# Carl Zeiss Meditec AG (CZMWF) CEO Ludwin Monz on Q4 2019 Results - Earnings Call Transcript

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## Earning Call Audio



Carl Zeiss Meditec AG (OTCPK:CZMWF) Q4 2019 Results Earnings Conference Call
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**Company Participants**

Sebastian Frericks - Director Investor Relations

Ludwin Monz - President, Chief Executive Officer

Justus Wehmer - Chief Financial Officer

**Conference Call Participants**

Scott Bardo - Berenberg

Falko Friedrichs - Deutsche Bank

Markus Gola - MainFirst Bank

Thomas Schießle - EQUI.TS

**Operator**

Good morning, ladies and gentlemen and welcome to the Carl Zeiss Meditec AG analyst conference call regarding the financial year 2018/2019. At this time, all participants have been placed on a listen-only mode. The floor will be open for questions following the presentation.

Let me now turn the floor over to your host, Mr. Sebastian Frericks.

**Sebastian Frericks**

Good morning, ladies and gentlemen and thanks for joining us today. My name is Sebastian Frericks. I am Director of Investor Relations. And with me, as usual, our President and CEO, Dr. Ludwin Monz and our CFO, Justus Wehmer. I will now hand over to the gentlemen to give you an introduction to our financials and some prepared remarks. Afterwards, we are open for your questions.

**Ludwin Monz**

Yes. Good morning. This is Ludwin Monz speaking. Welcome to Carl Zeiss Meditec's 12 months 2018/2019 analyst conference. As you all know, originally, we were planning to meet you in person in Paris for this conference. Unfortunately, as you know, our plans were blocked by the ongoing national strike in France. And this is why we decided to postpone the personal conference. I apologize for any inconvenience this might have caused. But I also promise that, actually, we will have this conference but we just postpone it for a while.

So we are looking forward to presenting our year-end results today. On slide two of the presentation, you see the outline of our agenda. First off, I will give a short overview, as usual, about our results. And then my colleague, Justus Wehmer, who is the CFO of Carl Zeiss Meditec, he will discuss the financials more in detail and give you some more light on this. Afterwards, I will share some highlights of the year. And finally, we will present our outlook.

So let's have a look at the overview of our financials on slide number three. Carl Zeiss Meditec was once again able to grow substantially in fiscal year 2018/2019 compared to the prior year. We are glad to report of an outstanding performance also in Q4. Revenues reached EUR1.459 billion. Good contributions came from both SBUs. Regionally, the biggest growth contribution came from APAC but also EMEA was outstanding and far above market growth.

Yes. And total growth rate was at 13.9%. We had some tailwinds through currency exchange rates. At constant currency, the growth was 11.7%. It's really interesting to look into the growth contributors as they show really nicely the dynamics of our business and also the dynamics of the regions. Justus will shed some light on this in just a minute.

One comment on the EBIT. EBIT margin increased to 18.1%. In prior year, we had 15.4% and the increase is mainly a result of a favorable product mix with a high share of recurring revenue. What has also helped is a careful OpEx management in light of the somewhat shaky economic development.

Yes. Our net income reached EUR160 million, which corresponds to earnings per share of EUR1.79. In prior year, we had EUR1.41. So earnings per share increased due to the EBIT increase despite of negative currency effects. Yes. So overall, the performance developed nicely and we are really happy with the result that we achieved for last fiscal year.

And I will now hand over to Justus, who will discuss the financials more in detail and will give you more color. Justus?

**Justus Wehmer**

Thank you Ludwin and good morning and welcome from my side also. I am now going to give you a more detailed overview of our financials, starting with the performance of our SBU OPT. Our revenue came in for OPT with EUR1.069 billion compared to prior year reported growth comes in at 14.5% and at constant currency growth 12.4%. There was a strong growth across the portfolio and actually a record recurring revenue share. While competitive pressure in our diagnostics segment remains the same, we see continued positive effects from innovations.

We have launched, for example, the CLARUS 700 in the last fiscal year. The refractive laser business continued its strong performance from the past. Here, especially our SMILE technology continues to develop very nicely. Again, also a positive trend in our surgical ophthalmology business and here driven by ophthalmic microscopes as well as the IOL business and our biometrical business. The SBU OPT EBIT margin increased compared to last year to 15.4% and we were supported by a more favorable product mix, especially an increased share of recurring revenue and higher operational leverage.

