

CARL ZEISS MEDITEC AG

XTRA:AFX

H1 2026 Earnings Call Transcript

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Presentation

Operator

Good morning, ladies and gentlemen, and a warm welcome to today's earnings call of the Carl Zeiss Meditec Group following the publication of the 6-month figures of 2025/2026. And with this, I hand over

to the Head of Group Finance and Investor Relations, Sebastian Frericks.

Sebastian Frericks Director of Investor Relations

Hello. Good morning, everybody, and thank you for joining our 6 months '25/'26 earnings call. As usual, our management will guide you through our financials, and then we will talk quite a bit today about our ProfitUp program, including the cost restructuring and portfolio measures that we are planning as well as give

you a new outlook for the current fiscal year '25/'26 and an update on our midterm targets. With that, I'll hand it over to Andreas Pecher, our CEO. And then afterwards, Justus, our CFO, will take the financial question.

Andreas Pecher Interim Chairman of the Management Board & Interim CEO

Great. Thank you, Sebastian. Well, good morning to analysts and to investors. Well, welcome to the 6 months '25/'26 of Carl Zeiss Meditec AG. Justus and I will walk you through the quarterly overview and financial results. After that, we'll dive deeper and share more details about our ProfitUp program. And at the end, we'll present our guidance for fiscal year '25/'26 and our midterm outlook. And of course, following the presentation, we'll be happy to take your questions. So let me start with an overview of our 6-month performance. Well, to cut it short, top line and earnings in the second quarter still remained weak. This weakness was primarily driven by currency headwinds and an unfavorable product mix with weaker sales of intraocular lenses in China.

Order entry in 6 months amounted to EUR 1.038 billion, representing a 5.2% decline. Adjusted for currency, it declined by 2.3%. We achieved solid order growth in the EMEA region, while demand in the Americas and APAC remained weak. Our order backlog saw a slight sequential rise with EUR 435 million at the end of Q2 compared to EUR 405 million at the end of

Q1. Revenue for the 6 months amounted to EUR 991 million, representing a decline of 5.7% year-over-year. On a constant currency basis, revenue declined by 2.8% year-over-year, driven primarily by movements in the U.S. dollar. If we factor in all currency pressures, FX effects amounted to EUR 46 million. So FX adjusted revenue was down 1%. Beyond U.S. dollars, the currency impacts were mainly related to the Chinese yuan. And in this adjustment, we're also eliminating all currency effects related to the exports into the Zeiss Group's global distribution network. Revenue declined across both equipment and, particularly, diagnostic devices and consumables, in particular, IOLs in China.

Looking at the revenue mix, equipment accounted for 50%, consumables for 40% and services for 10% of total 6-month revenue. Profitability significantly declined in the 6 months. Adjusted EBITA came to -- came in at EUR 60.5 million, with the adjusted EBITA margin at 6.1%, down from 10.7% in the prior year. Reported EBITA amounted to EUR 39 million with a margin of 3.9%, down from 10.8% in the prior year.

We'll walk you through the detailed adjustments later in this presentation.

The significant drop in profitability was mainly driven by negative FX effects and unfavorable product mix and negative operating leverage. While core operating expenses remained stable, we recorded an

Justus Felix Wehmer CFO & Member of the Management Board

Thank you, Andreas, and good morning, and welcome from my side. So let me briefly walk you through Ophthalmology performance for the first 6 months. The Ophthalmology SBU delivered weak revenue and a notable decline in EBITA margin. Let's start with the revenue. Reported revenue came in at EUR 754 million, down 6.7% year-on-year. And on a currency-adjusted basis, revenue declined by 4.2%. Revenue decline was visible across both equipment and consumables. The performance was impacted by several factors. Of course, the exchange rates, as already mentioned, the loss of the bifocal IOL sales in China associated with the revocation of the license for one product that we have commented in an earlier call, scrapping of the recalled bifocal IOLs, resulting in a one-off EUR 6 million impact on both revenue and cost of goods sold. This scrapping was fully completed during Q2.

Equipment sales remained sluggish in Q2, in particular, in the Americas region. Our successor bifocal intraocular lens has now obtained registration approval. Once the new round of China's VBP tender launches, we expect a clear opportunity to relist this product in the tender catalog and resume. Of course, future pricing and volume allocation will depend on the final bidding outcome. At this point, I would also like to address the time line for the new VBP round, which many of you have asked about. According to our current estimates, it will most likely start in June to July of this year. In China, refractive procedure volumes delivered reasonable growth in Q2 despite a strong prior year comparison base.

Let's move to the EBITA margin. EBITA margin of Ophthalmology dropped to 1.5%, which is a 7.6 percentage point decrease year-on-year. Lower EBITA

extraordinary impairment on capitalized R&D related to IVO, Infinite Vision Optics, which pushed up our overall R&D ratio. Now I would like to hand over to Justus. He will provide you with more background and discuss the SBU figures in more depth.

margin was attributed to gross margin decline by 2.5 percentage points, pressured by the exchange rate headwinds, bifocal IOL scrapping and an unfavorable product mix. The OpEx ratio increased sharply by 5.1 percentage points, largely due to a EUR 13 million extraordinary write-off related to our IVO business. We have deprioritized this project, resulting in the impairment of capitalized R&D assets. Excluding the extraordinary IVO write-off, our core operating expenses remained broadly stable.

Finally, looking at the revenue splits, Ophthalmology accounts for 76% of total OPT revenue. Within Ophthalmology, consumables represent 50%, equipment accounts for 41% and service contributes 9%. Turning to Microsurgery. Overall, we saw both revenue and EBITA margin decline, mainly pressured by currency headwinds. Revenue in the first 6 months reached EUR 237 million, down 2.1% year-over-year. And on a currency-adjusted basis, however, revenue grew by 1.8% in the first 6 months.

In Q2 alone, currency-adjusted revenue rose by 4.2%, showing clear sequential momentum and an incremental ramp-up. Q3 started with strong orders and top line. We expect the currency impact to neutralize and deliveries to continue to improve in the second half. EBITA margin decreased to 11.5%, a 4.8 percentage point decline year-on-year. This was mainly driven by a 5.5 percentage point decline in gross margin, reflecting currency effects. OpEx remained roughly flat. Looking at the revenue split, Microsurgery accounts for 24% of total revenue. Within Microsurgery, equipment represents the largest share at 78%. Service contributes 14%, consumables account for 8%.

