FRESENIUS

Transcript
Conference Call FY 2018 results

February 20, 2019

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PRESENTATION

Markus Georgi: Thank you, Good morning to everyone joining us on the line today. I'm joined on the call today by Stephan and Rachel. We'll start the call with some prepared remarks and then proceed to Q&A. For the Q&A session, I would like to ask you to limit your -- the number of your questions to allow us to take as many questions as we can.

As always, before we begin, I would like to remind you that forward-looking statements and the disclaimer on Page 2 of today's presentation. And without any further ado, I will pass the call to Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon, good morning, warm welcome. Thanks for joining us. As always, we appreciate your interest in our company. Our overriding aim for this call today is to confirm and to specify our statements from December.

Markus has pointed out the safe harbor language to you. So let's move right to Page 3. And there, you have a short summary of 2018 and highlights of our expectations for this year and beyond.

Starting with 2018, admittedly, not all went exactly as planned. Specifically, Helios Germany and Fresenius Medical Care fell short of original expectations. But despite quite few challenges, we yet again delivered on our group sales and earnings targets and achieved the 15th consecutive record year, demonstrating the advantages of our diversified group structure. And we will maintain our flawless dividend growth track record. Consistent with our policy, our healthy 7% earnings growth for 2018 allows us to propose a corresponding dividend increase, an increase for the 26th consecutive year. And we have every intention to continue to extend that track record.

As we said in December, 2019 will be an investment year. I will comment on selected projects and initiatives in a minute, what it means financially, a continuation of healthy top-line growth, with net income at around last year's level, but accelerating earnings growth post-2019, as reflected in our medium-term targets. CapEx to sales increasing from the traditional 5% to 6% to approximately 7% this year, primarily driven by Kabi, but expected to normalize thereafter.

A word on Kabi: despite a tough-to-beat 2018 base, we expect healthy growth this year. We're serving large parts of the world population with desperately needed injectable drugs, clinical nutrition products, infusion solutions, and medical devices. We're keen to further broaden our product offering, right now primarily via organic expansion, hence the CapEx spike, but going forward, ideally complemented by acquisition.

And that takes me to Akorn. The strategic rationale behind our original acquisition attempt, namely to further broaden our product offering, that remains valid and unchanged. As you know, the transaction is not going to happen for good reasons. In December, the Delaware Supreme Court ruled in our favor, no further appeal possible. And whilst managing the courts case was time consuming and also stressful, we now have proof of two important claims. Our due diligence was state of the art, and our risk management is effective. So we will approach any future acquisition project with even more confidence.

Over to Helios Germany, where we have further visibility on the effect of the regulatory changes, and I'm convinced that we are prepared for them. We will continue to invest into CapEx and OpEx in order to mitigate their impact. That, unfortunately, weighs on our short-term profitability, but will support and drive solid profitability in the next decade.

Helios Spain, where our colleagues at Quirónsalud are moving ahead, we see promising prospects for organic growth and remain open for acquisitions.

One word on Fresenius Medical Care: I can't wait to welcome our to-be colleagues at NxStage and to harness their exciting technology with our massive market presence. You will have seen that the FTC review is complete, and closing of the acquisition is eminent. I also would like to applaud FMC for the share buyback program announced this morning. But for the avoidance of doubt, FMC will remain a growth company. But when considering the significant divestiture proceeds for Sound, it really makes sense to return a share of those funds to shareholders. At the same time, FMC is expanding its business in Asia, particularly in China. We will invest into infrastructure and capabilities to help Chinese patients with PD products. Also, this startup investment is going through our P&L and, hence, weighs on our profitability this year. But Rice and Mike will give you a more detailed update in the FMC call later on.

Last but not least today, we have set ourselves healthy medium-term targets for the 2020 to 2023 timeframe. So we see healthy, organic top-line growth and, as we indicated in December, earnings growth at least slightly ahead of that. We now complement our organic growth targets by an expected contribution from small- and midsized acquisitions. And Rachel will put all that into perspective as part of her prepared remarks.