Let's take a look at microsurgery, which delivered outstanding performance with revenue of EUR391 million versus EUR348 million last fiscal year, which represents a revenue increase of around 12.4% and at constant currency 9.7%. There is a continued strong revenue growth in our neuro/ENT business, supported by our new Robotic Visualization System KINEVO, as well as first positive effects from the launch of TIVATO in spinal surgery applications, which had a strong fourth quarter. EBIT margin, still very strong and improved, again, year-over-year due to volume effects supported by changes in product and regional mixes and as mentioned earlier, also cost awareness in our organization.

Looking now on the next slide at our revenues by region. First of all, we can say that all three regions contributed to growth with the APAC region in the lead once again. But first of all, let's take a look at the Americas, which achieved revenues of EUR443 million, which is an increase of 8.9%, respectively, 3.9% at constant currency over last year. U.S. sales significantly grew in Q4. The positive development was supported by the CLARUS 700 introduction as well as our refractive business. We have also seen positive contribution from our MCS business. Latin Americas was slightly decreasing once more, given also the critical economic situation in some countries in that region.

EMEA revenues came in at EUR417 million, which is a good increase of 10.3% and at constant currency, even somewhat higher at 10.7%. And as you can imagine, we are very pleased with this growth in Europe. We have continued somewhat heterogeneous picture in the EMEA region but in some of our core markets we were very satisfied like in Germany, France and U.K. with growth rates in the high single digit or double digit region.

In the Asia/Pacific region, we reached EUR600 million of sales which is a strong increase of 20.8%, at constant currency 19%. Again, very strong revenue growth in China. We do not yet see any signs of a slowdown in this region. But as we have mentioned before, the situation remains somewhat difficult to predict. South Korea had also seen strong growth in the double digit ranges and also we saw good contributions from Japan.

Let's now have a look at the P&L. We increased our gross margin to 57% compared to previous year due to positive product mix, especially high share of recurring revenue. OpEx in terms of absolute numbers increased, but OpEx margin overall decreased with roughly 39% of sales slightly below prior year. We have seen a slight decline in R&D ratio, a discontinuation of strategic projects. Femtosecond cataracts in the previous year is one reason. We expect, however, the R&D ratio to increase again in 2019/2020.

EBIT came in with EUR265 million, significantly above prior year. And EBIT margin, as previously mentioned by Ludwin, came in with 18.1%, above the 15.4% we presented for the previous year. As we have communicated in October, costs did rise somewhat over proportionately towards the end of the business year, particularly in the field of R&D. Our analysis shows that the increase has mainly resulted from some prioritized projects in ophthalmology. Not all of it will be recurring in nature, however as we have been telling you for the last half year, there remains some upside pressure to the R&D ratio as we go into 2019/2020 and we expect it to rise again somewhat relative to sales.

The adjusted EBIT margin reached 18.5%, which is plus 2.8 percentage points versus prior year. They are only rather small effects related to purchase price allocation and the increase now due to the PPA of our IanTECH acquisition.

Now, a short look at the cash flow statement. Operating cash flow came in at EUR220 million versus EUR187 million in the previous year, mainly driven by our positive EBIT development and increases in depreciation. There is, to some extent, effects related to the IFRS 16 reclassification. And working capital development, in total, is on prior year's level. Cash flow from investing activities has seen the main effects of the IanTECH acquisition and cash flows from financing activities are mainly influenced by our dividend payments. Net liquidity, as you can see, is close to previous year as the cash flow, due to the acquisition of IanTECH, has been recovered through strong cash generation.

And with that, I hand it back to Ludwin.

**Ludwin Monz**

Yes. Thank you, Justus, for the discussion of the numbers. I now would like to talk about some highlights of last year, which we show on slide number 12. If you compare Carl Zeiss Meditec with other companies, you will immediately notice our differentiation. And it's clearly innovation. Carl Zeiss Meditec grows with a continuous stream of new products and we have a highly efficient and effective innovation process.

Given the total spend on R&D, I believe that the number of new products is really very high. So looking back at the last couple of years and also at fiscal year 2018/2019, much focus was on the growth of our consumable business. This is a substantial element of our strategy and it has greatly contributed to growth and of course also it has contributed to our increase of the profitability. However, I would like to emphasize that there is a close link between the consumable business on the one hand and the equipment business on the other hand. We drive consumables through equipment. And the best example is clearly our Refractive Laser business. But another good example is cataract surgery and we have more of this.

