



Carl Zeiss Meditec AG

Annual General Meeting 10 April 2018 in Weimar

Speech text

Dr. Ludwin Monz, President and CEO

– Speech: check against delivery –



Ladies and Gentlemen,

Shareholders,

Members of the Supervisory Board,

Guests and Friends of the Company,

My name is Ludwin Monz. As President and CEO of Carl Zeiss Meditec AG, I am delighted to welcome you to our Annual General Meeting here in Weimar today.

The past fiscal year 2016/17 was once again extremely successful. Our revenue grew by around 9 percent and there was also an encouraging increase in profit. We therefore achieved a new record high in the reporting year, and grew faster than our markets. Once again, we gained additional market shares.

This success was achieved with a lot of hard work by the entire organization of Carl Zeiss Meditec and its committees. My thanks therefore go especially to our employees in all parts of our Company, as well as my colleagues within the management and on the Management Board, without whose strong personal commitment this result would not have been possible.

I would also like to say a particular word of thanks to the members of the Supervisory Board, who have dedicated a huge amount of support to the Company.

And to you, our shareholders: you should also share in the success of Carl Zeiss Meditec AG. Later on, we shall therefore vote on the payment of a dividend - our highest distribution to date.



Ladies and Gentlemen,

Before I give you my report on the key figures of our Company's development, I would like to take a few minutes to talk about the development of our business environment, the changes in customer requirements and about how we are addressing these.

Our world is characterized by political, economic and, above all, technological changes. I would like to talk about digitalization in more detail, because this is where we see a key future trend. Digitalization will fundamentally change our world in many ways. Although we are only at the beginning of this trend, we are already seeing how communication, learning, or shopping – to name just a few examples – are permanently changing. It therefore comes as no great surprise that digitalization is also increasingly finding its way into health care. This means it directly affects the world of our customers and, therefore, also our company.

Recently, I spoke with the former President of the American Society of Cataract and Refractive Surgery (ASCRS), Dr. Kerry Solomon. Dr. Solomon described digitalization as a phenomenal revolution, which has altered almost every single aspect of his business. Patients sign themselves in at his practice, at a digital sign-in station. Before Dr. Solomon speaks to patients, he reviews the compilation of all test results on his tablet. He plans surgical procedures on his computer and then he has access to all digital patient data in the OR. A type of navigation system helps him to carry out the surgery as planned, and with the optimum treatment result.



Refractive surgeon Dr. Vance Thompson from the USA, who I met for the expert discussion of the annual report, is already noticing the effect of digitalization. He reported that patients are much better informed nowadays about diseases and treatment options than they were just a few years ago. This makes it easier for Dr. Thompson to select the best therapy when he speaks to his patient.

Whereas the two examples show how digital technologies are changing workflows in the health care system, they will also play a key role in overcoming the demographic changes that lie ahead of us over the coming decades. In 2050 there will be almost ten billion people living on earth; and the number of people over the age of 60 will be more than two billion that same year. The majority of eye diseases are age-related. We will therefore see a dramatic increase in chronic eye diseases. This will pose significant challenges for the health care systems, as care capacities are already exhausted in many cases. In addition, health care costs are already at a very high level.

Digital technologies may help to further improve treatment efficiency. It will be possible to treat more patients with the available resources. Furthermore, it is crucial to improve the efficacy of the therapies, which is something that digital technologies may also help with.

Another sociopolitical challenge is medical care in rural regions, particularly in regions with insufficient medical care. Digital technologies will increasingly help to improve this care. This is because such technologies enable patients to be examined and treated, even if the doctor is not in the same location.



Ladies and Gentlemen,

ZEISS would like to play an active role in shaping digital medicine and is already playing a pioneering role in ophthalmology. Back in 2009 we invested in the FORUM data management system, which enables the archiving and evaluation of patient data to assist with diagnosis and with making a therapeutic decision. With around 7,000 installations, FORUM is now the best established system of its kind in the world.