Let me walk you through our regional development. Overall, EMEA remained solid, while Americas and Asia Pacific posted softer development. Starting with the Americas. The region accounts for 25% of group revenue. Revenue came in at EUR 247 million, down 11% year-over-year, while currency-adjusted revenue declined by 3.5%. This reflects a weaker investment environment driven largely by heightened geopolitical volatility and broader market softness across the region, including the U.S.

Moving to EMEA. EMEA represents 35% of group revenue and delivered a solid performance. Revenue reached EUR 346 million. Currency-adjusted revenue grew by 5.6%. Growth was supported by most core European markets, while Middle East and Spain remained sideways. And finally, on Asia Pacific, Asia Pacific represents 40% of revenue with China contributing 21%. Revenue amounted to EUR 398 million, down 10% year-over-year and an 8.6% decline on currency-adjusted basis. India delivered solid growth, while important markets, however, including China, South Korea, and Japan, and Southeast Asia showed some weakness, which weighed on the overall regional results.

Turning to the P&L. Margins came under pressure in the first 6 months, while core operating expenses remained stable. Gross profit declined to EUR 491 million, with the gross margin decreasing to 49.5% from 52.7% last year. This decrease was mainly driven by the currency headwinds and unfavorable product mix, including loss of the bifocal IOL sales and scrapping of this product in China. Looking at operating expenses. Total OpEx increased by around EUR 13 million, mainly attributed to the extraordinary impairment of IVO and legal expenses included in G&A. Excluding these, underlying OpEx numbers remain broadly flat. OpEx ratio increased to 47.2%, reflecting negative operating leverage. As a result, profitability

was significantly impacted. Both EBIT and EBITA declined significantly.

Earnings per share decreased to EUR 0.17, driven by the lower EBIT and negative financial results, primarily due to higher interest expenses. On an adjusted basis, adjusted earnings per share was EUR 0.48, excluding noncash valuation effects on contingent purchase price liabilities while currencies and hedging results were not adjusted.

Let's have a brief look at the bridge from EBIT to EBITA and to adjusted EBITA. Regular amortization of purchase price allocations amounted to EUR 14 million in the first 6 months, including effects from DORC and Kogent Surgical. In terms of special items, the current period includes legal expenses in connection with the lawsuit related to former IanTECH in the U.S., the scrapping of bifocal IOLs, extraordinary impairment of R&D we've already discussed. On the contrary, the prior year benefited from a one-off gain from public grants received in China for our IOL production. Adjusted for these special items, EBITA amounted to EUR 60.5 million with a margin of 6.1%, a notable decline compared to previous year.

A quick overview on the cash flow statement. We delivered strong operating cash generation. This improvement was mainly driven by a significant reduction in receivables as well as lower income tax payments aligned with our operating performance for the period. Higher investing cash outflow was mainly driven by an increase in receivables against the Zeiss Group treasury, while CapEx ratio was at 2.7% lower than the prior year level. Financing cash flow declined, mainly impacted by the redemption of liabilities in Zeiss Group treasury. By end of Q2, net financial debt decreased to EUR 274 million at a lower level compared to a year ago. With that, I'll hand the floor back to you, Andreas.

Andreas Pecher**Interim Chairman of the Management Board & Interim CEO**

Thank you, Justus. Well, let's move to the ProfitUp measures before I then hand back to Justus for the outlook. Well, before I now talk about specific measures that we're launching to stabilize and turn around Carl Zeiss Meditec financially, let me reiterate why we need to act. You've seen the slide in our publication in December already. I talked through it. Over the recent few years, our market environment has changed a lot, and this requires us to rethink how we operate as an organization.

The curve outlines the path we're taking from scaling through transition and ultimately back to profitable growth. Up to 2023, our focus has been on scaling for growth. Following very rapid growth in our consumables business in the 2010s -- 20-teens and coming out of COVID, we needed to adapt our structures to counter increasing complexity. During this period, we implemented new organizational structures to support expansion beyond our established anchor products. We made significant investments, for instance, expanding our manufacturing capacity, enhancing R&D to diversify our portfolio and strengthening our digital capabilities to enable workflow solutions. We also invested heavily in our workforce and talent base.

However, we have been open about the fact that not all of these investments have translated into the returns we wanted to see. Nevertheless, this foundational work was essential to prepare us for broader opportunities and to ensure we have the capabilities needed for the next stage. Since 2023, we began to see a rapid and initially unexpected market weakness. This year and the next few years, we're in a necessary transition phase. This is where we must adapt to rapidly evolving market dynamics and increasing regulatory complexity. Our priority here is to revise our existing structures, portfolios and footprint. These adjustments allow us to respond effectively to developments that are challenging our profitability. And after that, we expect to see the benefits of our efforts. And this is the phase where we expect to return to healthier growth rates and renew our profitability ambitions and also

will reap additional benefits from our innovation pipeline.

With our ProfitUp initiative, we've launched a comprehensive bundle of measures to counter the recent margin erosion induced by market weakness and cost layers that, in many cases, were not well-balanced anymore to the weaker market environment. We want to restore an adequate earnings power and thereby give us, again, the financial flexibility to invest in future growth. And to achieve that, we need to realign our global structures and our organizational setup to achieve all 3: efficiency, profitability and customer value. We need to take clear prioritization decisions. This will lead to some products that are not mission-critical to our workflow strategy to be divested or phased out. Other products will be added from our innovation pipeline as well as from partnerships to regain market share.

As I talked about during our December earnings call, our innovation arm is strong. However, our commercial arm remains underdeveloped in many markets. We'll strengthen investment into market developments and enhance our commercial offerings. We want to achieve a clearly visible acceleration of top line growth. We will localize products to China, as we have been talking about, as well as to other Asian markets. We will also optimize our supply chains and look for savings in procurement as we qualify additional suppliers. The transfers do not stop with manufacturing. Selected R&D activities are under assessment to be relocated to best cost locations to ensure our cost structures remain competitive.

