Carl Zeiss Meditec AG

Small/Mid-Cap: Med. Tech/Services

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Q4 to be strong but some headwinds in 2014

- **We see a strong finish to the year:** Carl Zeiss reports FY13 results on 5 December. We expect a strong close to the year in both Microsurgery (Q413: +17% cc) and Ophthalmic Systems (Q413: +15% cc), which should help drive the group towards the upper end of its FY13 €880m-910m revenue target (our estimate: +7% cc to €904m). Profitability is also likely to be healthy, with EBIT +9% to €134m (margins +50bp yoy). Furthermore, we believe the bottom line will benefit from significant FX gains (carrying on from the 9M trend) – which should see EPS +32% to €1.16, by our estimates.
- **Greater headwinds likely in 2014:** Management is unlikely to set official prospective guidance at this juncture, although we are expecting a relatively cautious tone into 2014 – particularly with respect to margins. Microsurgery is a highly profitable division (9M margins: 26%), and it is unclear whether part of the strength in 2013 was simply due to stocking effects that are set to unwind into 2014. This could mean that more favourable growth stems from its less profitable businesses (Ophthalmic Systems and Surgical Ophthalmology), which could weigh on group mix. Combined with headwinds from the Japanese yen (Japan accounts for 16% of sales) as well as the step-up in brand rights pay away (3% impact on earnings), we see a good possibility that group margins could break the five-year trend and be down in 2014.
- **Likely to keep its powder dry for M&A:** Carl Zeiss has a track record of paying a special dividend during periods of excess liquidity (observed in both 2007 and 2010). For 2013, one could argue that a special dividend is also a reasonable expectation; however this time around we see it more likely that the company retains cash to strengthen its M&A firepower (deals of more than €100m are less likely in our view).
- **The competitive environment is heating up:** One obvious development coming out of this year's ESCRS* conference were the attempts from some players to compete directly against Carl Zeiss – most noticeably Alcon's venture into microsurgery (long Zeiss' stronghold). We believe Carl Zeiss will respond by stepping up its R&D to maintain technological prowess. We discuss this dynamic further in our note, and highlight why we think it likely that management will stick to its 2015 margin target of 15%, despite all but achieving this target two years early.

Y/E 30.09., EURm	2012	2013E	2014E	2015E	2016E	2017E	2018E
Sales	862	904	965	1,026	1,088	1,150	1,216
EBITDA	141	153	159	177	191	205	219
EBIT	123	134	139	155	168	181	194
Net profit	72	95	92	104	114	123	133
Y/E net debt (net cash)	-346	-364	-415	-473	-536	-605	-679
EPS (reported)	0.88	1.16	1.13	1.28	1.40	1.52	1.64
DPS	0.40	0.50	0.45	0.51	0.56	0.61	0.66
Gross margin	53.5%	54.1%	53.6%	54.0%	54.3%	54.5%	54.6%
EBITDA margin	16.3%	16.9%	16.5%	17.2%	17.5%	17.8%	18.0%
EBIT margin	14.3%	14.8%	14.4%	15.1%	15.5%	15.7%	15.9%
Dividend yield	1.7%	2.1%	1.9%	2.1%	2.4%	2.6%	2.8%
EV/sales	1.8	1.7	1.6	1.5	1.4	1.4	1.3
EV/EBITDA	11.1	10.2	9.8	8.9	8.2	7.6	7.1
EV/EBIT	12.7	11.7	11.3	10.1	9.3	8.6	8.1
P/E	26.8	20.4	21.0	18.6	17.0	15.6	14.5
Cash flow RoEV	5.9%	4.5%	7.1%	7.4%	8.1%	8.8%	9.5%

*Source: Company data, Berenberg. * European Society of Cataract and Refractive Surgeons*

Hold

Current price	Price target
EUR 23.73	EUR 25.00

28/11/2013 XETRA Close

Market cap	EUR 1,929m
Reuters	AFXG.DE
Bloomberg	AFX GY

Changes made in this note

Rating	**Hold** (no change)
Price target	**EUR 25.00** (no change)

Chg	2013E old	2013E Δ%	2014E old	2014E Δ%	2015E old	2015E Δ%
Sales	895	1.0	953	1.2	1,022	0.4
EBIT	129	3.6	140	-0.7	156	-0.4
EPS	1.11	5.0	1.16	-2.4	1.31	-2.4

Source: Berenberg estimates

Share data

Shares outstanding (m)	81
Enterprise value (EURm)	1,565
Daily trading volume	55,000

Performance data

High 52 weeks (EUR)		27
Low 52 weeks (EUR)		21
Relative performance to	SXXP	MDAX
1 month	0.5 %	-0.1 %
3 months	-6.7 %	-7.7 %
12 months	-16.8 %	-34.1 %

Key data

Price/book value	1.9
Net gearing	-35.4%
CAGR sales 2012-2018	5.9%
CAGR EPS 2012-2018	10.8%

Business activities:
Ophthalmologic medical technology

Non-institutional shareholders:
Carl Zeiss AG 65%

28 November 2013

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Forecast changes

We adjust our forecasts to reflect the latest currency swings and our fine-tuned assumptions ahead of the FY13 results. The net effect of these changes is a c4% upgrade to our 2013 EBIT forecasts and a c5% increase to our bottom-line estimates. For 2014 and beyond we take a slightly more conservative stance on our EBIT margin forecast which results in c2-3% downgrades.

Summary of forecast changes

		2012/13 E	2013/14 E	2014/15 E	2015/16 E	2016/17 E
Net sales	New	903.8	965.1	1,026.1	1,088.5	1,150.4
	Old	894.7	953.3	1,021.9	1,088.3	1,154.7
	% difference	1.0%	1.2%	0.4%	0.0%	-0.4%
Gross profit	New	489.2	517.6	554.4	591.4	627.3
	Old	480.7	507.4	548.0	586.9	625.0
	% difference	1.8%	2.0%	1.2%	0.8%	0.4%
EBIT	New	134.0	139.1	155.4	168.4	180.9
	Old	129.4	140.1	156.1	171.5	185.2
	% difference	3.6%	-0.7%	-0.4%	-1.8%	-2.3%
EBIT margin	New	14.8%	14.4%	15.1%	15.5%	15.7%
	Old	14.5%	14.7%	15.3%	15.8%	16.0%
	% difference	36bp	-28bp	-13bp	-29bp	-31bp
EBITDA	New	152.8	159.1	176.7	191.0	204.8
	Old	148.0	159.9	177.3	194.1	209.2
	% difference	3.2%	-0.5%	-0.3%	-1.6%	-2.1%
Atrributable Net Profit	New	94.5	92.0	103.7	113.7	123.3
	Old	90.0	94.3	106.3	117.0	126.5
	% difference	5.0%	-2.4%	-2.4%	-2.8%	-2.5%
EPS	New	1.16	1.13	1.28	1.40	1.52
	Old	1.11	1.16	1.31	1.44	1.56
	% difference	5.0%	-2.4%	-2.4%	-2.8%	-2.5%
CFO	New	69.9	111.5	115.9	127.1	138.4
	Old	80.7	111.9	117.0	130.4	141.9
	% difference	-13.4%	-0.4%	-1.0%	-2.5%	-2.4%