Carl Zeiss Meditec further expanded its portfolio of digital products with the acquisition of Veracity Innovations in August 2017. VERACITY is a cloud-based planning tool for cataract surgery. The software enables surgeons to provide personalized, technology-assisted patient care with the best possible outcomes. Data is used intelligently to achieve greater efficiency and quality of the surgical procedure.

The system was presented to the expert public for the first time at the largest American trade fair as part of the Annual Meeting of the American Association of Ophthalmology at the end of 2017, and received an extremely positive response.

And, finally, Carl Zeiss Meditec has a third digital platform, which enables patients and physicians to connect with each other digitally. The VisuHealth product is used in India, for example, to connect more than 40 screening centers in rural areas with three clinics. Auxiliary staff, such as nursing staff or technicians, for example, take an image of the patient's retina in the screening centers using a mobile fundus camera, and upload it to the platform. An ophthalmologist at one of the connected clinics



evaluates the images, makes a diagnosis and writes a report. This is then forwarded to the patient via the platform.

The examples show how digital technologies help to reach underserved regions and to improve the efficiency of clinical workflows, in order to treat more patients and reduce treatment costs. It also save the physician time, which he or she can then use to talk to the patient. Ironically, therefore, digitalization could actually make medicine more personal.

Ladies and Gentlemen,

As pioneers of scientific optics, we have always pushed the boundaries of imagination. With our passion for excellence, we create benefit for the customer and inspire the world to see things differently. The Company has shaped the world of medicine for more than 100 years with numerous groundbreaking innovations. ZEISS and Carl Zeiss Meditec now have a broad technological basis, outstanding application knowledge and excellent processes. Customers see us as a reliable partner who contributes to their success.

The described challenges in the health care system, as well as technological and medical advancement, are bringing about a constant stream of new and ever-changing challenges for our Company, however. In order to meet these challenges, we work very closely with our customers on the development of products and services, in other words, with clinics or clinic chains, medical practices, as well as doctors, medical and non-medical staff working in health care.

One example of such a collaboration was the development of the new surgical visualization system for neurosurgery, KINEVO 900.



More than 50 neurosurgeons from 14 countries were involved in its development. The result is a robotic visualization system that impresses with around 100 individual innovations. This has also been verified by an independent panel of experts, who awarded the user experience with the KINEVO 900 a prestigious prize for intuitive product design in September 2017.

Ladies and Gentlemen,

Increasing our competitiveness is a key objective of our strategy. However, the demands are immense. More and more new competitors are penetrating the market with new technologies – the only way to counter this is to maintain our innovative strength. A high level of competitive intensity also manifests as price pressure – this requires continuous work on our costs. Because this is the only way to maintain our profitability.

Innovative strength is a key pillar of our strategy. In the following I would therefore like to report on a number of highlights that we introduced to the market during the past fiscal year, both in ophthalmology and in microsurgery.

We launched a groundbreaking new product for the diagnosis of eye diseases. The fundus camera CLARUS 500 enables so-called ultra-wide-angle imaging. It can display the retina, from its center to the periphery, with tremendous sharpness and in true color. This means that physicians now have a previously unrealizable view of the entire fundus. This product is incidentally also a good example of how Carl Zeiss Meditec AG benefits from the Group parent, the Carl Zeiss Group. Because the product idea was born in the ZEISS Group's research center. The research center is an infrastructure that Carl Zeiss Meditec AG could not afford on its



own, due to the company's size. With its new AT LARA lens, Carl Zeiss Meditec is expanding its highly innovative portfolio of intraocular lenses for the treatment of cataracts. This rounds out our extremely competitive offering, both in the standard lens and in the premium lens segment.

We also launched two important new products in Microsurgery in the past fiscal year: the highly innovative visualization system we already mentioned earlier, the KINEVO 900, and the new dental microscope, EXTARO 300, which enables a totally new way of displaying dental structures using fluorescence technology, whether it is healthy tissue, cavities or dental prostheses.