So last year, we had quite some product introductions in the field of equipment. And you see them here on this slide and I would like to explain the examples a little bit more. Our neurosurgical flagship product, KINEVO 900, had really an outstanding year with great performance in the U.S. but also in Europe and Japan. In September, we have now obtained the approval for China and we are looking forward to continuing the successful global ramp-up now also in China.

At the same time in our microsurgery business, our advanced visualization system for spine and ENT surgery, it's called TIVATO 700, it was off to a successful start, with a good performance, particularly in the second half of 2018/2019. And we look forward to continuing this trajectory also in 2019/2020.

Yes. Then let's move to the field of ophthalmic diagnostics where we launched a new CIRRUS OCT generation towards the end of the business year. The product is providing efficiency benefits to our customers by dramatically shortening the scan time which is really a very important feature of the product.

Yes. We already talked about our widefield fundus imaging system, CLARUS 700, in our half year report. It has now begun to deliver significant results for our diagnostic business. It provides integrated fluorescein angiography, which is important for the treatment of wet AMD and other diseases. The combined effect of these new imaging products has provided really a strong year-end finish for the diagnostic business and we also expect a positive start into the new year as well.

Yes. Lastly, in surgical ophthalmology. Here, we started the commercial rollout of ARTEVO. This is the first truly digital ophthalmic microscope of its kind and we are also excited about the integration. Now with a new FORUM application EQ Workplace, which enhances our position as the leader in digital solutions for cataract by further streamlining the usage of data in the refractive cataract workflow. And that workflow, as you know, it starts with the biometry calculation and then it moves on with selecting and ordering the right IOL. Then comes an interface with our CALLISTO system for the surgical procedure. And finally, it allows to collect post-operative data. Yes. We are excited about getting all of these products out into the hands of doctors and surgeons as quickly as possible and we look forward to continuing our path of innovative solutions to help our customers treat patients and improve their outcomes.

Now that brings me to our last agenda item, which is the outlook for the just started new fiscal year on slide 14. We have listed the long term growth drivers of the medical market in general and microsurgery and ophthalmology in particular. There's no change there. Aging of the population will continue. There is growing affluence in emerging countries. Patients are better informed and seek treatments earlier. And all of these trends lead to a growing patient load or you could also say, growing patient numbers and at the same time, rising cost for the health care systems.

Carl Zeiss Meditec will continue to follow the same strategy that has been very successful over the last couple of years with unchanged priorities. We will work on further expanding recurring revenue. We will drive market penetration of SMILE Refractive Laser surgery and we will continue to extend our technology leadership in cataract with further innovations. And finally, we will strive to turn our latest innovation or, I should say, innovations in neuro and ENT surgery into business growth. Digital, obviously, plays a key role in all of this.

Yes. In fiscal year 2019 and 2020, we want to grow at least as fast as our markets grow and keep an attractive EBIT margin between 17% and 19%. This outlook already does take into account both the trend in operating expenses with some upfront investments that already took place in the end of 2018/2019 as well as additional spending, which is scheduled for 2019/2020, particularly in the field of R&D and Justus just elaborated on this before. Please note, however, that our margin will depend on the speed of our growth as well as on the product mix very much. And finally, the share of recurring revenue will play a critical role.

Yes. In the midterm, we expect the generally positive trend in recurring revenue generation to continue and despite the unchanged high investments and investment needs of our business, we will be able to defend margin level sustainably above the current level of 18%. So you should understand the 18% as a level which we will not be under. And as you see, we do not give an upper limit at this point in time.

Yes. Ladies and gentlemen, this concludes our prepared remarks and we are now happy to answer your questions. I hand back to the moderator to explain the procedure.

**Question-and-Answer Session**

**Operator**

[Operator Instructions]. Okay. And the first question comes from Scott Bardo from Berenberg. Please, Mr. Scott, go ahead.