Last but not least, we also have to keep an eye on G&A cost. We have to deal with additional inflation in our infrastructure expenses and need to offset this via efficiency measures in G&A. So summing up, we want to achieve both growth above the market with continuous innovation as well as show financial strength comparable to the sector. All business segments, functions and sites are in scope for this exercise.

So what does this mean in financial terms? We're looking at a list of measures that taken together will bring about more than EUR 200 million in profit improvements year -- every year, year-by-year, by the financial year 2028, 2029, 3 years from now. The measures stretch across all areas. To name some key [indiscernible] measures, the commercial organization will work on cost reductions, particularly in headquarter organization and back-office functions as well as higher productivity and working with the global sales entities. Operations will work on optimizing supply chains, renegotiating key procurement contracts and qualifying additional suppliers.

We're targeting significant savings from this area. R&D costs will be reduced sustainably by portfolio measures affecting some structurally lower-margin products, which are not mission-critical for our workforce strategy. We will also work on making the footprint more efficient by moving resources into best cost countries. And we will also refocus our digital health portfolio.

In G&A, we will run efficiency programs across our group functions and business support functions with all contributing their fair share. And all in all, based on current assessments, up to 1,000 current positions across the global organization may be affected. There

will also be a buildup of new positions, mainly in lower-cost countries. So the net reduction in jobs will be less. And as I said initially, we are not focusing solely on cost and portfolio measures. To improve our market offering and gain share, we have launched targeted initiatives to grow the top line. Partly, this will come out of our innovation pipeline and will also be supported by increased investments in market development alongside the newly established commercial organization's prioritization of key strategic growth projects.

Our goal is to deliver a clear and visible acceleration in top line growth. In operations, we have already launched a program to localize manufacturing with China as a main focus as we have discussed before, but we're also going to build capacities in the best cost country outside of China over the next years. And these efforts will lead to faster growth at more competitive cost of goods sold, leading to better gross profit margins over time. The growth contribution and additional savings from the long-term footprint project come on top of the previously mentioned greater than EUR 200 million in savings until '28, '29, but some of it will take longer to materialize in our P&L. And with that, I hand back to Justus for more details and our financial outlook.

Justus Felix Wehmer CFO & Member of the Management Board

Yes. Thank you, Andreas. So where does this leave our financial outlook? As we have discussed in our press release today, we also have to deal with higher infrastructure costs. These include the already present expenses for the new SAP implementation as well as a new Zeiss Group-wide customer relations management system. In addition, on Friday last week, our Supervisory Board agreed to the rent contract for the new headquarter in Jena as well as to a gradual price increase in shared services procures from the Zeiss Group over the next 3 years. The cost of these business services has been rising for several years with significant payroll inflation. There is no profit margin for any of these activities at the Zeiss Group level. Exclusively, actually incurred expenses are being

passed on and the phasing over the next years will be step-wise to mitigate the impact until the efficiency measures are contributing.

All in all, we expect to have to reinvest around EUR 40 million out of the EUR 200 million into additional infrastructure expenses by '28, '29, leaving a net improvement of EUR 160 million. On top of that, we will see acceleration of top line leading to further positive operating leverage as well as the longer-term benefits of the footprint project. Lastly, as you will certainly expect, given a program of these sizes affecting payroll expenses, there will be substantial one-offs [nonrecurring] investment. Cumulatively, these could reach up to EUR 150 million over the 3

years period. Please understand there's still a lot of uncertainty in these estimates, and we will report on them in detail as we move forward. We will adjust out the nonrecurring items related to these initiatives from our guidance achievement.

To wrap up and before turning to the outlook, let me once again reiterate what our target view is for Carl Zeiss Meditec. We are investing into the future and of our company. We want to get back to above-market growth. We want to get back to significant investment in innovation. We want to build long-term financially healthy structures. We want to restore adequate and sector-like profitability, giving us enough financial freedom to seize strategic opportunities. And we want to be a fast-acting customer-centric company and a high-performance environment with our employees.

Turning now to the outlook. The current year '25/'26 has started on a weak note as we have discussed at length with significant headwinds, in particular from the Chinese IOL business, but also from the negative exchange rates. We expect the impact of these factors to be much reduced in the second half. Typically, our equipment business is back-end loaded and the main seasonality in our consumables business coming from the Chinese refractive laser summer peak are still ahead. This is why we think the current year will be a tale of two half-years. The first half year saw a significant drop in top line and adjusted EBITA. The second half, we'll see more stable results, not far from last year or, in the best case, even slightly higher. Under these assumptions, we will likely get to EUR 2.15 billion to EUR 2.2 billion in revenue.

Adjusted EBITA margin will turn higher and reach between 8% to 10%. Special effects such as the ones we have shown you in the first half and possibly the first effects from the ProfitUp measures will continue to happen, and we will report on them when we incur them. We currently expect a mid-double-digit million euro amount. There are additional IP topics amounting to at least between EUR 10 million to EUR 20 million in potential impairment on capitalized R&D that might take place in the second half year based on today's assessment of our pipeline and planned measures.

Let me also mention another risk that is not yet included in this outlook. Due to the erosion of our profit margin in Ophthalmology and the disappointing contribution, in particular from the acquisition of IamTECH in 2018, the goodwill on our balance sheet being carried by the Ophthalmology division is not as well underlined anymore by the cash flows of the cash-generating unit. We are currently still analyzing the impact of our ProfitUp measures as well as the midterm view on recovery of our profit margins as well as having discussions with our auditors on the viability of the current ophthalmology. A write-down on some of these intangible assets that, based on early estimates, may somewhat exceed EUR 100 million in the second half year can, as of today, be expected. We will let you know as soon as we have clarity because discussions with our auditors are still ongoing. We would treat it as a nonrecurring item regarding our guidance as it is a noncash accounting charge mainly related to acquisitions of the past not working as planned and profit margin having declined.