Source: Berenberg estimates, Carl Zeiss Meditec

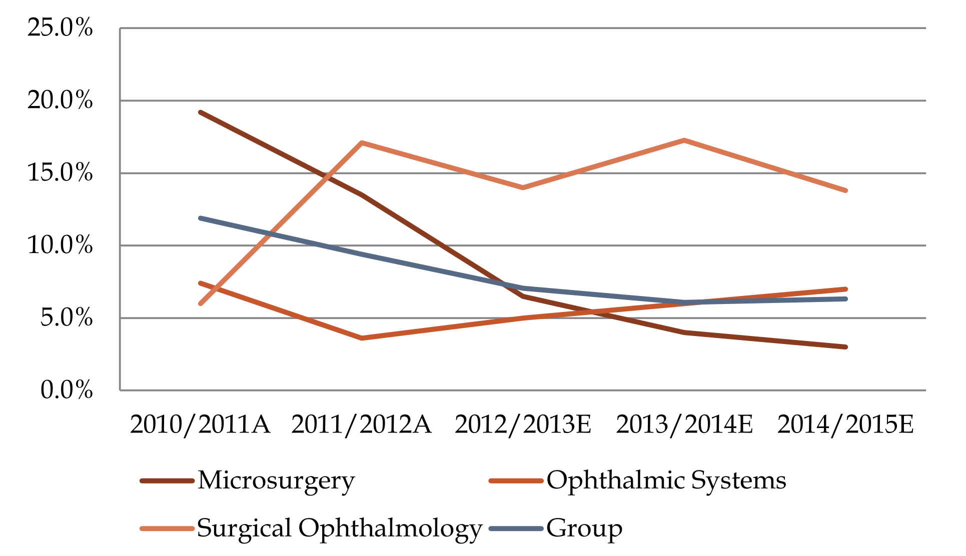
2014 outlook

For 2014 we see further healthy development of the top line, driven by strong demand for intraocular lenses (IOLs) and decent demand for capital equipment. This is mainly a result of continued investments by public and private ophthalmic centres, particularly in Latin America and Asia-Pacific (40% of sales and growing clear double digits).

We believe the company's 2013 margins have benefited from a very favourable product mix in Microsurgery, most notably strong demand for high-end products in Japan (Carl Zeiss's most profitable region). We expect the mix in Microsurgery to normalise, putting pressure on margins for 2014. We also note the accelerated competition from Novartis which will likely act as a further headwind. Between this and the worsening mix, we believe it is possible that margins will contract somewhat for the group next year (we currently only forecast a relatively modest 40bp contraction).

IOLs should continue to perform well with Carl Zeiss continuing to gain traction with its premium lens product, AT Lisa Tri. The recent launch of its new trifocal toric solution should add to this growth (discussed further in this note). We believe that margins for IOLs have progressed well in 2013, and expect greater operating leverage in 2014 and beyond. Nonetheless, we estimate that the profitability of these products is less than 15%, as compared to Microsurgery which we estimate will close 2013 with 26% margins.

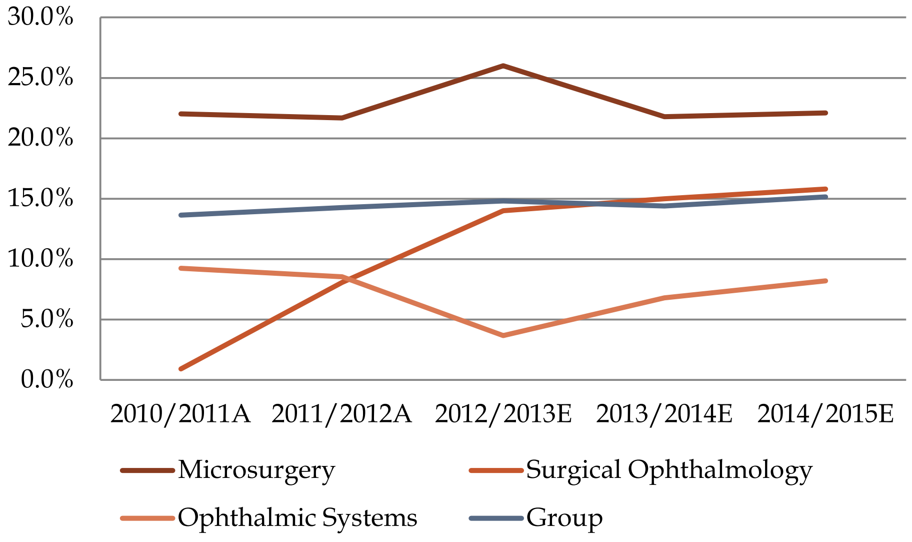
Carl Zeiss organic growth



Source: Berenberg estimates, Carl Zeiss Meditec

We are expecting a better year for Ophthalmic Systems in 2014. Growth and margins have been affected by competition to optical coherence tomography (OCT) and the launch phasing of new products. We still believe that Carl Zeiss will face competitive headwinds in this segment (discussed in more detail in this note). However, with momentum behind its new OCT products, and helped by the recent launch of its Mel 90 Excimer laser, we see a good opportunity for mid-single digit top-line growth and meaningfully better margin development.

Carl Zeiss margin development



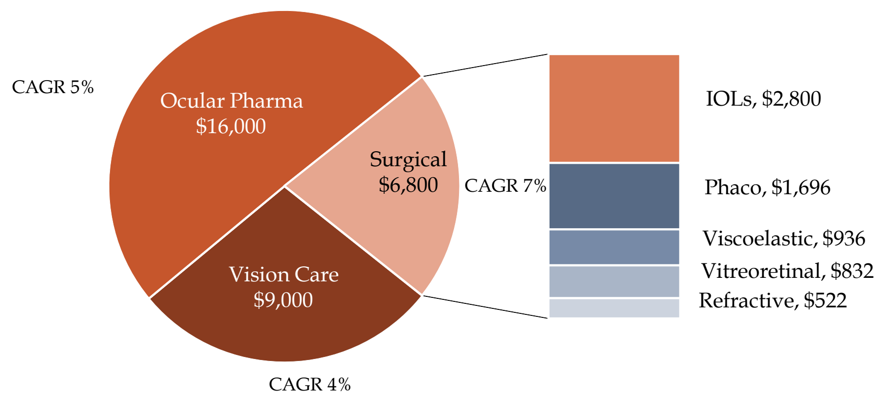
Source: Berenberg estimates, Carl Zeiss Meditec

ESCRS wrap

The ESCRS conference took place on 5-9 October in Amsterdam. The event is Europe's largest eye care conference – attracting over 6,000 leading ophthalmologists from across the globe. On top of being a leading forum to discuss clinical advances, it is also a key industry platform for companies to showcase their latest product offerings.