So onto Page 4, with an update on our various investment and growth initiatives at Kabi, where we continuously broaden and deepen Kabi's product portfolio around the globe. We're convinced of the long-term growth opportunities in the North American injectable generics market. And hence, we're investing massively in the expansion and upgrade of our US manufacturing facilities to enhance our cost position, but more importantly via a higher level of automation to further improve the quality and reliability of supply for our customers and their patients.

So main purpose of the $350 million project in Melrose Park and the $150 million investment in Grand Island is the installation of state-of-the-art sterile manufacturing and packaging technologies. And to be clear, this is not a regulatory requirement. Much rather, we have chosen to be proactive to stay ahead of regulatory requirements and of our competitors. We're very happy with the progress of our prefilled syringe business acquired from Becton Dickinson in early 2016. The postmerger integration is now complete. We've launched numerous new Simplist products. That's our brand name. And we've more than quadrupled sales. We've seen a positive earnings contribution already in 2018, significantly ahead of our original expectations. And we're convinced that sales growth will continue.

Wilson in North Carolina is Fresenius Kabi's global center of excellence for prefilled syringe manufacturing. There, we're currently investing further to, again, expand capacity and improve our product offering. Now is the time to make these investments to capture and to protect market opportunities.

Onto biosimilars. You will have seen that the European agency EMA has issued a positive opinion on our biosimilar for adalimumab, recommending marketing authorization. On that basis, we expect approval next quarter and will launch ada over time thereafter in the various EU member states. We've chosen the brand name Idacio. All that is fully in line with our business plan. And also here, capturing this growth opportunity requires investments. And thus, we will continue to invest into R&D and marketing and sales capabilities this year.

Our worldwide settlement and license agreement with AbbVie for adalimumab, that settled all pending patent litigations between the parties. And it allows us to commercialize ada in all its indications, in Europe immediately and in the United States from October 2023, of course subject to marketing authorization by the FDA.

2019 will be a very important year for our biosimilars business. Our first market entries, they will provide us with real-life experience in structurally very different European markets. In our minds, the European G5 will be crucial for our overall success in this region. Each of these markets requires an individual approach to successfully cater to patients, prescribers, and payers. We feel we're well prepared, but we'll obviously monitor the competitive landscape very closely. At the same time, we will go through key stages in the further development of our product pipeline. And so 2019 will be a crucial year in various aspects. What we're taking comfort from overall is a generally more positive mindset vis-á-vis biosimilars. And you may have seen US Secretary Azar's statement. And I quote, "Those against biosimilars are simply on the wrong side of history." I believe we are clearly on the right side.

Enteral nutrition, that has been Kabi's fastest-growing segment for a while now, testament to a very competitive product offering. And we expect demand for our products to continue to grow. So we're investing significantly in this category to support Kabi's long-term growth. More specifically, we are building a new manufacturing facility in China with a planned start of production in summer this year. And as you know, China is Kabi's second-largest market. And our leading position in hospital-based enteral nutrition serves as a great platform to capture the growth opportunities in the forming and potentially massive home market. In addition, to meet the growing demand in Kabi's European markets, we are building capacity in an approximately €100 million at our plant in Emmer-Compascuum in the Netherlands.

Onto an update on the injectables market in North America on Slide 5. During 2018, we've been exposed to persistent concern over increasing price pressure in the US. At the same time, we have not only achieved, but yet again exceeded our ambitious outlook. Now obviously, the strong financial performance last year has set a very high base for 2019. But I'd like to reiterate that we have not seen and currently do not see any abnormal price developments. Our expectations for 2019, just as last year, nothing out of the ordinary. Our best guess right now is, again, low single-digit price erosion for our base portfolio of injectable generics, consistent with our experience over the years. At the same time, we believe our volume growth and pipeline products will more than offset that price erosion. Obviously, we will continue to watch that pricing development very closely, not least against the backdrop of the increased number of competitive ANDA approvals, especially for drugs with a limited number of existing competitors. But we remain convinced that our close customer relationships, based on our track record of service, reliability, and quality, will allow us to maintain strong market shares at stable price levels.