**Scott Bardo**

Yes. Thanks for taking my questions and congratulations on a strong year. So first question, please, just relates to a little bit of the volatility in communication with respect to your ad hoc announcements. And I wonder if you could just give us a little bit more clarity here because I think that you closed the quarter, as such, with an expectation you significantly exceed 18.5% operating margin and then you subsequently restated this highlighting that you took some R&D investments. This is a little bit of a surprise that there was such difference in views on cost booked within a few weeks or so. So I just wonder if you could help us understand, was there some breakdown in the internal communications or why it came to pass that more costs than you initially thought were booked for the full year? So that's question number one, please. The second question, I noticed in your annual report that your orders on hand slightly contracted for the year. And I just wonder if you can put into context what this number actually means? Whether it's relevant for your future growth? Perhaps give us some flavor that that is not of concern. The last point, please. Clearly, you have seen very strong Asia/Pacific growth. I am assuming a good proportion of this coming from refractive correction and associated consumables. Can you give us some feeling now as to how penetrated you believe this market is and whether utilization trends are set to increase and remain strong? Just some flavor for where you are in your rollout in refractive correction in Asia? Thank you.

**Ludwin Monz**

Okay. I would suggest that Justus starts with your first question on the, as you said, volatility of communication.

**Justus Wehmer**

Scott, hello, here's Justus. And fair question and the answer is simple. In the mechanics on second of October, we have revenues. We do not yet have a full cost transparency and as simple or as disappointing this explanation might be to you, but it was a wrong estimate. And in R&D expenses, as I said previously, which came in, in September in various projects beyond our expectation which accumulated and then basically it forced us to a correction. I think that is it. It should not happen. Unfortunately, it happened. It will not happen again.

**Scott Bardo**

Understood.

**Ludwin Monz**

Yes. So the second one was on the orders on hand. Actually, that's not unusual. So it's definitely not a sign of a slowdown. Quite in contrary, we have seen a good start also into the new fiscal year. It's always about the ability to ship products. So when we introduce a product, at some point in time we start to take orders. And then this is orders on hand and that's basically what we have in our books. And then there is a point in time when we start shipping and then orders on hand go down. But it does not reflect a business dynamic or something. It's just the, well, more an operational effect which we have because we start shipping at some point in time. So I am not exactly sure what effect actually you see now. But that's definitely nothing of concern.

**Scott Bardo**

Understood.

**Ludwin Monz**

Regarding APAC and the APAC growth. Yes, you are right that we have managed to really grow. We call it the procedure share, which is the share of refractive procedures in Asia which are done with SMILE versus other types of refractive surgery. So other types are LASIK and PRK. And that share actually has significantly increased. It varies a little bit country by country. I would say it's highest in Korea. It has also increased in China. But actually, there's still more room for growth and that procedure share can grow, I think, the installed base.

So if you just look at the number of lasers which are out, it's already relatively high. But I would expect that the utilization of these lasers will go up. So in other words, I do expect that the recurring revenue, the consumable revenue, will definitely continue to grow also in Asia. But clearly, I mean, we are now in a significant double digit percentage range of the penetration rate. And of course, the room to the ceiling gets smaller, but it's still pretty large.

**Scott Bardo**

Very useful. Thanks for the comments. And just to understand on the Refractive Laser instrument placements in Asia. Does that still continue to grow favorably? Or is that starting to moderate some now?

**Ludwin Monz**

No. It still grows. So I always wonder where these devices go. But there is still demand, right. And we increased the installed base. So yes, it's still growing as well.

**Scott Bardo**

Very good. I will jump back in the queue. Thanks guys.

**Operator**

Okay. And the next question comes from Falko Friedrichs from Deutsche Bank. Go ahead with your question.

**Falko Friedrichs**

Hello and good morning. Thanks for taking my questions. I would have three, please. Firstly, what has been the share of recurring revenue in the past fiscal year? And what is your expectation for 2020? Then secondly, are you still on track to launch your IOLs in the U.S. in 2021? And if that's the case, when do you plan to ramp-up your sales for that? Is that likely to happen in late 2020 already? And then thirdly, it seems that there is a bit of a local competition arising for your SMILE technology in certain regions. Can you just quickly comment on whether that can be a credible threat over the near to midterm?

**Ludwin Monz**

Yes. Thank you, Mr. Friedrichs, for the questions. The first one was on the share of recurring revenue. It's at 34% in this year. So we have increased a little bit. And that will steadily grow, right. So I can't give you a number. But if we look back, I would say, so maybe one or two percentage points per year roughly, right, but don't name me on that. And that's just the order of magnitude. This is slow growth. And fortunately, we were also able to grow our equipment business at the same time and that is why that ratio has not shifted so much because we had very strong, as I was explaining in the presentation, we had very strong equipment introductions. And that, of course, has an effect on that ratio. But what's most important is that the total revenue of our recurring business continues to grow and that's definitely what we also expect for the new year.