As just explained, aside from innovative strength, it is competitive costs that are a deciding factor. One aspect of costs is the consideration of processing costs. What is important here is to avoid unnecessary manual labor and errors through efficient and robust workflows. As an example, I would like to refer to our standardized distribution process, our new eLearning platform for sales, service and customers, as well as the end-to-end digital ordering process for intraocular lenses that extends from the customer, in other words the doctor or a clinic, right through to our company.

Ladies and Gentlemen,

Ultimately, it is our employees – we call them the “ZEISS Team” - who drive the Company forward and make it successful. We therefore pay particular attention to how we further develop our team. Developing our corporate culture, supporting our employees and creating attractive working environments and development opportunities, as well as systematically further



developing the company's skills profile are focal points of our human resources work.

In the area of software, for instance, we have systematically expanded our teams and provided them with intensive further training. We now develop software in Germany, the USA and India. The aforementioned team from VERACITY Innovations is another example of systematic skills development.

Ladies and Gentlemen,

The ZEISS Group invests heavily in the Company's infrastructure. Carl Zeiss Meditec AG benefits from this as a lessee. Examples include a new building from the year 2013, in Oberkochen – pictured here on the left of the slide – or investments planned for the future at our headquarters in Jena, or at the key location for Carl Zeiss Meditec AG, in Dublin, California. The state-of-the-art infrastructure creates the basic conditions for attractive workplaces and efficient workflows, due also to an open and communicative office architecture.

Ladies and Gentlemen,

As I already mentioned at the start: we continued the successful trend of the past few years during the last fiscal year. We look back on fiscal year 2016/17 as a year in which we achieved a lot.

Which brings me to the business figures.

We achieved the targets we set for ourselves for the fiscal year and are proud to be able to present encouraging revenue and profit growth rates to you today.



At around €1.19 billion, revenue was up by 9 percent compared with the prior year. Earnings before interest and tax increased by more than 17 percent, to around €181 million, thus increasing our EBIT margin to 15.2 percent. This includes a one-time special effect of almost €8 million, in connection with the disposal of assets at the Ontario location, which was recognized in the first quarter. However, even without the disposal proceeds in the first quarter of 2016/17, profit would have increased further. Earnings per share increased from €1.21 in fiscal year 2015/16, to €1.57 in fiscal year 2016/17. Cash flow from operating activities amounted to almost €38 million.

This successful trend is particularly attributable to the area of ophthalmology. The strategic business unit Ophthalmic Devices generated revenue of around €881 million in fiscal year 2016/17. Organic growth amounted to about 11 percent. This business unit generates approximately three quarters of our total business.

The increase is particularly attributable to a strong refractive lasers business. The Surgical Ophthalmology and Diagnostics segments also made good contributions to revenue growth, in spite of the tense competitive environment that persists in submarkets. The high proportion of recurring revenue in the area of ophthalmology, which is primarily generated from the sale of consumables and implants, but also by our customer service, also increased further in fiscal year, to 33%. This business makes us more independent of market fluctuations, because patients are still treated even in economically challenging times.

Our second strategic business unit, Microsurgery, in which we provide visualization solutions for minimally invasive surgical treatments, as well as solutions in the field of surgical oncology,



grew by 4.3 percent year-on-year. Revenue in this SBU amounted to around €309 million, with the EBIT margin increasing again slightly compared with the prior year. Once again, therefore, we defended our market position in this area in fiscal year 2016/17, and kept profitability at a high level. In terms of products, we are in a good position. With our new solutions in the area of dental and neurosurgery, we have good opportunities for growth in future, too.

The balanced regional distribution of our revenue is another of Carl Zeiss Meditec's strengths. As you know, our business is distributed almost evenly across the reporting regions of Europe, Middle East and Africa, Asia/Pacific and the Americas, with around a third of revenue being generated in each. All regions contributed to revenue growth in fiscal year 2016/17. We achieved our highest growth in the Asia/Pacific or APAC region, however. Compared with the other two regions, the APAC region increased its share of revenue to almost 38 percent. We achieved double-digit organic growth of 17 percent here, and generated revenue of €448 million. The largest contribution to revenue in this region, with strong growth once again, came from China, although India, Southeast Asia and South Korea also recorded high growth rates.