And our portfolio that is steadily growing. Last year, we saw 15 product launches and filed 19 new ANDAs or NDAs during the year, so more than replenishing our pipeline. So we ended the year with 53 applications pending with the FDA, a good launch pad for future growth. Specifically for 2019, we're targeting a similar number of launches as last year, where the aggregate underlying addressable market is in the magnitude of $2 billion.

Lastly, a quick comment on drug shortages. Whilst they have clearly supported our growth last year, it remains extremely difficult to extrapolate them or to project a trend from here. It feels, though, that after a meaningful increase over the last quarters, the odds of an easing have rather increased. That is at least what we model when it comes to our guidance. If we were proven too conservative, our investment program is also meant to put us in pole position to fill any arising shortage situation.

Onto Slide 6 with an update on Helios Germany. 2018 did not work out exactly as planned. We had set out to prepare ourselves for medium- to long-term challenges to turn them into opportunities, knowing that change can be and typically is difficult. We clearly could've done a better job going about the execution of those preparatory changes and communicating internally our thinking behind them. That led to some pockets of frustration, some unwanted side effects, resulting in an operating and financial underperformance.

So are we headed in the right direction? Upon a thorough reevaluation, we firmly believe, yes, we're working on the right trends, actually trying to be ahead of them, with generally the right initiatives that need to be continuously calibrated, though. And I believe that, in Q4 last year, we managed to at least stabilize the situation. Number of cases is up. We have increased revenues. We have hired more doctors and nurses. We have added MVZs and doctor seats. And we have enhanced our internal communication to share our ideas more broadly and clearly.

But our performance clearly suffered over the course of last year, and our exit rate in 2018 is well below the average for the year. So from initial stabilization, we need to get to clear improvements going forward. And as we told you in our calls in October and December, I expect that that will take a little while.

One of the initiatives causing us some challenges last year was clustering. We remain convinced of the merits of our respective strategy because we've said all along that volume drives quality. And we commend our regulator for at least gradually recognizing that. When originally there were only a few indications where minimum case numbers were applied, by now, we're looking at eight. And that number is bound to grow, as is the minimum case number per such indication.
So we're eager to continue to prepare ourselves to pick up those cases that smaller, less specialized hospitals are bound to lose going forward. Those preparations include our medical boards monitoring our clinical portfolio, improving it if necessary, as well as identifying the next generation of indications where minimum case numbers are likely to be applied, and defining appropriate voluntarily self-imposed minimum quantities.

But when, at least for the time being, geographical distance is a, if not the, key selection criteria, patients, their relatives, and last, not least, their referring GPs need to be convinced of the merits of clustering as well, i.e. the tradeoff between a larger distance and higher quality. Otherwise, we'll continue to lose too many patients, patients that otherwise are very happy to be treated at Helios.

So we need to be more transparent. For instance, we need and have already started to intensify our communication with referring GPs to enhance their confidence in our proposed treatment path. And we need to make it clearer to Helios doctors that referring a patient to a more suitable hospital, Helios hospital, is actually encouraged. To that end, we are increasingly measuring performance on a regional rather than clinic level. We need to enhance our service offering for those patients, including a shuttle to the welcoming hospital, including accommodation for relatives. Overall, we're also going to take a more differentiated approach. For instance, while the specialized center clinic that should drive the precise diagnosis, less complicated cases of a certain indication can still be performed at the Helios hospital closer to a patient's home. We are open for solutions where one doctor covers a complex indication at more than one Helios hospital, or vice versa, doctors using specialized equipment and dedicated nursing staff at a center clinic. All those measures are focused on driving higher admissions via enhanced better internal and external acceptance of our clustering strategy while further improving medical quality.

Moreover, we're calibrating our initiatives to reduce our patients' length of stay, obviously without sacrificing, jeopardizing medical quality, but with a less crude, more risk-oriented approach. Stringent rollout of the electronic patient file will strengthen our documentation and, hence, our claim when health insurance companies feel a discount should be applied, yet another investment that will bear fruit going forward.

From clinics to nurses, in contrast to a widely held skepticism, I'd like to confirm that we have currently only very few vacancies under the requirements for minimum staffing levels. We still expect the effect of this regulation, which has been effective since the beginning of this year, on our full year 2019 financials to be benign.