Yes. Regarding the IOLs in the U.S., you are right. It's still difficult to predict because the approval process in the U.S. is not really in our hands. Nevertheless, your estimate is roughly right, 2021. There's no news on that, which means there's no delay, there is no acceleration. I just don't have any better information than I provided you last time. And I believe that this time plan is realistic. The buildup of the sales force will happen a little bit earlier, right. So once we know when we can expect a signal from the FDA, we will start building up the sales force. That might be in the end of 2020. But it could also shift into 2021. I don't know because of that uncertainty of the approval process.

Yes. Local competition on SMILE. Here's the situation. As I was saying before, the classical laser procedures, there are basically three which are relevant today. The most basic one, which is still being used and actually it's still significant, it's PRK. PRK does not use a flat. It just forms the surface of the cornea. And that's a procedure, for example, in Korea, which is still used very much. Interestingly, in Korea, LASIK does not play a significant role anymore. So that has mainly disappeared. That's different in China. In China, LASIK is very present, right. And then both countries have SMILE as the top laser procedure.

The price point for patients, for these three procedures is different in these countries. That's, by the way, an approach which is different in Europe. In Europe, there are clinics which charge the same amount for all of these types of procedures. In the U.S., the U.S. is similar. In Asia, there's clearly a price differentiation to the patient. That's an interesting difference.

When you talk of competition, I am not exactly sure what you refer to. There's just one alternative to a laser surgery, which is being promoted and that's implantable contact lenses, ICLs, right. There's the company that's making these. So they are appearing here and there. And that's an alternative actually, I would say, to refractive surgery also mainly in Asia, right. Some implantations are also being done here in Europe. As far as I know, almost none in the U.S. but in Asia, it plays a role.

**Falko Friedrichs**

Okay. That's super helpful. Thank you.

**Operator**

Okay. And the next question comes from Markus Gola from MainFirst Bank. Please go ahead with your question.

**Markus Gola**

Yes. Thanks for taking my questions. So my first one is on your midterm guidance. Could you elaborate what kind of scenario is to materialize that you will not be able to realize any operating leverage in the business and hence remain at an EBIT margin level of 18% going forward? And my second question is also related to that. Assuming at current trends from IanTECH, a stable economic growth in which you grow topline high single to low double digit driven by an ongoing shift of sales towards recurring consumables, would you say that in such a scenario, it's impossible to get to EBIT margins of around 21% in the next three to four years? I ask that because you have already surpassed 20% in the second half of 2019, excluding the preponed R&D costs. And my third question, if I may, is on your balance sheet. You have a significant net cash position for quite some time now and you are generating positive cash flows. Can you provide us with an update, how you will utilize this liquidity? So whether we will see significant M&A activities or special dividend is more likely going into 2020 from your current perspective? Thank you.

**Ludwin Monz**

Yes. Thank you for your questions. So again, the way you should read our midterm guidance is that we will stay above the level which we now have achieved and let me stress this for the first time, right. For the first time, we have achieved an EBIT margin above 18%. And what we are saying is that we want to stay above that level, although we are significantly investing more in research and development, right. And so we are saying higher, right. And I am not saying that we will stay at that level. I am saying we are higher than that level, right. So we don't give an upper limit. And it's certainly right.

And that was your second question, that our growth will help. It's not all about growth. It's also the product mix. We talked about that before. So also that will play an important role. And that will certainly increase our gross profit. But at the same time, we will increase our spending. And that is why you cannot expect that at the same rate as we grow, our EBIT will grow as well. And that's why we expect and we have said that now a couple of times in some of the conferences is that's why we expect the profitability improvement to slow down. That's basically what we are saying here.

Yes. Regarding the net cash position, you are right. We have good liquidity. And actually, we are quite glad to have that situation. To have the opposite would be worse. And as you saw in last fiscal year, we acquired IanTECH. And that's the kind of acquisitions we are looking at, right. IanTECH is a very nice complement in our technology portfolio and it will presumably help us to strengthen our position in the cataract market. And we are systematically screening for opportunities to complete our product portfolio.

We will build around our core business. So around what the markets we address today, the product segments we have today. So we try to make that more complete and more comprehensive. And of course, as we always did in the past, we look at opportunities to also expand regionally. So that's the plan for the utilization of our liquidity. And again, we are glad to have high flexibility and to be prepared if opportunities show up. And so we continue to seek for M&A opportunities.