Coming out of the event, the drivers for the c$6.8bn surgical ophthalmology market remain clear, in our view. As the elderly population increases, so too does demand for corrective surgery for age-related eye disorders (such as cataracts and glaucoma). Patients typically value their eye health very highly, often willing to pay a premium for the latest and most pioneering treatments. This continues to fuel innovation within the sector – further supporting healthy market growth of 7-8% by our estimates.

The $32bn global eye care market ($m)



Source: Berenberg estimates, Carl Zeiss Meditec, Alcon

At the same time, certain sub-segments of the market are becomingly increasingly crowded, and in many cases firms are ramping up R&D to differentiate themselves.

Within this note, we touch upon some of the key developments coming out of this year's conference with particular focus on growth dynamics across Carl Zeiss's three core divisions.

Carl Zeiss is still taking market share in IOLs

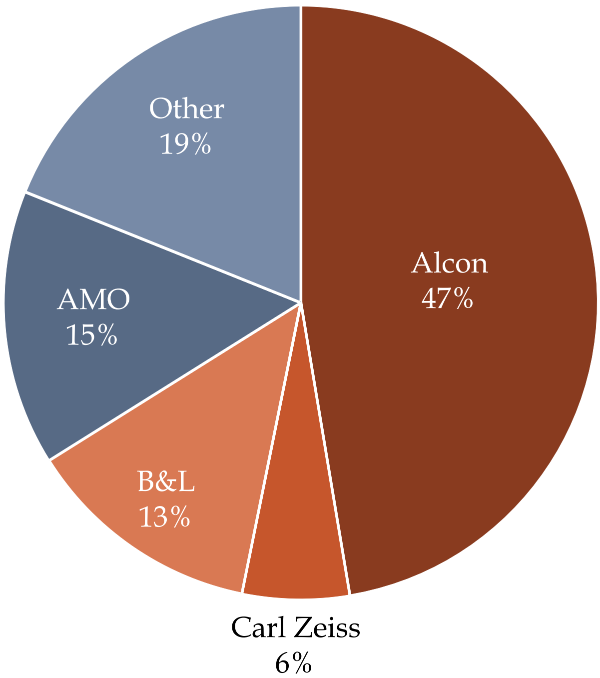
Cataracts are a leading cause of blindness and visual impairment. Typically, when a patient ages, lenses become opaque (forming cataracts) and vision is obscured. Surgery is the only viable solution and involves extracting the old opaque lens and replacing it with an artificial IOL. Success rates for cataract surgery are high (c90%), and it has become one of the most common surgical procedures globally.

The IOL industry has seen explosive growth over the past 10 years and is today a c$2.8bn market, by our estimates. We expect this strong growth to continue over the coming five years (our estimate: c7% CAGR to 2018E), driven by increased patient volumes, increased detection and a favourable mix shift towards Advance Technology IOLs (ATIOLs).

Indeed, with respect to the latter point, at this year's conference we spoke to Murthy Simhambhatla, Senior Vice President of Abbott Medical Optics (AMO), who highlighted that despite premium lenses currently representing only 12-14% of US volumes, this segment is currently responsible for c50% of industry revenues. Over time, he sees no reason why the penetration of ATIOLs in the US should not at least double from here.

Similarly, Novartis at its November 2013 capital markets day outlined its strategy to increase the penetration of toric IOLs (note that solutions for astigmatism range from 3x-7x the price of a standard mono-focal lens). Around 40% of cataract patients are said to have more than 1 dioptre of astigmatism, yet penetration of the clinically-eligible patient set is said to be only c17% in the US and less than 10% in Europe.

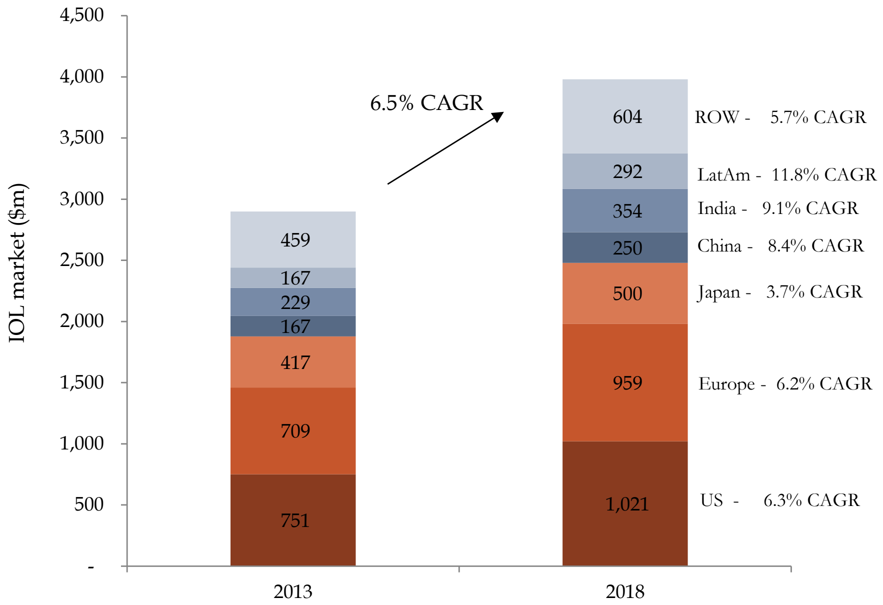
The $2.8bn IOL market



Source: Berenberg estimates, Carl Zeiss Meditec, Alcon

Carl Zeiss has around a 6% share of the global market by our estimates, with perhaps an 11% market share in the countries it currently serves (it is absent from the larger US and Japanese markets). We believe the company continues to take share in this segment, growing at least twice the rate of the market leader Alcon. In our view, Carl Zeiss can continue to grow its IOL business by healthy mid-teen rates in 2014; however, we are closely monitoring Alcon's efforts to strengthen its lens portfolio in Europe, which could provide some additional headwinds in 2015 and beyond in our view.