In the region Europe, Middle East and Africa, also referred to as EMEA, revenue increased by around 4 percent year-on-year, to €363 million. Our core markets of Germany and France continued to make good contributions to revenue.

In the Americas region, revenue increased by more than 6 percent, to €378 million, largely due to a positive trend in the

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USA. Growth therefore accelerated compared with the previous year.

Ladies and Gentlemen,

The successful development of business over the past year is also reflected by the positive development of the Carl Zeiss Meditec AG share. The share value increased by as much as 30 percent between the beginning of fiscal year 2016/17 and the end of September 2017. The share price has continued to rise during the first half of the current fiscal year, and we are pleased to report a 52 percent increase in the share's value since the start of fiscal year 2016/17. The TecDAX, whose 30 stocks include the Carl Zeiss Meditec AG share, also performed well during the same period, although to a lesser extent. The Carl Zeiss Meditec share once again proved to be a very attractive and successful investment for the long term.

Ladies and Gentlemen,

This brings me to an important part of every annual general meeting: the dividend proposal.

As you know, we operate a profit-driven and continuous dividend policy. We shall continue to adhere to this policy in future and want you, our shareholders, to participate appropriately in the Company's success. The Management Board and Supervisory Board therefore propose to you the distribution of a dividend of €0.55 per share. This dividend amount would be our highest distribution to date. The distribution ratio would, however, remain at around one third of consolidated profit after non-controlling interests. This dividend policy will ensure that the Company will continue to have sound financing in future and that



we will continue to be able to invest further in growth, and sustainably increase the value of the Company.

Ladies and Gentlemen,

We remain on a successful path, and this is also reflected by the results for the first quarter of fiscal year 2017/18.

During the first three months of the current fiscal year, we generated revenue of around €295 million. Adjusted for currency effects, growth amounted to 9.5 percent, but with all areas and regions making a positive contribution to revenue growth. Earnings before interest and taxes (EBIT) amounted to around €39 million. The EBIT margin declined compared with the prior year; however, this was primarily due to the proceeds gained in the prior year from the disposal of non-strategic assets at the Ontario site. Excluding this effect, margin development would be stable.

The strategic business unit Ophthalmic Devices contributed to overall growth in the first quarter of the new fiscal year with organic growth of 8.2 percent. The Microsurgery business unit also made a very good organic contribution to growth of over 13 percent.

Growth accelerated compared with the same period of the prior year, especially in the EMEA and Americas regions. The APAC region also contributed to overall growth, with 6.6%, which is mainly attributable to the positive trend in China, but also in South Korea.

Shareholders,



With our strategy as an innovative solutions provider, our balanced regional positioning and our market position that builds on the ZEISS brand, we consider ourselves to be in a good position to continue to generate organic growth. We also possess the necessary financial strength to seize opportunities, including acquisitions. We can build on competitive and profitable products in a broadly diversified portfolio, which we shall continue to develop in close cooperation with our customers. At the same time, we take advantage of the opportunities of digitalization, to leverage further market potential. Behind this is a strong and highly qualified team that works well together worldwide.

In order to be able to consistently drive forward our growth strategy, we have raised funds of around €317 million within the scope of a capital increase in March 2017, as already reported at last year's Annual General Meeting. In order to continue to give our Company the capacity to act, we would like to ask you, our shareholders, for your approval of agenda item 7. This would mean continuing, in the event of a major acquisition, to allow maximum flexibility in the development of an attractive and value-creating finance package. Subject to your approval, we could draw on convertible bonds and bonds with warrants, which are currently very attractively priced in the market. In other words: it is about having maximum flexibility for selecting potential financial instruments.

Ladies and Gentlemen,

I hope I have shown you how we wish to use the opportunities provided by digitalization and how we are working together with our customers to further advance medical progress. Digitalization will not only significantly contribute to addressing the future

challenges of health care systems, such as increasing patient numbers and rising costs, but it will also drive forward medical progress, in the interest of patients.

Thank you for your support and your interest in our Company, and – not least – for your attention today.