Economically, the risk to goodwill is most closely linked to the acquisition of IamTECH in 2018 and underperformance versus our expectations. Importantly, potential impairment would not change anything we do in the Ophthalmology business and has no other impact on our ProfitUp decisions. Turning to the midterm outlook. Organic revenue growth should rise again and reach at least a mid-single-digit percentage over the medium term. Supported by our ProfitUp measures, we are targeting an adjusted EBITA margin greater than 15% by the fiscal year '28/'29. We continue to see the previous target levels of 16% to 20% EBITA margin as viable for our business and our sector and generally achievable in the long term. With this, I'd like to conclude our presentation for today, and now we look forward to your questions.

Question & Answer

Operator

Thank you very much for the presentation, and we now move on to the Q&A session. [Operator Instructions]

And we already have the first participants. Mr. Reinberg.

Operator

Please, Mr. Reinberg, feel free and be welcome to place your question.



Oliver Reinberg
Kepler Cheuvreux, Research Division

Brilliant. We made it. Three questions from my side. First one would be on phasing. Can you just provide some kind of color if you expect a kind of linear approach towards the 15% margin target, in particular, as I note that you call 2027 still a kind of transition year. Any kind of color here would be great. Secondly, on the midterm outlook, can you provide any kind of color what is assumed in this for Chinese refractive franchise and competition and whether you incorporated any kind of revenues from the U.S. cataract franchise and ICLs in China? And then lastly, just on refractive. I think you talked about reasonable growth. Can you provide a bit of more color and what your assumption is here for the full year?



Justus Felix Wehmer
CFO & Member of the Management Board

Oliver, it's Justus. And once again, sorry for the delay, but I'm happy that now the line seems to work perfectly. On the phasing, I mean, you -- I think almost had the underlying assumption that it is not linear, of course, as you can imagine. Yes, we are in a transformation program that starts now. I would clearly see that we have a back-end loaded curve for that program, especially once we consider the composition of general cost, but also personnel cost. So therefore, I don't want to go into too much details, but

be rather soft in your assumptions on impacts out of the program in the next fiscal year. And then, I think, you will see a more accentuated acceleration in the second half of the 3-year time horizon that we have given to you. And I think we keep you posted on it as we continue.

On the midterm outlook, I think we have clearly baked in some caution on the refractive margin development into that perspective. We obviously anticipate local

competition in the Chinese market entering meaningfully or more meaningfully in the next 12 to 24 months. And that is clearly included. I think on cataract business, we are assuming that we can at least grow with market growth. And I'd say -- I think you were pointing to potential enhancements in the offering towards ICL, but that I think is not of any meaningful impact on the guidance that we just shared.

On refractive, what did I mean with reasonable growth? What I meant to say is that we're seeing growth over last year, which I think is generally a positive signal because the first 6 months of last year, as you remember, were actually also somewhat

stronger than we had expected. For the remainder of the year, without having any indication on consumer confidence being significantly changing, we remain somewhat cautious, but I think I would also share with you at this point that we are actually quite happy with the SMILE pro share increasing in the total number of SMILE treatments. And we also see that the overall number of SMILE treatments, so both SMILE and SMILE pro as a percentage of the total treatments is actually solid at 70% and slightly above, which means the down trading towards LASIK we do not see continuing. So I hope that answers your questions. Thank you, Oliver.

Operator

Okay. So we move to the next participant, Mr. Felton. So then, we get back to Mr. Unwin.



Jonathon Unwin
Barclays Bank PLC, Research Division

I was wondering if you could provide a little more color on the portfolio optimization opportunities which you see, which specific business lines you expect to discontinue or to sell. And are you able to quantify the revenue and EBITA contribution from these businesses today just so we can get a sense of any potential drag on the top line and earnings growth as you go through that process? And then on the mid-single-digit constant currency growth by FY '29, how should we think about the building blocks to get to that? Do you need to see some sort of market improvement to get there? Or by removing the lagging businesses and improving the sales force, does that get you to the target? Those are my questions.

Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

First one, I missed. The other one, I can talk a little bit.
The second one, I didn't understand.

Justus Felix Wehmer

CFO & Member of the Management Board

We didn't fully -- and that was not because of the technical problems we had at the beginning, but we

didn't fully get the second question. Can you repeat it, please, once again?

**Jonathon Unwin**

Barclays Bank PLC, Research Division

Just on the midterm growth target of mid-single-digit constant currency, do you need to see a market improvement in the businesses to get to this level? Or can you get there by removing lagging businesses and improving the sales force?

**Andreas Pecher**

Interim Chairman of the Management Board & Interim CEO

Maybe I'll start and then, Justus, you chime in. Well, first on, you wanted more color on the phasing out of certain products. Well, I mean, there, we're evaluating currently alternatives to maximize the value. Of course, we have ideas. In parts, we're going to divest certain areas and do some sunseting, phasing out. But please stay with us. We'll update you once we have taken the

final decisions on that. On the second question, no, we are expecting a reasonable revenue growth in that. So our current ambition and our current plans are to achieve what we talked about with, I would say, reasonable growth in our top line.

**Justus Felix Wehmer**

CFO & Member of the Management Board

Yes, which is basically at least market growth as we would expect it. And as you know, that is -- has been somewhat fluctuating with the currencies depending on whether you apply U.S. dollar or euro. But I think

anything between 3%, 4%, maybe a little bit higher is reasonable from our perspective.

Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

Good. Did that answer your question?

Jonathon Unwin

Barclays Bank PLC, Research Division

Yes, I would have liked a little bit more color on the divestments, but I'll just have to wait.

Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

Okay. Thank you. Sorry about that, but we'll keep you updated once we're there.



Davide Marchesin

Equita SIM S.p.A., Research Division

So first question regarding China refractive business.

Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

We don't hear you.

Sebastian Frericks
Director of Investor Relations

Apologies one second, please. Can -- for those who might not be able to ask the questions, we really sincerely apologize for these technical hiccups, and this has not happened before, and we will fix it later. But I would ask you to please e-mail the questions to us, and we will read it in the room. We can try for you to read the questions out loud. If you can't, and this is also for Richard from Goldman Sachs, please, and Davide from

Equita, please. Why don't you send the questions per e-mail to me, sebastian.frericks@zeiss.com, and I will read them out in the room and we answer them this way. I apologize for the somewhat complicated proceeding, but to not lose any more time and to not make it too tedious, let's do it like this in case the audio doesn't work. Thank you for your understanding.

