in the regional and product mix of the predecessor model ZEISS OPMI® PENTERO.

[1] The reconciliation to the adjusted EBIT can be found in Table 4 on page 5. The term "adjusted EBIT" is not defined in the International Financial Reporting Standards (IFRSs). There is no comparability with similarly designated key figures of other companies. Adjusted figures do not serve as a substitute for IFRS figures and are not more meaningful than IFRS figures.

Table 2: Business development by SBU

	Ophthalmic Devices				Microsurgery			
	3 months 2018/19	3 months 2017/18	Change		3 months 2018/19	3 months 2017/18	Change	
Unless otherwise stated	€m	€m	in %	in % (const. Fx)	€m	€m	in %	in % (const. Fx)
Revenue	239.5	216.3	+10.7	+9.8	84.2	78.4	+7.4	+6.7
Share of consolidated revenue	74.0%	73.4%	+0.6% pts		26.0%	26.6%	-0.6% pts	
EBIT	29.8	20.8	+43.4		18.3	18.2	+0.7	
EBIT margin	12.4%	9.6%	+2.8% pts		21.8%	23.2%	-1.4% pts	

Business development by region

- In the first three months, the EMEA region posted significant growth and increased its revenue by 13.5% to €103.5m (prior year: €91.2m) (adjusted for currency effects: +15.1%). Strong sales growth was achieved in all core markets such as Germany, France and Southern Europe.
- At €91.9m, revenue in the Americas region was slightly below the figure from the previous year (prior year: €94.1m, -2.3%, adjusted for currency effects: -4.9%). Here, the equivalent quarter in the previous year was boosted by new product launches in diagnostics and microsurgery.
- The APAC region posted further growth of 17.1%. Revenue increased to €128.2m, compared with €109.5m in the prior year. Adjusted for currency effects, this corresponds to growth of 16.2%. Once again, the largest contributions to growth came from China and South Korea. India also contributed to the strong revenue development.

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Table 3: Business development by region

Unless otherwise stated	EMEA 3 months 2018/19 €m	EMEA 3 months 2017/18 €m	EMEA Change in %	EMEA Change in % (const. Fx)	Americas 3 months 2018/19 €m	Americas 3 months 2017/18 €m	Americas Change in %	Americas Change in % (const. Fx)
Revenue	103.5	91.2	13.5	15.1	91.9	94.1	-2.3	-4.9
Share of consolidated revenue	32.0%	30.9%	1.1% pts		28.4%	31.9%	-3.5% pts	

Unless otherwise stated	APAC 3 months 2018/19 €m	APAC 3 months 2017/18 €m	APAC Change in %	APAC Change in % (const. Fx)
Revenue	128.2	109.5	17.1	16.2
Share of consolidated revenue	39.6%	37.2%	2.4% pts	

Development of earnings

- Earnings before interest and taxes (EBIT) increased significantly to €48.1m in reporting period (prior year: €38.9m), corresponding to an EBIT margin of 14.9% (prior year: 13.2%). The adjusted EBIT margin amounted to 15.1% (prior year: 13.5%). The EBIT increase was primarily supported by a lower R&D expense ratio. The R&D ratio has been temporarily reduced due to an effect from capitalization of approx. EUR 4m of development costs in the quarter and additionally benefitted from lower costs caused by the discontinuation of an R&D project in the Surgical Ophthalmology area in Q2 17/18. However, a slight increase in the research and development expense ratio is expected in the further course of the year, partly due to the acquisition of IanTECH, Inc. which was announced in October 2018.

- Earnings per share (EPS) were €0.32 and thus unchanged from the prior year. Currency hedging effects have a dampening effect here.