IOL market growth by geography

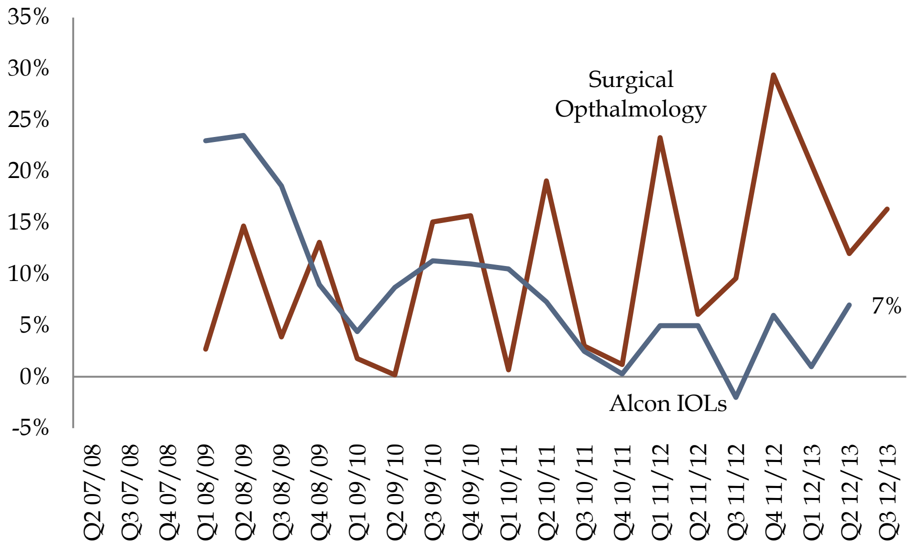


Source: Berenberg estimates, Carl Zeiss Meditec

The following are key to Carl Zeiss's current success.

- Carl Zeiss has excellent lens technology. Its AT Lisa Tri lens continues to be very well received by the market, and along with PhysIOL (a private Belgian company) dominates the trifocal segment. At this year's ESCRS event, Carl Zeiss launched its toric trifocal solution, which we now believe gives it one of the most comprehensive lens ranges in the industry.
- The company also has an elegant pre-loaded delivery system called BLUEMIXS 180, which grants it the ability to deliver its IOLs in an incision as small as 1.8mm. Minimising incision size is important because it reduces damage to the corneal endothelium and lowers the probability of surgically-induced astigmatism. Interestingly, several players, most notably Alcon, are still lacking a sub-2mm solution and as such are currently absent from this growing segment of the market.
- Carl Zeiss is starting to successfully bundle its offerings to maximise sales potential (see our notes on its cataract suite on page 9).

Surgical ophthalmology growth



Source: Berenberg estimates, Carl Zeiss Meditec

Competitive dynamics

- **Alcon:** The company continues to have a commanding market position with its core AcrySof IOL platform. The current marketing push is clearly orientated around its premium-priced multifocal and recently launched multifocal toric solutions. Alcon has acknowledged, however, that it is weak in the sub-2mm segment and intends to launch a new range of aspheric lenses called Intrepid which are designed for a smaller incision size. The launch is targeted for H1 2014 in Europe and is hoped to work in combination with the electronic delivery system on its new phaco machine, Centurion.

- **Abbott:** AMO continues to focus on its range of Tecnis IOLs, with particular marketing emphasis on its new multifocal toric one-piece aspheric solution. The company continues to back its Synchrony silicone-accommodating IOL technology (acquired in 2009 as part of the $400m Visiogen acquisition).

- **Valeant/Bausch + Lomb (B+L):** B+L has recently introduced its TRULIGN Toric solution which claims to differentiate itself by offering improved vision across a natural range of focus, including uncorrected near, intermediate and distance vision. This is arguably B+L's first lens offering some multifocality (outside of its Crystalens-accommodating lens technology). Last year, the company launched its monofocal toric solution called enVista Toric – its first hydrophobic "glisten-free" acrylic lens for astigmatism.

- **Other players:** Several other smaller niche players continue to build upon their capabilities and offerings in IOLs. The two most noticeable niche players at this year's ESCRS conference were as follows.

    - **Rayer:** A private UK company with an impressive, broad range of lenses under the "Flex" branding umbrella – including multifocal (m-Flex), toric (t-Flex) and multifocal toric (m-Flex T) lenses. The marketing push at the ESCRS conference focused on its 2.2mm pre-loaded aspheric IOL solution called C-flex.

- **Hoya:** A public ophthalmology company listed on the Tokyo Stock Exchange. The marketing push from Hoya this year included its aspheric IOL range and its iSert® 230 preloaded IOL system (2.4mm incision).

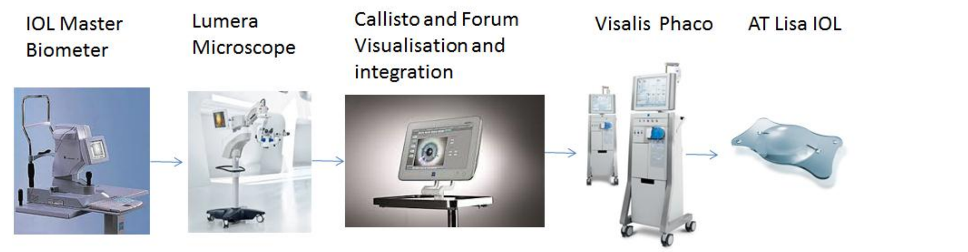
Competition stepping up in cataract surgery

Carl Zeiss has been a pioneer in developing the modern-day cataract suite. Over the last five years, it has successfully built on its core strength in ophthalmologic surgical microscopes and biometry to present a core offering of inter-linked solutions, including visualisation, data archiving, analytical software, phacoemulsifaction devices and, of course, IOLs.

Despite having incredibly pioneering lenses, in our view, one of the major advances that Carl Zeiss has driven in recent years is integrating eye assistance software within its surgical microscope, and externally through the Callisto visualisation system. This has allowed surgeons to superimpose a digital axis onto the patient's eye aiding precise alignment of toric ATIOL solutions, in which alignment fidelity is paramount. This has been a major advance over the rather cumbersome practice of manually marking a patient's eyeball, and we believe has been a significant driver of Carl Zeiss's Microsurgery outperformance in recent years.

Furthermore, the company has developed perhaps the most advanced wireless integration and analysis platform in the industry, called Forum.

Carl Zeiss cataract suite



Source: Berenberg estimates, company data

At this year's ESCRS conference, Carl Zeiss extended its capabilities further by adding additional functionality to its market-leading IOLMaster 500 system to include reference image capture. An image of the eye is taken along with the standard keratometry measurement; this image is then transferred to the Callisto and is used for intra-operative matching with the live eye image.