Operator

And to other participants, we try to get to the next one.
Mr. Oliver Metzger.



Oliver Metzger
ODDO BHF Corporate & Markets, Research Division

Great. At least this works. So one bigger comprehensive question, please. So regarding your midterm guidance, can you a little bit more about the moving parts? Because there's -- one hand, there are some underlying market assumptions, there is the ProfitUp program. Also some -- from a regional perspective, some views. Also to what extent, for example, the VISUMAX 800 launch in the U.S. was assumed. So would be really great to get a little bit more background regarding the assumptions. And second question is more a quick one. Can you make a comment about rollout VISUMAX 800? So momentum over the last quarters or in particular last year was better. Where do we stand -- where do you stand right now?



Justus Felix Wehmer
CFO & Member of the Management Board

Yes. Thank you, Oliver. Let me try to give you a bit more color. As we have said, the entire program that we are embarking upon should by the year '28/'29 contribute

an EBIT improvement of roughly EUR 200 million plus. And that does not include any impacts out of the bigger footprint measures that we have mentioned because

there, we clearly would estimate that their contributions will only be of more meaningful character probably in a 4-, 5-year time frame. We do have to discount from these EUR 200 million some of the headwinds that we were talking about, which is mainly rising infrastructural costs. We have some peaking G&A expenses out of the SAP roll-in, the global roll-in that is basically happening over the next 2 to 3 years and being concluded.

Likewise, a global project to set up a next-generation customer relationship management system. And we have the move into the new premises in Jena, which was decided 10 years ago and the move into this building is now coinciding basically with the transformation program. So there's some counter effects out of this. And then ultimately, also some headwinds out of the services that are more expensive getting out of the Zeiss Group. And that is roughly a EUR 40 million effect -- counter effect against the EUR 200 million, which leaves us with a net contribution out of this program of some assumed EUR 160 million.

We, on top of it, are obviously focusing on top line measures, meaning growth beyond the assumed

growth rates in some pockets of our business. I think Andreas alluded to the fact already in our December earnings call, but also in this presentation, that we want to strengthen the commercial muscle that we feel that we have in our existing portfolio already today. Still opportunities in some underserved markets and the new setup with a Chief Commercial Officer is something where we clearly would expect that this will drive some additional growth momentum.

And out of this, we also would anticipate some bottom line improvements. So with that, we would think cumulatively that we should achieve by the year '28/'29, an EBITA margin, an adjusted EBITA margin in that range of 15% or better. The guidance for the outlook in the long term, where we have reconfirmed the 16% to 20% is basically an expression of the fact that we then would expect in cumulation to the just described effects, then additional support from the footprint program. And I think that pretty much comprises the bridge to the guidance that we just shared. The second part was on the VISUMAX 800.



Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

There -- I mean, without going too much into detail, I would say that goes as planned. The uptick is there. Of course, the 800 has also an advantage of, well, more customer value, so we can achieve higher pricing. And

I would say, so far, we are quite happy with the rollout of that.

Sebastian Frericks

Director of Investor Relations

Yes, is there a follow-up, Oliver, please?



Oliver Metzger

ODDO BHF Corporate & Markets, Research Division

Yes. So yes, please. One follow-up regarding my first question. So if you set up a guidance and normally, the guidance is somewhere, let's say, the midpoint of some assumptions. So would you say that this guidance consists some safety caution? Or is the guidance -- okay, it's taken here the midpoint of our assumptions. It could be [indiscernible] to the top or to the bottom, would be really great to get your, let's say, your own assumptions, how aggressive you model it?



Justus Felix Wehmer

CFO & Member of the Management Board

Well, Oliver, I think as you can imagine, we are talking here about a massive program where we have a list of measures that is identified. However, the precision in terms of when can we -- what become fully effective and fold out its total impact versus what other headwinds we may face out of the market is not a precise science. So I think, as I said as answer in one of the previous questions, we clearly have baked in some caution in terms of headwinds on our underlying business on competitive impacts that may hit us.

We were referring to the second NVBP. And I think we also made it clear in our explanations on the presentation that we also expect there further headwind on price and volume that we can expect. So therefore, yes, I think there's a reasonable portion of caution in this guidance. But I think beyond that, you hopefully understand that it's rather difficult to give you here a total precision on this prediction.



Andreas Pecher

Interim Chairman of the Management Board & Interim CEO

Maybe just to add into the program, I mean, I hope that came across. This is quite a serious program. I mean, there's a lot of effort into that of the whole organization, and it covers and encompasses the whole organization. A lot of work has gone into detailing the measures already. Of course, there is still some work ahead, quite some work ahead. And of course, we still have to then implement many of those measures. But rest assured there that this is a very strong focus of the organization.

So I would also say, as things happen, typically not everything comes through, that's normal in programs like that. But it's clear here that we want to achieve those targets. And if we don't -- if we have to add further measures, we will identify further measures and work on that. So that should be very clear. Our target is very firm. We want to achieve that. And we believe that we have the means to do that.

Sebastian Frericks
Director of Investor Relations

Okay. I will now add some questions that were sent to me by e-mail. I will start with Goldman Sachs and then move on to Equita and then to JPMorgan.

**Sebastian Frericks**
Director of Investor Relations

And if anybody still has sound issues, please keep sending me them, and we will treat them in the order they arrive here. So first, to Richard from Goldman Sachs. First question, please, can you talk a bit more about your initiatives to reinvigorate top line growth? What will the organization do differently moving forward? What elements of your R&D and innovation pipeline are you most excited about? Is there anything to give more confidence or more conviction to the revenue growth guidance in particular? And then last one, China IOL VBP, what's your assumption on the impact embedded in your current year guidance?

Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Thank you for sending.

**Andreas Pecher**
Interim Chairman of the Management Board & Interim CEO

Maybe I'll start with the R&D pipeline we have here. Well, if I look at the -- I mean, you can imagine, right, we do have quite a strong innovation arm, at least that's clear here. So if I look in both businesses, we do have a couple of items there. One instance on OPT, Ophthalmology, is the trifocal toric hydrophobic lens that's actually being released as we speak. We have an additional development on the presbyopia treatment based essentially on technologies that we have.