Table 4: Reconciliation of the non-IFRS key ratio adjusted result

	3 months 2018/19	3 months 2017/18	Change
Unless otherwise stated	€m	€m	in %
EBIT	48.1	38.9	+23.6
Acquisition-related special effects[2]	-0.9	-0.9	-
Restructuring/reorganization	-	-	-
Other special effects	-	-	-
Adjusted EBIT	49.0	39.8	+23.0
Adjusted EBIT in % of revenue	15.1%	13.5%	+1.6 % pts

Financial position

Table 5: Summary of key ratios in the statement of cash flows

	3 months 2018/19	3 months 2017/18
	€m	€m
Cash flows from operating activities	23.6	-1.7
Cash flows from investing activities	-108.8	-2.3
Cash flows from financing activities	92.4	5.6

- Cash flow from operating activities amounted to €23.6m in the reporting period (prior year: €-1.7m). In the first three months of fiscal year 2018/19 there was a lower increase in inventories compared to the prior-year period.

- Cash flow from investing activities amounted to €-108.8m (prior year: €-2.3m). The higher cash outflow in the first three months of fiscal year 2018/19 was mainly due to the acquisition of IanTECH, Inc.

- Cash flow from financing activities amounted to €92.4m in the period under review (prior year: €5.6m). This is mainly attributable to the decline in treasury payables due to the acquisition of IanTECH, Inc.

[2] There were write-downs on intangible assets arising from the purchase price allocations (PPA) of around €-0.9m, mainly in connection with the acquisition of Aaren Scientific, Inc. in fiscal year 2013/14.

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- On 31 December 2018, net cash amounted to around €582.6m (31 December 2017: €562.9m). The equity ratio was 73.7% (31 December 2017: 78.1%).

Report on forecast changes

- The Company confirms the recent sales forecast for fiscal year 2018/19 issued in December 2018. Revenue is projected to increase by at least the same amount as the underlying markets. The EBIT margin is expected to be within the range of 14% -16% in FY 2018/19 and in the medium term.

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Brief profile
Carl Zeiss Meditec AG (ISIN: DE 0005313704), which is listed on the MDAX and TecDAX of the German stock exchange, is one of the world's leading medical technology companies. The Company supplies innovative technologies and application-oriented solutions designed to help doctors improve the quality of life of their patients. The Company offers complete solutions, including implants and consumables, to diagnose and treat eye diseases. The Company creates innovative visualization solutions in the field of microsurgery. With approximately 3,050 employees worldwide, the Group generated revenue of €1,280.9m in fiscal year 2017/18 (to 30 September).

The Group's head office is located in Jena, Germany, and it has subsidiaries in Germany and abroad; more than 50 percent of its employees are based in the USA, Japan, Spain and France. The Center for Application and Research (CARIn) in Bangalore, India and the Carl Zeiss Innovations Center for Research and Development in Shanghai, China, strengthen the Company's presence in these rapidly developing economies. Around 41 percent of Carl Zeiss Meditec AG's shares are in free float. The remaining approx. 59 percent are held by Carl Zeiss AG, one of the world's leading groups in the optical and opto-electronics industry.

For further information: www.zeiss.de/med

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Income statement

Unless otherwise stated	3 months 2018/19 €m	3 months 2017/18 €m
Revenue	323.6	294.7
Cost of sales	-146.1	-131.8
Gross profit	177.6	162.9
Selling and marketing expenses	-78.0	-71.4
General administrative expenses	-13.8	-12.5
Research and development expenses	-37.7	-40.2
Other operating result	0.0	0.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	57.6	45.4
Depreciation and amortization	-9.5	-6.5
Earnings before interest and taxes (EBIT)	48.1	38.9
Interest income	0.4	0.2
Interest expenses	-0.5	-0.6
Net interest from defined benefit pension plans	-0.1	-0.1
Foreign currency gains/(losses), net	-6.5	-2.5
Other financial result	0.0	2.6
Earnings before income taxes (EBT)	41.4	38.4
Income taxes	-13.0	-10.4
Consolidated profit	28.4	28.0
Attributable to:		
Shareholders of the parent company	28.7	28.5
Non-controlling interests	-0.3	-0.4
Profit/(loss) per share attributable to the shareholders of the parent company in the current fiscal year (in €) (EPS):		
Basic/diluted	0.32	0.32