Regardless, we have actively initiated a variety of initiatives for our nursing staff in order to remain the employer of choice in an increasingly competitive job market and to ensure that we're able to attract and retain a sufficient number of qualified and talented nurses.

Actually, we found that we're looking at a consistently meaningful number of applications with a too-low conversion rate, though. So we're working on streamlining and accelerating our recruiting process and making it more applicant friendly.

At the same time, were leveraging our international reach. We're reinforcing our efforts to attract nurses from other EU member states, and we are expanding the number and capacity of our nursing academies, primarily in Germany, but also in other European countries, for example, by collaborating with Vamed's care training center in the Czech Republic.

A pioneering initiative is the so-called Pflege-Tarifvertrag, a collective bargaining agreement potentially covering the entire Helios nursing staff under a much more homogeneous sheen. As the first private hospital operator in Germany, we have offered such an agreement to Verdi, the services union, and are currently in negotiations with them.

In addition to salary levels, such an agreement would govern working conditions and education opportunities and requirements. We feel it could be a very effective instrument to position Helios as the employer of choice.

Coming to the general trend from in- to outpatient services, we are convinced that, with our widespread network of more than 120 MVZs, we are very well positioned to profit from this trend. Unfortunately, we did not leverage this opportunity as effectively as we could've in the past. We've rather used our ambulatory care centers only to refer patients into our acute care hospitals. With our new business line outpatient service, we aim to capture more patients, whatever the best setting for their needs, with high-quality healthcare in both in- and outpatient facilities. That means our strategy in the MVZs is twofold. We want to perform more outpatient services than in the past. At the same time, we want to increase the referral rate into our acute care hospitals via better tracking systems. In a nutshell, we try to do everything to increase admissions in this business which has, as you know, a significant fixed cost basis.

One more word on our recently set up new business unit focusing on internationally scalable business models. The framework of our new business unit is to development far-reaching healthcare services, not only for the B2C, but especially for the B2B market. Especially, we're driving forward initiatives focused on occupational medicine for employees, prevention programs, or the reduction of waiting times for appointments with specialists. Furthermore, this includes bringing the learnings from our Spanish colleagues in occupational health to the German market.

A milestone will be to establish the first nationwide call center for medical appointments. We want to provide our patients with a fast and reliable access to our in- and outpatient facilities whenever needed by them. This shall be accompanied with a telemedical infrastructure for video consultations within the outpatient sector also for international patients.

Coming to the DRG change from 2020 onwards, and as a result of this law, the nursing costs will be excluded from the DRG from 2020 onwards. Instead, the costs for patient-oriented nursing care will be fully reimbursed by the health insurance funds via separate nursing budgets. As a consequence, as we explained to you in the past, there is no longer an incentive to improve efficiencies. And thus, we will obviously feel an impact on our profitability, given that we improved our efficiency in the past amongst a few other things also by outsourcing central services. We have, consequentially, initiated countermeasures. For instance, some activities that have been performed by doctors in the past will now be taken over by educated caring staff, for example, documentation of patient records. Our doctors have therefore in the future more time for additional treatments. And so we hope that admissions can be increased. We also want to adjust our employee mix. That means that activities that, in the past, were performed by service employees will be diverted back to nurses.

So in summary, whilst there is going to be a burden, we remain convinced that the effect on Helios in 2020 will be manageable. Obviously, we will further work on initiatives to fully compensate the negative impact of the legislative change. Bear with us.

Over to Helios Spain on Slide 7, where we have seen both organic and inorganic growth. Our acquisition of Clínica Medellín in Colombia is expected to close very soon. And that is an excellent starting point to explore -- further explore I should say the opportunities in this region. The hospital market in Latin America is highly fragmented, has high potential for growth and operational improvements. We are convinced that Helios Spain can add value and knowhow to the system.To be clear, many markets in Latin America have an undersupply of hospitals relative to their population. And in those markets that show an, let's say, above average level of political stability, we will follow inorganic growth opportunities.