**Markus Gola**

Okay. Thank you very much.

**Ludwin Monz**

You are welcome.

**Operator**

And now we have a follow-up question from Mr. Scott Bardo. Please go ahead with your question.

**Scott Bardo**

Yes. Thanks very much for taking the follow-up. Sorry if I missed this. Could you remind us what your growth was in the North American region this year? And perhaps follow on with a view into 2020 amid some relatively meaningful reductions in cataract procedure reimbursement? And whether you feel that changes the landscape at all for capital demand in the North American market? I also would just like to understand a little bit your new innovation cycle. I see an awful lot of new innovations from the capital side. I wonder if you could provide some sense of context about how meaningful or relevant these introductions are? But with respect to consumable innovations, we haven't seen an awful lot of incremental new launches in Europe, at least, in the field of intraocular lenses and the competitive environment there seems to be intensifying. So I wonder if you could comment a little bit about the cadence of new introductions here to sustain your recurring revenue mix? Thank you.

**Ludwin Monz**

Yes. Thank you, Scott, for the question. There's a reason for the reduction of the reimbursement in cataract and that's simply that the number of patients is growing so strongly. And because of that, there's a high cost pressure on the healthcare system and they try to just limit the growth. So at the same time, so we see a reduction of reimbursement but at the same time a growing number of procedures.

Nevertheless, currently we are not in the IOL market in the U.S., right. But I still believe that we have good chances with our offering. If you look at all the ingredients of a cataract procedure, it's the surgical microscope, it is the phaco system, which plays a key role because there's also, as you know, a consumable involved and then it's definitely the lens. And our plan is to offer everything, right. And a package out of one hand. And so that's the plan.

Yes. The cost pressure is always there. The other thing I can only offer regarding cost pressures is efficiency, right. And that's why we invest also in digital and believe that we can drive efficiency as well. But lower reimbursement will clearly put pressure on prices in a market where we are not there yet, right. So I should say that there is no immediate effect on us. It's just about the future perspective.

Yes. Regarding innovations on consumables, I can only ask for patience. That's, of course, not out of our focus. If you look at the evolution of our portfolio in the IOL field over the last years, you will find that we started with hydrophilic material and then with the acquisition of Aaren a couple of years ago, we then moved into hydrophobic, right.

And the LUCIA lens is definitely a very good and very competitive product. But you should see that just as a first product in the hydrophobic field, right. And there is clearly innovation potential also on that side. And we will continue to innovate. That's all I can say. I definitely cannot make any product announcements, of course.

**Scott Bardo**

And this with respect to, thank you, just following on from that point. Is it more difficult to have multifocality and trifocality with hydrophobic material? Is that what's taking time? Or is it that you try and leapfrog the market with a meaningful innovation not seen before? Perhaps if you could add a little bit of disclosure around the evolution of the scientific portfolio, that would be helpful. And just on these new innovations on the instrument side. ARTEVO looks to be a fantastic product. You also now launched the CLARUS 700. Can you please put into some sort of perspective for us, how meaningful these products are? Are they niche products? Or could they generate meaningful market opportunities for Zeiss?

**Ludwin Monz**

Yes. On the IOLs, let me say this, you are right. It's more difficult to make a multifocal IOL than a monofocal. Because you need and I am sorry, I am a physicist, so I can say that you need a diffractive structure. And a diffractive structure, that's a ring structure, right. I mean, you might have seen photos of multifocal lenses that there are these rings, right. And the edges of the rings are what is so critical. That's difficult to make. And Zeiss wants to provide high-quality lenses. And so it's clearly our ambition. If we do something that, for example, side effects, halos, glare, are low and that's just difficult to make, right. That's the nature of the beast.

Yes. Regarding the equipment innovations, you mentioned ARTEVO, CLARUS 700. I would like to add the CIRRUS 6000 that was just recently introduced. And both the CLARUS and the CIRRUS, these are not niche products. These are really mainstream products. With the CLARUS, we see that now customers start to replace their traditional narrow-field fundus cameras with widefield. And CLARUS is the only widefield camera of that kind. There's only one more product with a different approach in the market, as you know. And so I think that really has quite some potential.

And in OCT, OCT has become a standard in ophthalmic diagnostics. And what's so nice about the CIRRUS 6000 is that we have reduced the scan time significantly. Now it really just takes a few seconds to take a high-quality image of the patient while in the past that time was much longer. And that makes a big difference for our customers and that's why we believe that this product also has some good potential.