On the MCS side, I would expect instruments. So we're working -- getting into the workflow strategy and

making and realizing it. So I would say there's going to be a number of instruments, not far away. And if I look further, essentially, we have a pipeline for the coming years of regularly releasing products that we will announce. And last but not least, don't forget DORC, where we acquired quite a nice product pipeline that we're now moving into the market. So I would say I'm fairly excited about that, what we have there. And there's more to come in the next quarters, I would say.

Justus Felix Wehmer CFO & Member of the Management Board

I mean, you were -- if I recall that correctly, asking about what are further measures on the commercial side. I think we explained it before that we take more direct leadership in the portfolio management in the countries than we have had in the past. So we are training more comprehensively the sales forces to enable them to better pitch the entire workflow offerings. And I think, as we said in earlier calls, we feel that some of what worked perfectly in markets like China could also work in other regions in the world. And I think this is one of the key elements, and that is then also added and completed with, for example, new business model opportunities, bundlings, or other attractive offerings, Equipment as a Service and so on and so forth.

So I think there are some elements that we can clearly play stronger in the future than as we have done it in the [indiscernible]. On the revenue growth targets, I think you were asking, and I just want to reiterate what

we said before, that the underlying assumption is that with the portfolio that we have and with the strategy and the completion of the portfolio, just again referring to, among others, the completion of the hydrophobic IOL portfolio, we will be able to, certainly, grow at a market growth level. And I think on the NVBP, I mean, it's really early to tell here.

We have baked in, as I said before, the expectation that there will be a stronger pressure, especially in the premium segment on the pricing. But I remind everybody that we didn't discount as aggressively in the first tender for the premium lenses. But it's obviously very hard to predict, at this point in time, what this could end up with. But as I said before, we have in our model taken some preparation for lower margins in the premium segment in China going forward.

Sebastian Frericks Director of Investor Relations

Okay. I hope these were all answered. And Richard, please send any follow-ups just in case. One second, please. I'll continue with Davide from Equita with your questions that you e-mailed in. So the first one, I think some were already answered, so we can keep it short. The first one was how sales of VISUMAX 800 are progressing in China and how many devices we are expecting all in all in '25/'26 of VISUMAX 800? What's the utilization rate between the 500 and the 800, so between the old SMILE and the SMILE pro? And are some local players already able to sell SMILE technology or will be anytime soon? That's the question on China refractive.

Second question, China IOL, if we have already restarted selling the bifocal IOL. Third question, is there an improvement in the U.S. in equipment demand? And final question, I think we may have answered this one already, regarding the EUR 40 million additional infrastructure expenses in the Zeiss Group context. Does it include the lease agreement on the property as well as the repricing for services?



Justus Felix Wehmer
CFO & Member of the Management Board

Okay. Sales VISUMAX 800. What we would expect is actually a fairly normal run rate, which typically means that we have a sales going out of probably somewhere around 200 units in this year. And of this, most likely anywhere between 2/3 to 3/4 going into China. And I think after the first 6 months, we can say that we are on track for that, as Andreas said before. The utilization rate, I think, was the second question. We clearly see an uptake in the SMILE pro utilization rate over the last month. I personally have been visiting clinics where they actually have already passed the point where actually there is more SMILE pro treatments than SMILE treatments, but that may be still some anecdotal data.

But overall, the utilization rate of SMILE pro is trending clearly upwards and obviously giving us in terms of pricing and associated transfer price for the -- or sales price for the treatment packs also a little bit of tailwind. On the competition, I think we -- I said it earlier, we would expect in the next 12 to 24 months more visible presence of competition. At this point in time, we are aware of some clinical testing that is being conducted on one device by a Chinese company.

But from our expectation, until that is really then being a launched product ready to be served in the market,

we would anticipate that this is rather something for the next fiscal year than for this fiscal year. The bifocal sales with a new product, whether they restarted, no, they have not yet restarted. And that's also a bit of a headwind for this fiscal year because as you remember, our expectation was for this tender to take place already in March, April. Now it's pushed out to June, July. That means until the new tender starts, we will not see sales of this lens.

And then we have the question on the U.S. demand on equipment. Let's be specific here. We clearly see more headwind in the diagnostical product portfolio, where we also have had to increase prices following the tariff implementation last year. And we all know that this is the most price-sensitive market segment, and we clearly could see that there were some projects being pushed out. On the other side, if we look at the microsurgical portfolio in the U.S., I think we overall see that it is trending per our expectations and providing some good opportunities when we look at the order book for continued growth throughout the second half of the year. And I think there was -- can you help me on the -- there were 2 more things...



Sebastian Frericks
Director of Investor Relations

On the infrastructure, did you comment on this one...

On the infrastructure...



Justus Felix Wehmer
CFO & Member of the Management Board

Yes, I think that is all included there in this EUR 40 million. And as I had tried to explain in the previous answering of the question and then we had...



Sebastian Frericks
Director of Investor Relations

I think we did answer it all. In the case there was anything missing, Davide, please let me know again. I would move on to the JPMorgan questions. So first of all, do you have an update on the new CEO? I'm sorry, these are from David Adlington from JPMorgan. Thank you, David, for submitting them. Do you have an update on the new CEO? Second one, do you expect any revenue impact from letting up to 1,000 employees go? Third one, 21% of sales are in China. How much did they contract in H1? What's your midterm expectation for China? And final one, H1 margin was only 6%. The guidance of 8% to 10% for the adjusted EBITA margin implies a meaningful recovery in the second half? And what's that based on, what key drivers?



Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Yes. I would start with the CEO. Maybe talk a little bit about the revenue impact, then you chime in on the China. And maybe I can comment a little bit on the second half. So on the CEO, well, the search is, I would say, going accordingly to the time line that we set before. So I can pretty much stick to what I said before. We hope to be able to announce my successor by the end of this fiscal year, the latest. I would say -- nothing more I can say here in detail. I hope you [indiscernible].