A further example of our inorganic growth initiatives is the acquisition of Hospital Costa de la Luz. This hospital with €15 million of sales is the flagship facility in Huelva in the southwest of Spain and testament that consolidation in Spain continues, albeit gradually. Obviously, we'd like to do more M&A transactions there. Unfortunately, currently, we just see only very few attractive opportunities.Greenfield projects in Torrejón in the northeast of Madrid, we're building a hospital with 60 beds. Total investment is approximately €30 million. And we expect to open the facility in 2021. Our expansion of the university hospital in Madrid, where we added 50 beds and two additional outpatient operating rooms, is progressing nicely. And we expect to open as scheduled later this year.

We're also investing into innovative projects. I believe I mentioned to you that Helios Spain is building the first proton beam therapy center for Spain in Madrid for a total investment of about €40 million. Construction is progressing according to plan. And we expect to open the center by the end of this year.

Onto Slide 8, which gives an overview of the strategic initiatives that we initiated within the group. At our announcement in December, we indicated that we seek both sales growth and efficiency improvement initiatives. We have worked hard and identified some specific measures, where we think we can optimize our portfolio setup and become an even more effective organization, with the consequence that we can further optimize our capital allocation.

Starting with Helios Germany as the largest private hospital operator, we will reshape our hospital network to stay ahead of regulatory changes. And let me be clear. Our initiatives to mitigate the regulatory effects, such as clustering, can lead to closures of specific departments, up to the divestment of complete hospitals. I'd call that very rare and then unfortunate occasions. At the same time, I cannot rule that out. Such an initiative would further optimize our patient service throughout our hospital network, but -- and also with a focus on higher margins and higher growth.

Over to Fresenius Kabi, where Kabi in the past years has grown its market share and expanded its product portfolio. I want to commend Kabi for being a truly global company with strong market positions. In order to ensure that also in the future, we're keen to sharpen the profitability of the company, and we have decided to explore and evaluate strategic options for our transfusion and cell technology business. That business operates in a very specific business environment, catering to blood banks and plasma collectors. Hence, it is literally a standalone business within Kabi. We are convinced that it is better off with a dedicated organization with clear responsibilities and an even stronger focus on the specific transfusion customers. Hence, we are establishing a new division that will be a global end-to-end organization to better reflect the requirements of this business environment and to best serve our increasingly global customers. We believe this gives us more flexibility to grow this business. At the same time, we believe that, by integrating the infusion technology into the pharmaceuticals division, we can streamline the overall marketing and selling process and can be more effective in turning prospects into revenues and EBIT.

Over to FMC, where the company remains committed to a continuous optimization of its business, but in addition, 2019, FMC plans to invest around €100 million in order to sustainably improve its cost base. And that is on top to the global efficiency program, too. Based on enhancements in both products and services, that 2019 cost optimization program is expected to be accretive to net income already from next year and obviously beyond.

One word on Vamed, where with the acquisition of the inpatient post-acute care business from Helios, the company has strengthened its position as one of the leading providers of rehabilitation and care services in Europe. And at the same time, it has intensified intragroup services. We will foster those activities to leverage synergies, to improve our cost position, and to offer even better services and products to our customers, be they Fresenius internal or external.

Onto Slide 9, capital allocation. Organic growth has been the backbone of Fresenius's growth over the last decade. And we are convinced that reinvestments in our own business offer an attractive low-risk, high-return profile. And they are the prerequisite to sustain our growth momentum.

Large, strategic acquisitions are by definition higher risk. Our risk appetite is still there. In the short term, it is limited. Thus, you can work on the assumption that we will focus on small- to midsized bolt-on acquisitions in the near future and tackle the necessary steps to improve our existing business. In the medium to long term, however, we will remain an acquisitive company, and we will rigorously pursue an inorganic growth trajectory. We have not only the financial but also the management capabilities and capacities to follow that strategic growth path. And I want to remind you of what I said about the Akorn case. Our risk management works.

Dividends, you heard me say that we are proud that we increased dividends for 26 consecutive years. Indeed, over that period, we have increased our dividends with a CAGR of 16%. Given our earnings-linked dividend policy, this is testament to our significant earnings growth. And we will stick to that dividend policy, planning to increase our dividend also in 2019 and for 2019, even in view of our guidance of around zero net income growth this year. For the avoidance of doubt, we will not participate in the share buyback announced by FMC this morning, meaning that our share in Fresenius Medical Care will increase slightly. Our stance on share buybacks, never say never, but currently, we just see more attractive growth opportunities in operating investments. And we are convinced that we will create long-term more value for our shareholders by bolstering our operating business.