Regarding the ARTEVO, it will need time, right, because that's quite a new approach. And what we see with these digital microscopes is that particularly younger surgeons are enthusiastic about it. They want to have it. Those surgeons who have neck problems are enthusiastic about it. But others who are used to working with a traditional microscope are rather hesitant to switch. So that might take a little bit longer to get market penetration. But we already see some good sales as well in this segment.

**Scott Bardo**

Good. Very good. Thanks again. And did you say what your order growth was or your revenue growth in North America? Apologies, if you have mentioned that before.

**Ludwin Monz**

I did not actually.

**Justus Wehmer**

Yes. Scott, Americas or U.S.?

**Scott Bardo**

U.S.A. would be helpful, please.

**Justus Wehmer**

U.S. is 10% and constant currency, 4%.

**Scott Bardo**

4% for the full year?

**Justus Wehmer**

Yes.

**Scott Bardo**

Okay. Very good. And just last point for me, please. So you seek to grow above the market rate again into 2020. I think you are calling the market to be in the low to mid single digits. And as we look at 2019, you have effectively outperformed the market by threefold, if you like. So what I am trying to understand, in 2020, given the product cadence and so forth, should we imagine a similar sort of pace of market share outperformance or market growth outperformance from Zeiss? Can you put 2020 into some sort of perspective versus the market for me?

**Ludwin Monz**

Well, that's now a difficult question because we usually try to understand the market dynamics, which has two components. The one is our competitive position, how strong are we relative to our competitors. And the other is the market growth, right. And now you just want one component and that's difficult to answer. So we expect, overall, the economic dynamics to slow down. The market growth will presumably come down a little bit. So I would expect that we will see that also in our numbers.

Nevertheless, we will be significantly above competition. That's our expectation. I know, well, that's quite some ambition. But we have managed to get to that point in the last year. So I hope we will be able to continue. Whether it will be the same rate and the same factor or not, I really don't know. But we will definitely be above market.

**Scott Bardo**

Very good. Thanks for taking my multiple questions.

**Ludwin Monz**

Thank you Scott.

**Operator**

And we have another follow-up question from Mr. Markus Gola from MainFirst Bank. Please go ahead with your question.

**Markus Gola**

Yes. Thank you. So my first one would be on the VisuMax and the SMILE. Could you share with us the expectations for the SMILE rollout in the U.S. for 2020? And do you think we will now see a significant acceleration here, given that it's, I think, your second year in the market? And if so, do you believe that the U.S. military could be a meaningful contributor to growth in the future? I believe in China, it's by far your most important key account, probably accounting for some 20% of consumable sales in that country, correct? And my second question is also on the VisuMax replacement cycle. The SMILE procedure has been introduced in 2012 in Western Europe, but the VisuMax machine was already sold since 2008. So is it fair to assume that Western Europe might accelerate as we move into the replacement cycle here? Thank you.

**Ludwin Monz**

Yes. Let's start with the U.S. So we have started now to place VisuMax in the U.S. We have seen nice growth in 2018/2019 and we expect that the placement of units will continue also in 2020. There will be no jump. This will be a slow process. And we have always said that and it turns out to be exactly like this, right, because we need to replace products in the market and particularly excimer lasers or flat cutters, femtosecond flat cutters, which are out there with VisuMax. And that's a very hard economic decision for our customers, right.

And they simply ask the question, how much can I increase my revenues with SMILE? And that is a slow process. That's what I am trying to say. And so we should not expect a jump here. What we saw in Asia and I really have the very, say, feeling that it's the same in the U.S. What we saw in Asia is that in the first phase, when we just had some relatively small installed base of VisuMax, in that first phase, it was about building trust. It was building trust with the surgeons.

And then what follows the trust is the trust of the patients, right. The patients actually see, oh, this is a safe procedure. It's a procedure that has benefits compared to previous procedures. And then things start to accelerate, right. Then some peer pressure under the surgeons starts and there's by word of mouth, the SMILE procedure becomes more popular. So that's the dynamics which will hopefully and presumably, start in the U.S. and it will be a slow and continuous process, right.

Regarding U.S. military, you are right. The U.S. military plays an important role because the requirements of the U.S. military are very high, right. They are doing their own trials. And they are using SMILE already. So that might help, right. And yes, you are right, that U.S. military plays an important role. That's clear because everybody looks at what they are doing because their requirement is also high.