IOLMaster 500

Source: Berenberg estimates, Carl Zeiss Meditec

Novartis's Alcon is entering the market

The most noticeable development coming out of this year's conference is that Novartis's Alcon business has decided to compete head-on with Carl Zeiss in the areas of surgical microscopy and eye visualisation technologies.

Alcon has the strongest global position in IOLs and also has a 55-60% share of the phacoemulsification market, by our estimates. In addition, Alcon is a first-mover in femtosecond laser technology for cataract procedures and continues to drive its LenSx platform forwards, albeit off a small base.

The move into surgical microscopy and visualisation is a little surprising but understandable. As Carl Zeiss has started to take share in IOLs and bring forward its own phaco offering, Alcon has responded by taking the fight directly to elements of Carl Zeiss's capital business.

From a technological standpoint, we believe that Alcon's offering in surgical microscopy is still somewhat rudimentary. However, given its marketing clout and vast R&D resources to develop and enhance technologies, we believe its progress in this market needs to be monitored closely.

Alcon's new refractive surgery platform launched at the ESCRS conference

Verion Image Guided System | LenSx Laser | Q-Vue Ophthalmic Microscope | Centurion system

Source: Berenberg, Alcon

For the sake of completeness, we briefly describe some of the newly introduced products from Alcon.

VERION™ Image Guided System

The technology for this system largely stems from the acquisition of SensoMotoric Instruments' ophthalmology business in 2012.

Much like Carl Zeiss' Callisto eye, VERION is used to plan and guide live surgery via imaging. Its system is composed of two units: the reference unit and the digit marker. The reference unit measures keratometry, pupillometry and other optical parameters. It is also programmed to pick up any scleral vessels, limbus, pupil and iris features which may affect the surgery.

The digital marker displays patient information and images from the reference unit. This marker has an overlay feature to see where incisions have been made versus planned incisions. In addition, it allows for the documentation of data which is useful in future procedures, and importantly it eliminates the need for manual eye markings for toric surgery.

An additional feature of VERION is that it has a lens calculation function, allowing the surgeon to determine what the result would likely be depending on the power and characteristic of the lens they use.

An obvious disadvantage of VERION is that it still requires data transfer and manual upload via a USB pen. This is still a slightly clunky approach and clearly several years behind Carl Zeiss's wireless forum data integration approach.

In sum, while there are some useful features with the VERION system, we do not believe it is revolutionary and are not overly concerned by it as a competitive threat to Carl Zeiss, at least out to 2017.

LuxOR LX3 with Q-VUE ophthalmic microscope

The launch of the Q-VUE ophthalmic microscope in Europe represents Alcon's first ever product in this sphere.

We believe the technology, which originates from the 2012 acquisition of Endure Medical Systems, has several competitive features which should allow Alcon to market in the mid-tier segment of the industry.

One of the product's key features is that it provides a red reflection zone up to 6x larger than that of traditional microscopes. However, versus the OPMI Lumera 700, this is a less impressive claim given that it also offers a significantly larger red zone than traditional microscopes. Other benefits include a full colour touchscreen control panel, video recording and an assistant scope.

Carl Zeiss dominates the ophthalmic surgical microscope market (with a c65-70% share) and we expect that it will continue to lead the market in innovation and performance scopes. While we do not believe that Alcon's system offers anything particularly ground-breaking, we seek further clarity from Carl Zeiss on how it intends to react to a step-up in competition in the middle market.

CENTURION® Vision System

This is Alcon's newest ultrasonic phacoemulsifier platform and is the successor to the market-leading Infiniti model (launched in 2003).

To us, one of the unique features of Alcon's Centurion system is the active fluidics technology. This is an automated system which optimises anterior chamber stability. This means surgeons can proactively set and maintain intra-ocular pressure (IOP) at a desired level rather than continuously adjust according to circumstance, which is currently the case. This gives greater IOP control during the procedure than gravity fluidics or fixed pressure irrigation. For the surgeon, this eliminates the need to manually adjust fluid pressure. To us, this is a clear incremental benefit for surgeons and should help the Centurion system gain market penetration.

Another key feature of the Centurion system is its balanced energy technology. This uses torsional oscillatory technology from the OZil probe used in the Infiniti system which has been advanced for this model, and also uses the new Intrepid Balanced Tip probe (for its new minimally invasive lenses). The new OZil IP includes features which reduce fluid consumption during surgery as well increase follow-ability, which reduces repulsion associated with the jackhammer effect of longitudinal ultrasound.

In our view, the Centurion system represents a compelling advance over the Infiniti system, which should secure Alcon's market dominance in this market for years to come. Alcon is a world expert at bundling its product offerings across the spectrum. With an improved and extended cataract suite, we will be watching for any evidence of market share shifts and pricing pressure.

Competition in Ophthalmic Systems is manageable

Carl Zeiss's Ophthalmic Systems business comprises several different product categories, including biometers, fundus imaging cameras, refractive lasers and OCT devices. While the company has encountered some modest competition in the biometry segment (largely from Haag-Streit) and the camera segment (Cannon, Kowa), these threats have been manageable for Carl Zeiss and are offset by new product launches such as the Mel 90 Excimer laser, VisuMax and PRESBYOND.

OCT is quite a significant component of the Surgical Ophthalmology division by our estimates (around 35-40%). Throughout 2013 it has faced some competition, which in the first half of the year meaningfully affected its growth and profitability.

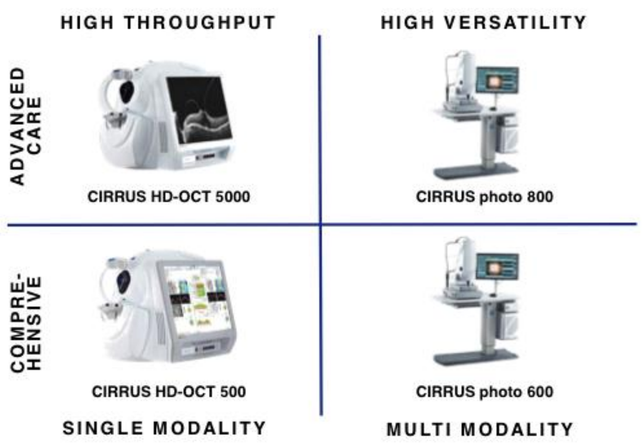
Following on from our industry discussions at the ESCRS conference, it appears to be the case that competition in OCT has intensified.