On the revenue impact of the colleagues, we will have to let go. Of course, we're going to try to minimize that. If it's related to some product lines that we might discontinue, there could be an impact, but that's

revenue is one side. EBIT is the other one. Of course, that is there to improve the EBIT. There's not much more we can say right now because that would go too much into detail of what products we plan to discontinue. But overall, also when it comes to the sales organization, we will certainly not cut areas where we will then have unnecessary reductions in revenue. Actually, the opposite. We want to strengthen our revenue growth by implementing more stringent sales and commercial organization. That would be my comment on the first 2 questions. Maybe you want to say something on China and...

A Justus Felix Wehmer CFO & Member of the Management Board

Midterm expectation in China, I'd say, again, let's go by segment. For our refractive business, I'd say that we volume-wise would clearly see further growth. But as I said before, we have baked in some caution in our guidance in terms of margin [development]. There is some -- if you want to say so, some counter impact that we are forecasting there. But overall, we would still think that there is growth opportunity for our portfolio. In the intraocular lens sector, that, of course, remains more difficult at this point in time. Again, in terms of volume, I would be somewhat -- especially in the monofocal area might well be that we can actually gain there in terms of volume, but the price impact, of course, is most likely going to have, again, some offsetting impact here. So more difficult to predict. But as I also said before, we have made here some caution reservation in our model.

On the recovery in the second half of the year, what are the drivers for that? I think number one, as everybody knows, we definitely see that we have the summer peak for our refractive business in China ahead of us and with a higher portion of SMILE pro capable lasers, we would -- even if procedure numbers may not grow as strong, but we would think that we should benefit from the higher margin of the treatment packs post SMILE pro. We would also see as a contributor in the second half of the year, of course, the MCS order book that we are now turning into revenues.

And last but not least, again, let's remind everybody that one of the key headwinds was the currency in the first 6 months. And that, from our current predictions, will not play a role in the second half of the year, and that will obviously be another contribution to the recovery.

A Andreas Pecher Interim Chairman of the Management Board & Interim CEO

And we balance that essentially, that's with the risks that we -- that still remain, geopolitical risks, essentially, consumer climate remains weak, et cetera.

IOLs we talked about. So essentially, we balance the upside to the downside.

A Sebastian Frericks Director of Investor Relations

I think there was one data point missing. Maybe I didn't read the full question. This was basically the H1 trend in China. This was down single-digits in the Chinese market. I will now call up -- we will do the following. I have a question from Bernstein, from Deutsche Bank and from RBC, and we'll try to get your audio in. If not,

I have the written questions e-mailed. So Susannah from Bernstein, we'll start with you, so we can try to unmute you. And in case it doesn't work, I have your questions here to read them out.

Operator

Yes. So we try to get to Susannah Ludwig.

Susannah Ludwig
Bernstein Institutional Services LLC, Research Division

Great. Can you guys hear me?

Operator

I can hear you pretty well.

Sebastian Frericks
Director of Investor Relations

No, we can't. Okay. Sorry about that. I would...

Operator

Okay. We get questions via e-mail from Sebastian.



Sebastian Frericks
Director of Investor Relations

I will read them. So these are from Susannah and Richard from Bernstein. First question, your restructuring program is targeting savings roughly equivalent to what you expect to deliver in adjusted EBITA at the midpoint of your guidance this year. So basically, the restructuring program is as big as the current EBIT. What gives you confidence in the delivery? This is obviously a sharp change for the organization. How will it impact morale in the organization? Given the complexity of the program, is it fair to assume that in the new CEO search, experience with transformation of this nature is a criteria?



Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Yes. Maybe the first question about [confidence]. Well, the confidence comes from a couple of areas, right? In my previous life, I've done a couple of those programs, and I'm sure you have seen or done some of those as well. First of all, it comes with the confidence in the measures, right? How well are they analyzed? How much do you believe the numbers that you see in those and how much detail is put in there?

My impression there is a lot of diligence was put in there. We also had some external support that made sure that we got challenged there to do that. The organization that was involved, my impression is, was quite diligent in doing that. And the most important thing is saw the reason for doing that because looking at the numbers in the last quarters and, actually, even

a few years, people understood why this is there. And that's a good basis for the second part, the confidence, because you're going to have to make sure that the people are coming along.

When it comes to the leadership, we had some conversations already. My impression is the leadership understands it, wants to continue or contribute and help on that. The questions that we got typically are how can we help.

So now the next step, and that will happen this -- actually right after this call, when Justus and I will address the whole group and the whole team, is that

together with this extended leadership, we will guide our group, our team through that. And for that, we also have support implemented support for our leaders in terms of change management and making sure that they can guide, essentially, their employees through that. So with that, I would say that's as professional as I know you can set up a program like that. So my confidence level that we will go through that is fairly high, of course. To be very open there, we have to make sure that this time of uncertainty, we will keep short because, of course, we want to focus on what really matters, and that's our customers. The second question was about complexity of the program, right?



Sebastian Frericks
Director of Investor Relations

Yes. Basically, is that -- in looking for the new CEO...



Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Yes, of course...



Sebastian Frericks
Director of Investor Relations

[indiscernible] experience.



Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Yes. Well, yes, exactly. That's one important aspect of the new CEO, clearly, because the program is not over yet by announcing it, right? It actually starts. And as you can imagine, there will be a lot of work. And here and there, some measures might not happen, and we're going to have to find other measures or regroup and do that.

So of course, we're looking for a person that is not going to give up on that. That's very clear. That's part of the

selection process and was tested. And of course, we are also looking for program that -- for a person that looks beyond that because this program is in part also growth. But of course, we have other ambitions for Carl Zeiss Meditec. So we're looking for a person that can do both of that. And the people I've seen, that we look at, they can achieve that. Thank you for the question. Very good question.

Sebastian Frericks
Director of Investor Relations

Okay. Thank you, Andreas. I come to Falko from Deutsche Bank. Falko, we can try to unmute you on audio. If not, I read the Qs here.

Operator

Yes, I just ask Mr. Friedrichs to unmute. He's dialed in by phone.

Falko Friedrichs
Deutsche Bank AG, Research Division

Can you hear me?

Operator

Yes. We can hear you.