Replacement cycle of VisuMax. Well, with the SMILE procedure, we are alone in the market, right. As you might know, there are one or two companies who started talking about, well, similar products or similar approaches, but there's very little known about this yet and I wouldn't expect that there will be a very short term direct competition here. So we have to make up our mind about the replacement cycle.

And if you look at the equipment sales, so we have two components of our refractive business, it's the equipment and it's the consumables. The equipment, actually, is only a small part of that. I shouldn't say small, it's significant. But the exciting part, at least, is the consumable part. And also from that perspective, I wouldn't rush also here, the replacement cycle.

This is a very different situation from what we have, for example, in the diagnostics market, where there is huge competition and every ophthalmic show, we see new competitors popping up. And that's very different in the refractive laser arena. Obviously, we are working on improvements and there's no doubt. And of course, at some point in time, there will also be a new product and we will start a replacement cycle.

What's also public and I can repeat that here is that we are working on hyperopia for SMILE. That's difficult to make, but we are on our way. And that will be one significant feature that will strengthen our position even if there might be a competition. So sorry, I can't give specifics. That's obvious for competitive reasons.

**Markus Gola**

No, it's fine. It was a very good answer. Thank you.

**Operator**

So at the moment there seems to be no further questions. [Operator Instructions]. And the next question comes from Thomas Schießle from EQUI.TS. Go ahead with your question, please.

**Thomas Schießle**

Thank you for taking my question. Actually, it's one question on the diagnostic markets. And could you shed a little bit more light on how you will fight against this continuous pressure from competition? Is digitalization really the golden bullet? Or is it more we have to look for? Thank you.

**Ludwin Monz**

That's a difficult question because honestly, this is extremely competitive and so I don't want to spread exactly what we are doing here. Please understand that. I can only give you a very high level answer to this. This is a very dynamic market. It's dynamic in many regards. It's not only that there are lots of competitors. It's also that the requirements of the market are changing very much. And the answer to these changing requirements is not an easy one.

So it's not only one ingredient that will be needed to actually fulfill the requirements and the demands of the market. We believe that we have a very good understanding of what's going on. And we believe that we have really identified opportunities here. And that's what we are investing in. There is no such thing like a silver bullet. You are absolutely right. It's a combination of many things. But we try to address everything at once. That's what we are doing. But please understand, I cannot give specifics here.

**Thomas Schießle**

Okay. An additional question on innovation. How do you tackle the efforts to be more, get more speed into the digitalization? Do you need to get more people from this space on your payroll? And is this European-centric effort? Or will you spread those activities, the R&D digitalization, across the globe to California or to China? Or how will you cope with this?

**Ludwin Monz**

Yes. Speed is certainly of essence in digitalization, no doubt. And I believe it's on the one hand, the concept and what exactly we are doing. I believe we figured that out. When it comes to implementation, it's really about resources. You are right. We have built up significant resources in Germany, in particular. And as you might have heard the Zeiss Group, it's not Meditec, but the Zeiss Group just acquired a software company. That's a third party from a Meditec perspective. But it's definitely a resource that we can use.

But you are right, it is the critical ingredient to speed resources, know-how and the approach we are taking here is clearly a global one, right. Our head of digital, who has just joined the company, really high caliber who has a deep, deep understanding of digitalization and he has a history in the Silicon Valley. And what we will clearly do is utilize our presence in the Silicon Valley also for digitalization. I mean, we are there, right. So we want to really benefit also from our presence in the Silicon Valley.

We will also build up people there. But obviously, we will not do everything there. So it's a mix. We will have activities in all continents. Probably not all continents, but in several continents. More than two. And Asia will clearly play a role, Europe and Americas. So that's the plan and we are in the ramp-up phase. And this is why we have announced that also our R&D cost in that area will increase.

**Thomas Schießle**

Okay. Thank you very much.

**Ludwin Monz**

Thank you Herr Schießle.

**Operator**

Ladies and gentlemen, at the moment there seems to be no further questions.

**Ludwin Monz**

Okay. So if there are no more questions, ladies and gentlemen, I would like to thank you for your interest in Carl Zeiss Meditec. I am looking forward to talking to you again after our first quarter of the new year. So in roughly three months. Have a good time. Also, that's the holiday season. So have nice holidays and talk to you next time. Bye, bye.