At the very high end of the market, we believe that Heidelberg Engineering (a private company) continues to take share with its SPECTRALIS system, a high-tech instrument which combines confocal scanning laser fundus imaging and spectral domain OCT imaging. More recently, the company made a meaningful technological leap by integrating ultra wide field technology with OCT (SPECTRALIS HRA plus an OCT model).

At the mid-to-low end of the market competition has been more fierce. Cannon continues to do well with its OCT HS100 system – the fruits of its acquisition of Optopol. This system has some nice features and continues to claim to be the first fully-automatic OCT system on the market, with automated functions such as eye alignment and tracking. In addition, Topcon has had incredible success offering a low-cost fully-automated OCT device which also integrates a fundus imaging camera. This platform, called the 3D OCT-2000 System, has allowed Topcon to dominate the growing retail optician OCT market (with a more than 75% share in the UK, for example), and we believe it is in a good position to take market share from price-conscious customers in other European countries and the US. We believe that Carl Zeiss has been slow off the mark to bring forward a price-competitive device for the mid-tier market in OCT. Nonetheless, it has refreshed its product offering in 2013 which should allow it to plug the gap and further grow its business in the near term, until it can further engineer lower cost models.

To address the high-end component, Carl Zeiss launched its Cirrus photo 800 and 600 multi-modality lines. These systems combine the functions of standard Cirrus OCT technology with full-feature fundus imaging. This is still an advanced offering and grants practitioners a powerful tool to correlate data from the OCT and create thickness and layer maps from fundus, and or angiography, in one imaging session without the need to move the patient.

New Cirrus OCT family



Source: Berenberg estimates, Carl Zeiss Meditec

Carl Zeiss has also optimised its single module offerings. Both the Cirrus HD-OCT 5000 and 500 have been updated to feature a new modernised OCT platform, with faster processing and OCT camera systems. Cirrus 5000 is a high-end unit and has the added functionality of FastTrac – a unique retinal tracking feature that enables high resolution B-Scans to be captured in identical locations from visit to visit. This feature should allow pathology evolution to be accurately tracked over time.

Valuation

Our price target of €25 is based on the shares trading on a cash-adjusted 2014 P/E of 18x. We acknowledge this could be seen as a full multiple for our expected 7% earnings growth CAGR out to 2018 (9.7% CAGR 2014E-18E). However, we believe it is warranted owing to the company's solid structural defensive growth opportunities, impressive ROCE and ability to drive incremental and often underappreciated innovation. Shares are currently trading at relatively high multiples and we remain of the view that the market is yet to absorb prospects of a flattish earnings growth profile in 2014. With limited upside potential at this juncture, we remain Hold rated.

On a DCF basis we derive fair value at €28 per share, which lends support to our current price target.

DCF valuation summary

(€m)	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	122.9	134.0	139.1	155.4	168.4	180.9	193.9	207.5	221.5
Tax	39.8	47.6	42.0	47.2	51.6	55.9	60.4	64.7	69.5
NOPAT	**83.1**	**86.4**	**97.0**	**108.2**	**116.8**	**125.0**	**133.5**	**142.8**	**152.0**
D&A	17.9	18.8	20.0	21.3	22.6	23.9	25.3	26.7	28.0
Working capital	-0.2	-45.9	-8.6	-17.5	-18.1	-18.3	-19.7	-20.3	-19.8
Capex & Intangibles	-15.3	-18.9	-20.2	-21.4	-22.7	-24.0	-25.4	-26.8	-28.2
Free cash flow	**85.6**	**40.4**	**88.4**	**90.6**	**98.5**	**106.6**	**113.6**	**122.3**	**132.1**
Discounted cash flows	**82.3**	**38.8**	**78.7**	**74.7**	**75.2**	**75.4**	**74.4**	**74.2**	**74.2**

Sum of discounted cash flows	1,947.9
Enterprise value	**1,947.9**
Net Cash & Equiv	364.5
Market value	**2,312.4**
No. of shares	81.3
DCF Valuation	**€ 28.4**

Discount Rate	8.0%
Terminal growth rate	2.50%

Source: Berenberg estimates, Carl Zeiss Meditec

Financial summary

Divisional model

Sales development (€ m)	2010/2011A	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E	'12-'18E CAGR
Microsurgery	**321**	**378**	**395**	**410**	**423**	**440**	**457**	**475**	**3.9%**
Reported Growth	19.7%	17.8%	4.3%	4.0%	3.0%	4.0%	4.0%	4.0%	
Organic growth	19.2%	13.5%	6.5%	4.0%	3.0%	4.0%	4.0%	4.0%	
FX impact	0.4%	3.8%	-2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	
Acquisition Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
% of Total	42.3%	43.9%	43.7%	42.5%	41.2%	40.4%	39.7%	39.1%	
Ophthalmic Systems	**346**	**376**	**387**	**410**	**438**	**467**	**495**	**525**	**5.7%**
Reported Growth	7.2%	8.7%	2.8%	6.0%	7.0%	6.5%	6.0%	6.0%	
Organic growth	7.4%	3.6%	5.0%	6.0%	7.0%	6.5%	6.0%	6.0%	
FX impact	-0.2%	4.9%	-2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	
Acquisition Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
% of Total	45.6%	43.6%	42.8%	42.5%	42.7%	42.9%	43.0%	43.1%	
Surgical Ophthalmology	**92**	**108**	**123**	**145**	**165**	**182**	**198**	**216**	**12.3%**
Reported Growth	7.1%	17.5%	13.9%	18.1%	13.8%	10.3%	9.0%	9.0%	
Organic growth	6.0%	17.1%	14.0%	17.3%	13.8%	10.3%	9.0%	9.0%	
FX impact	1.0%	0.4%	0.9%	0.9%	0.0%	0.0%	0.0%	0.0%	
Acquisition Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
% of Total	12.1%	12.5%	13.6%	15.0%	16.1%	16.7%	17.2%	17.8%	
Total Sales	**759**	**862**	**904**	**965**	**1,026**	**1,088**	**1,150**	**1,216**	**5.9%**
Reported growth	12.1%	13.6%	4.9%	6.8%	6.3%	6.1%	5.7%	5.7%	

Source: Berenberg estimates, Company reports

EBIT development (€m)	2010/2011A	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E	'12-'18E CAGR
Microsurgery	**71**	**82**	**103**	**89**	**93**	**98**	**102**	**106**	**4.4%**
Margin	22.0%	21.7%	26.0%	21.8%	22.1%	22.2%	22.3%	22.4%	
Ophthalmic Systems	**32**	**32**	**14**	**28**	**36**	**41**	**45**	**49**	**7.4%**
Margin	9.2%	8.6%	3.7%	6.8%	8.2%	8.7%	9.1%	9.4%	
Surgical Ophthalmology	**1**	**9**	**17**	**22**	**26**	**30**	**34**	**38**	**27.8%**
Margin	0.9%	8.1%	14.0%	15.0%	15.8%	16.6%	17.1%	17.6%	
Total EBIT	**104**	**123**	**134**	**139**	**155**	**168**	**181**	**194**	**7.9%**
% Sales	13.6%	14.3%	14.8%	14.4%	15.1%	15.5%	15.7%	15.9%	