With that, I will get to Slide 10 and our medium-term growth targets. In the interest of time, I will refrain from commenting on all the bullet points on this slide. But the important takeaway is we are active in very attractive markets, which are supported by sustainable megatrends. We have the right strategy to seize opportunities in those markets, and we're looking with lots of optimism into a bright future of our healthcare franchise.

We learned our lessons from 2018 on various fronts, making us an even stronger company. We will continue to invest into the medium- to long-term future of our company, and we are committed to regaining trust by building a series of promises kept. No doubt about that, Fresenius will become an ever-larger, well-diversified, and dynamically growing healthcare company.

With that, let me hand you over to Rachel. Thank you.

Rachel Empey: Thank you, Stephan. Hello and a warm welcome to everyone. So as you've heard, we're pleased with the fourth quarter, but before I come to the details, as always, I would like to start by explaining how the 2018 results are shown throughout my presentation.

Overall, sales growth is adjusted for the adoption of IFRS 15. As far as Fresenius Medical Care's settlement with the United States Department of Veterans Affairs and Justice, the so-called VA agreement, is concerned, the full year '17 figures include €87 million of EBIT and €16 million of net income as a one-time effect. This contributed around 2 percentage points to EBIT growth and around 1 percentage point to net income growth. These effects were not treated as special items on group level and obviously weigh on our 2018 growth rates. The impact on Q4 2018 growth rates is, however, negligible.

The results include R&D expenses for Fresenius Kabi's biosimilars business, which has been consolidated since the 1st September 2017. Hence, to give greater transparency, we are showing group EBIT and net income growth, both including and excluding those biosimilars expenses. The figures are also adjusted for the divestitures of Care Coordination activities at Fresenius Medical Care, mainly the Sound Physicians.

Our financials are obviously before special items, namely transaction-related effects with respect to Akorn, gains from divestitures of Care Coordination activities, and the FMC's Foreign Corrupt Practices Act, the so-called FCPA, those related charges, including the corresponding tax entries. Mike will, of course, explain more later. Conversely, FMC's contributions to the campaigns in the US opposing state ballot initiatives were not treated as special items on the group level.

As I already indicated during the Q3 earnings call, milestone payments or changes to deferred acquisition-related liabilities from Kabi's biosimilars business are treated as special items. And Q4 of 2018 included such a €7 million step-up of those liabilities. I will comment on the 2019 guidance and the associated bases later in my script.

So let's switch to Slide number 12 and our key financials. Growth rates on this slide are on a constant currency basis. We delivered strong sales growth of 7% in Q4, which lifted our full year 2018 growth to 6%, slightly above our expectation to reach the low end of the 5 to 8 percentage guidance range. The main growth drivers in Q4 2018 were the stronger performance of Fresenius Medical Care and, yet again, Fresenius Kabi.

EBIT growth was flat in Q4 and decreased by 1% for the full year. Please remember that the prior-year figures only incorporated four months of biosimilars expenses. So EBIT excluding the biosimilars expenses increased by 1% in the full year. That's below sales growth. One reason here is the aforementioned effect of the VA settlement at Fresenius Medical Care in 2017. FMC is fully consolidated into the Fresenius Group down to the EBIT line. So before the VA agreement effect, EBIT growth excluding those biosimilars expenses was at 3%. In addition, the headwinds at Helios Germany have also impacted the group's EBIT growth for the year.

Coming to interest, with €129 million, interest in Q4 was lower compared to Q3. This is mainly due to the successful refinancing activities at Fresenius Medical Care. Thus, the effect on our net income was only minor. With €570 million for the full year, we are significantly lower year-on-year and even slightly below our already lowered guidance range of €580 million to €600 million. The main drivers here year-on-year are successful refinancing activities, lower debt, currency effects, and the proceeds from that divestiture of Care Coordination activities at Fresenius Medical Care. Based on current exchange rates, we aim for net interest between €500 million and €530 million for 2019. To be clear, that is excluding the effect of the pending acquisition of NxStage, as well as before potential new acquisitions. As you will see later, we are guiding 2019 excluding the effects of IFRS 16 to provide a comparable basis to 2018. We do expect that IFRS 16 will increase the reported net interest by around €200 million.