Falko Friedrichs
Deutsche Bank AG, Research Division

Okay. Excellent. Firstly, to what extent are you impacted by the Middle Eastern conflict? And are you able to mitigate or pass through higher costs? Then secondly, what was the refractive procedure growth in China in the second quarter? And how good is your visibility on this summer peak season at this point? Could it be a better one again? And then lastly, more over the near term with regards to the start of Q3, are you optimistic that the Ophthalmology business can grow positively again on organic sales growth in Q3?



Justus Felix Wehmer
CFO & Member of the Management Board

So I can start with -- Falko, it's Justus. The Middle East conflict is, in terms of energy costs and associated impacts, is not really of that much relevance because, as you know, we are mainly an assembly company and energy costs for -- in our total bill of material is not such a decisive factor. However, it is fair to say that the Middle East region is a very good market for us. And typically, in the last years has grow with high-single-digits, partially double-digit rates. And there we clearly right now suffer with a slowdown in order entry and the headwind, as everybody can imagine, from the uncertainty in that region when it comes to the war. So therefore, not as much in our total cost of goods sold and impact, but more right now on the top line in terms of headwinds for our growth in that region.

The refractive growth, I think you wanted to understand for the second quarter. What I can say in

terms of procedure growth for the first 6 months, we do see a up to mid-single-digit growth rates in procedures, which is, as I said before, quite encouraging. But there is this associated uncertainty, and that leads to your question about the summer peak confidence. I don't -- as I say before, I don't want to be here too optimistic on everything. So because the -- in the bigger picture, not so much things have fundamentally changed in China.

So therefore, yes, we clearly would expect a reasonable summer peak, but I don't want to generate here too much expectations for any miraculous, enormous growth potential. And I think the last portion of your question was organic growth for OPT. But I was not quite sure, Falko, did you refer specifically to Q3 or generally going forward?

**Falko Friedrichs**

Deutsche Bank AG, Research Division

Yes, I was referring to the third quarter now.

**Justus Felix Wehmer**

CFO & Member of the Management Board

Organic growth in third quarter, yes, as I said before, with our expectation that currency will not play a major role, and therefore, the headwinds on the top line should remove by and large. And our typical seasonal pattern of a stronger second half of the year,

yes, I would say that it's probably a fair assumption that we should be returning to organic growth in Q3. And if not in Q3, then certainly into Q4.

**Falko Friedrichs**

Deutsche Bank AG, Research Division

Okay. And as a quick follow-up, can you share how much the Middle East is in terms of your sales exposure for the group?

**Justus Felix Wehmer**

CFO & Member of the Management Board

Let me quickly see. I have some backup notes on this. And -- but I don't have it. Here it is. Here it is. So it's a low-single-digit portion of the group revenue. And so

right now, we are seeing a decline anywhere in the mid-single-digit numbers versus last year.



Sebastian Frericks
Director of Investor Relations

Okay. The next one e-mailed questions are from RBC from Charles Weston. So Charles is asking, please, can you split out what you're seeing in Ophthalmology as like-for-like pricing, mix and volume? The second one is, are you flagging major CapEx investments as part of the infrastructure announcements? The third one is, is the KINEVO 900 S cycle now inflecting? And can you give some visibility specifically on the neuro order trends? The last one is on DORC. How is DORC performing on a stand-alone basis? And are these synergies on track with the initial business case?



Justus Felix Wehmer
CFO & Member of the Management Board

So split of entire OPT in terms of pricing, mix and volume, I mean, that's a rather complex question for 3/4 of our revenue. And with the factors that we mentioned before, and NVBP, where I currently -- as I said before, we are assuming some pressures there with the refractive business where at least going into the next years, we would probably see some pressure on margins based on competition arising. So I'm not sure whether I can give you any sensible answer for the entirety of that business here. I think overall I try to take the key industry factors. I think we clearly would see continued demand growth for the business, yes, simply driven by demography, I think as everybody is aware. And against that, we clearly see some pricing pressures.

And in terms of mix and our portfolio, as you know, where we are increasingly having the consumables in the portfolio, and then now also in our instrument business, I would say that by and large, we would still end up, even with pricing pressure, on a different mix with the top line growth. I think I can only leave it on that level here. Otherwise, we really have to go business sector by business segment. CapEx investments associated with the ProfitUp program, yes,

indeed, there are some. And I think at this point in time, it's probably fair to assume that it is somewhere a mid-double-digit million euro amount associated with it. Mainly, of course, relocations into China, but also beyond that, as we had said, some investments in a so-called best cost country location outside of China.

KINEVO inflection point was the third question. Yes, we do clearly -- if you mean inflection to the positive, then I'd say, yes, clearly, we see that materializing. And in the neuro area that you were specifically asking for, we do see a good -- as I said before, a good project pipeline. The order book has been growing, and we are actually preparing for a pretty strong second half of the year for MCS and with KINEVO being a major component of that. DORC overall, I think we are still very happy with the integration is continuing. We do see synergy effects. We do, however, also, that is fair to say, still see that the ramp-up of operations to basically catch up with the enhanced demand, respectively, the requirements to, basically, develop the new territories that are now covered by the Zeiss organization, that is still providing partially challenges. But I think overall, we are confident that we also in the second half of the year will

have likewise, as we had in the last year, a strong development for DORC. I think that's it.

Sebastian Frericks
Director of Investor Relations

Okay. So as we are almost up on time, just checking if there's any last question on the phone by e-mail, I don't have anything currently anymore.

Operator

So this is the moderator speaking. There are no questions in the telephone line or on the audio line in this call. So therefore, I hand over to Mr. Frericks.

Sebastian Frericks
Director of Investor Relations

Okay. Then thank you very much. And again, apologies that we had some difficulties. I hope we still did get to answer every question. And of course, the IR team is available next days and weeks, and we'll also be at a number of events in May and June to be facing your questions and look forward to the discussions with you.

It's an exciting time for us, and we hope to remain in dialogue with as many of you as we possibly can over the next weeks. Thank you for sticking with us. Thank you for the good discussion and questions, and we look forward to keeping in touch and the next regular call is in early August. So look forward to that. Thank you very much.

Andreas Pecher
Interim Chairman of the Management Board & Interim CEO

Thank you.

Justus Felix Wehmer
CFO & Member of the Management Board

Thank you.

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