Source: Berenberg estimates, Company reports

P&L

Income statement (€ m)	2010/2011A	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E	'13-'18E CAGR
Net sales	**759**	**862**	**904**	**965**	**1,026**	**1,088**	**1,150**	**1,216**	**6.1%**
growth	*12.1%*	*13.6%*	*4.9%*	*6.8%*	*6.3%*	*6.1%*	*5.7%*	*5.7%*	
Cost of goods sold	344	401	415	447	472	497	523	552	5.9%
Gross profit	**415**	**461**	**489**	**518**	**554**	**591**	**627**	**664**	**6.3%**
Margin	*54.7%*	*53.5%*	*54.1%*	*53.6%*	*54.0%*	*54.3%*	*54.5%*	*54.6%*	
Selling expenses	187	204	212	223	235	248	261	275	5.3%
Administrative expenses	40	41	45	48	51	53	56	60	5.7%
Research and development costs	84	93	98	106	113	120	127	134	6.4%
Other Operating Income/ Expense	-0.4	0.0	-0.2	0.9	-0.4	2.0	2.7	2.6	
Operating profit	**104**	**123**	**134**	**139**	**155**	**168**	**181**	**194**	**7.7%**
Margin	*13.6%*	*14.3%*	*14.8%*	*14.4%*	*15.1%*	*15.5%*	*15.7%*	*15.9%*	
EBITDA	**123**	**141**	**153**	**159**	**177**	**191**	**205**	**219**	**7.5%**
Margin	*16.1%*	*16.3%*	*16.9%*	*16.5%*	*17.2%*	*17.5%*	*17.8%*	*18.0%*	
Net Financial	-3	-7	14	1	2	4	6	7	
Profit after financial items	101	116	148	140	157	172	186	201	6.4%
Tax on profit for the year	29	40	48	42	47	52	56	60	4.9%
Net profit for the year	72	76	100	98	110	120	131	141	7.0%
Minority interest	5	5	6	6	6	7	7	8	6.0%
Atrributable Net Profit	**67**	**72**	**95**	**92**	**104**	**114**	**123**	**133**	**7.1%**
Weighted average no. shares	81	81	81	81	81	81	81	81	
Weighted average no. shares (diluted)	81	81	81	81	81	81	81	81	
EPS	**0.82**	**0.88**	**1.16**	**1.13**	**1.28**	**1.40**	**1.52**	**1.64**	**7.1%**
EPS (diluted)	**0.82**	**0.88**	**1.16**	**1.13**	**1.28**	**1.40**	**1.52**	**1.64**	**7.1%**
Growth	*21.9%*	*7.4%*	*31.5%*	*-2.6%*	*12.7%*	*9.6%*	*8.5%*	*8.1%*	

Source: Berenberg estimates, Company reports

P&L ratio's	2010/2011A	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E
COGS	**344**	**401**	**415**	**447**	**472**	**497**	**523**	**552**
% Sales	*45.3%*	*46.5%*	*45.9%*	*46.4%*	*46.0%*	*45.7%*	*45.5%*	*45.4%*
Selling Expenses	**187**	**204**	**212**	**223**	**235**	**248**	**261**	**275**
(as a %age of sales)	*24.7%*	*23.7%*	*23.5%*	*23.1%*	*22.9%*	*22.8%*	*22.7%*	*22.6%*
Administrative Expenses	**40**	**41**	**45**	**48**	**51**	**53**	**56**	**60**
(as a %age of sales)	*5.3%*	*4.8%*	*5.0%*	*5.0%*	*5.0%*	*4.9%*	*4.9%*	*4.9%*
Research and development costs	**84**	**93**	**98**	**106**	**113**	**120**	**127**	**134**
(as a %age of sales)	*11.1%*	*10.8%*	*10.9%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*
Income tax expense	**29**	**40**	**48**	**42**	**47**	**52**	**56**	**60**
Income tax rate	*28.4%*	*34.2%*	*32.2%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
Dividends	**24**	**33**	**41**	**37**	**41**	**45**	**49**	**53**
Dividend per share	**0.30**	**0.40**	**0.50**	**0.45**	**0.51**	**0.56**	**0.61**	**0.66**
Dividend payout ratio	*36.5%*	*45.2%*	*43.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*

Source: Berenberg estimates, Company reports

Balance sheet

Balance sheet (€ m)	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E
Inventories	143	176	179	189	199	209	221
Trade receivables	137	151	161	171	181	192	203
Accounts receivable from related parties	43	43	43	43	43	43	43
Treasury receivables	241	321	321	321	321	321	321
Tax refund claims	2	2	2	2	2	2	2
Other current assets	133	53	53	53	53	53	53
Securities	0	0	0	0	0	0	0
Cash and cash equivalents	10	26	77	134	197	266	340
Total current assets	**709**	**773**	**836**	**914**	**997**	**1,087**	**1,183**
Goodwill	122	122	122	122	122	122	122
Other intangible assets	21	12	3	-6	-17	-28	-39
Property, plant and equipment	48	55	63	70	79	87	96
Investments accounted for using the equity method	0	0	0	0	0	0	0
Investments	0	0	0	0	0	0	0
Deferred tax assets	47	52	52	52	52	52	52
Noncurrent trade receivables	4	4	4	4	4	4	4
Other noncurrent assets	11	11	11	11	11	11	11
Total noncurrent assets	**254**	**257**	**256**	**254**	**252**	**249**	**247**
Total Assets	**963**	**1030**	**1,092**	**1,167**	**1,249**	**1,336**	**1,431**
Current provisions	30	30	30	30	30	30	30
Current accrued liabilities	65	65	65	65	65	65	65
Current financial liabilities	6	6	6	6	6	6	6
Current portion of noncurrent financial liabilities	6	6	6	6	6	6	6
Current portion of noncurrent leasing liabilities	2	2	2	2	2	2	2
Trade payables	37	38	43	45	47	50	53
Current income tax liabilities	11	11	11	11	11	11	11
Accounts payable to related parties	14	14	14	14	14	14	14
Treasury payables	15	15	15	15	15	15	15
Other current liabilities	29	29	29	29	29	29	29
Total current liabilities	**214**	**215**	**219**	**222**	**224**	**227**	**230**
Provisions for pensions and similar commitments	13	13	13	13	13	13	13
Other noncurrent provisions	13	13	13	13	13	13	13
Noncurrent financial liabilities	2	0	0	0	0	0	0
Noncurrent leasing liabilities	14	14	14	14	14	14	14
Other noncurrent liabilities	8	8	8	8	8	8	8
Deferred tax liabilities	3	3	3	3	3	3	3
Total noncurrent liabilities	**53**	**51**	**51**	**51**	**51**	**51**	**51**
Share capital	81	81	81	81	81	81	81
Capital reserve	314	314	314	314	314	314	314
Retained earnings	261	323	375	442	514	592	676
Gains and losses recognized directly in equity	-1	-1	-1	-1	-1	-1	-1
Equity before non-controlling interest	655	717	768	835	907	985	1,069
Non-controlling interest	41	47	53	59	66	73	81
Total shareholders' equity	**696**	**763**	**821**	**894**	**973**	**1,058**	**1,150**
Total Shareholders' Equity And Liabilities	**963**	**1,030**	**1,092**	**1,167**	**1,249**	**1,336**	**1,431**

Source: Berenberg estimates, Company reports

Balance sheet ratios

Balance sheet Ratios	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E
Net debt/ (cash)	-346	-364	-415	-473	-536	-605	-679
Net Debt (cash) / EBITDA	-2.5x	-2.4x	-2.6x	-2.7x	-2.8x	-3.0x	-3.1x
Net Debt: Equity.	-0.5x	-0.5x	-0.5x	-0.5x	-0.6x	-0.6x	-0.6x
Net Working Capital	259	225	233	251	269	287	307
% Sales	30.0%	24.9%	24.2%	24.4%	24.7%	24.9%	25.2%
Working Capital Turnover	3.3x	4.0x	4.1x	4.1x	4.0x	4.0x	4.0x
Working Capital Days	110	91	88	89	90	91	92
Trade Receivables	137	151	161	171	181	192	203
Trade Receivables turnover	6.3x	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x
Trade Receivable days	58	61	61	61	61	61	61
Inventories	143	176	179	189	199	209	221
Inventory turnover	2.8x	2.4x	2.5x	2.5x	2.5x	2.5x	2.5x
Inventory days	130	155	146	146	146	146	146
Trade payables	37	38	43	45	47	50	53
Payables turnover	10.8x	10.8x	10.5x	10.5x	10.5x	10.5x	10.5x
Payables days	34	34	35	35	35	35	35
Cash cycle	155	182	172	172	172	172	172
Net Assets (Fixed assets + NWC)	513	482	489	504	520	536	554
RONA (EBIT)	24.0%	27.8%	28.4%	30.8%	32.4%	33.7%	35.0%
Capital Employed	363	412	419	434	450	467	484
ROCE (EBIT)	16.4%	16.4%	15.9%	16.4%	16.4%	16.3%	16.1%
ROE (Net)	10.3%	12.4%	11.2%	11.6%	11.7%	11.7%	11.6%

Source: Berenberg estimates, Company reports

Cash flow

Cash flow statement (€ m)	2011/2012A	2012/2013E	2013/2014E	2014/2015E	2015/2016E	2016/2017E	2017/2018E
Net Income	76	100	98	110	120	131	141
Income tax expenses	40	48	42	47	52	56	60
Interest income/ expenses	3	-3	-1	0	2	4	5
Results from investments accounted for using the equ	0	0	0	0	0	0	0
Depreciation and amortization	18	19	20	21	23	24	25
Gains/losses on disposal of fixed assets/financial asse	1	2	2	2	2	2	2
Impairment of financial assets	0	0	0	0	0	0	0
Result from sale of pharma business	0	0	0	0	0	0	0
Interest received	2	-2	-4	-5	-7	-9	-11
Interest paid	-2	5	5	5	5	5	6
Income tax reimbursement	1	0	0	0	0	0	0
Income taxes paid	-38	-53	-42	-47	-52	-56	-60
Changes in working capital:	0	0	0	0	0	0	0
-Trade receivables	-2	-14	-10	-10	-10	-10	-11
-Inventories	-6	-33	-3	-10	-10	-10	-11
-Other assets	-11	0	0	0	0	0	0
-Trade payables	7	1	4	2	2	2	3
-Provisions and financial liabilities	2	0	0	0	0	0	0
-Other liabilities	1	0	0	0	0	0	0
Total Adjustments	16	-30	13	6	7	8	8
Cash flow from operating activities	**92**	**70**	**111**	**116**	**127**	**138**	**149**
Investment in property, plant and equipment	-15	-18	-19	-21	-22	-23	-24
Investment in intangible assets	-1	-1	-1	-1	-1	-1	-1
Investment in plan assets pension fund	0	0	0	0	0	0	0
Proceeds from fixed assets	1	0	0	0	0	0	0
Repayment of loans	-10	0	0	0	0	0	0
Sale of pharma business	0	0	0	0	0	0	0
Acquisition of companies/businesses, net of cash acq	-13	0	0	0	0	0	0
Reduction of the share capital of investments account	0	0	0	0	0	0	0
Cash flow from investing activities	**-37**	**-19**	**-20**	**-21**	**-23**	**-24**	**-25**
Repayments of short-term debt	0	0	0	0	0	0	0
Repayments of noncurrent financial liabilities	0	-2	0	0	0	0	0
Repayments of noncurrent loans from related parties	0	0	0	0	0	0	0
(Increase)/decrease in treasury receivables	-225	0	0	0	0	0	0
Increase/(decrease) in treasury payables	9	0	0	0	0	0	0
Change of leasing liabilities	-2	0	0	0	0	0	0
Dividend payments to shareholders of Carl Zeiss Mec	-24	-33	-41	-37	-41	-45	-49
Acquisition of non-controlling interests	0	0	0	0	0	0	0
Cash flow from financing activities	**-243**	**-35**	**-41**	**-37**	**-41**	**-45**	**-49**
Effect of exchange rate fluctuation on cash and cash e	3	0	0	0	0	0	0
Net increase/(decrease) in cash and cash equivalents	-185	16	51	58	63	69	74
Cash and cash equivalents, beginning of reporting per	195	10	26	77	134	197	266
Cash and cash equivalents at year-end	**9.5**	**26.0**	**76.6**	**134.4**	**197.3**	**266.4**	**340.4**

Source: Berenberg estimates, Company reports

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Date	Price target - EUR	Rating	Initiation of coverage
18 February 13	26.00	Buy	26 October 11
15 August 13	25.00	Hold	

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Buy	40.74 %	58.62 %
Sell	17.41 %	10.34 %
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