The group tax rate before special items reached 22.6% in the fourth quarter of 2018. That brings the full year '18 tax rate to 22%, in line with our reduced expectations. The year-on-year decrease is obviously driven by the US tax reform and some one-time effects at Fresenius Medical Care and Fresenius Kabi. For 2019, we aim for a tax rate between 23% and 24%.

Moving onto net income, we've seen a 5% growth including and 6% excluding biosimilars expenses in constant currency in the fourth quarter of last year. Year-to-date, that brings us to 7% including and 11% excluding biosimilars expenses. So both earnings metrics are a notch above our expectations to reach the low end of the guidance ranges. We are obviously pleased with that. Here again, the main drivers were the good performance at Fresenius Medical Care and at Kabi in Q4. And I'll come to more detail in a second.

Let's move onto Page 13, where we can see the Q4 '18 momentum at the four different business segments. For ease of comparison to our individual outlook ranges, sales growth rates on the left are organic and adjusted for the adoption of IFRS 15 and the divestiture of Care Coordination activities at Fresenius Medical Care. EBIT growth on the right is at constant currency and before special items and after those adjustments that I mentioned.

So let's start with Kabi. The company showed excellent 7% organic sales growth in Q4. This was fueled by growth across all regions, but in particular in the emerging markets and North America. Especially pleasing is that we have seen growth across all of our product lines, with clinical nutrition standing out. EBIT increased by 6% including the biosimilars expenses. If we strip those out, it looks even better with a strong 8% EBIT growth. More details in the Kabi section later.

So Helios with 4% organic sales growth. Here a mixed picture: Spain continuing to perform well with dynamic and consistent growth, while Germany is still facing some of those headwinds which led to an EBIT decline of 2%. Excluding the transfer of the German post-acute care business from Helios to Vamed, EBIT increased by 2%.

Vamed had an excellent Q4. Both business lines contributed to the outstanding growth, with the service business really standing out. On the EBIT line, with the transfer of the German post-acute care business from Helios to Vamed obviously contributed significantly. But even excluding this effect, EBIT increased by a very strong 11% in Q4.

Let's turn to Page 14 and move on to a review of Fresenius Kabi's organic sales growth by region. So in a nutshell, emerging markets was outstanding, North America continued very strongly, and Europe was in line with our expectations in Q4.

So in North America, we're very pleased with 5% organic growth in Q4, especially considering that the prior-year quarter was a tough comp. This brings us to 8% growth for the full year 2018, in line with our upgraded guidance of mid- to high single-digit growth for the full year '18 and further underlines our strong position in the North American market.

The strong performance was meaningfully supported by the significant number of injectable drug shortages that have persisted throughout last year. At the end of Q4, 37 IV drugs in Kabi's product range were designated in shortage, a number that is stable compared with Q3. This is obviously a significant tailwind for us.

With the 15 new product launches you heard about from Stephan last year, in line with our expectations, we have reached a new record. And those new launches have contributed nicely to the sales growth throughout the year. In Europe, we saw an organic growth of 3% in Q4 and for the full year. This is in line with our low to mid-single-digit outlook growth for Europe. And then in the emerging markets, we are very pleased to report an outstanding organic growth of 15% in Q4 and 12% for the full year. That is in line with our outlook of double-digit organic sales growth for the full year. China was growing at 17% organically in Q4 and 14% for the full year, again, in line with our expectation. Excellent volume growth offset low single-digit price declines here. And clinical nutrition is still the major growth engine for this very important market. In Asia-Pac outside of China, we had 7% organic growth in Q4. And we saw a broad-based positive development right across the region. In Latin America and Africa, we saw an outstanding 18% organic growth. Even excluding inflation-driven price increases, especially those in Argentina, we have still seen a very significant double-digit organic growth in this region.

So let's turn to Slide number 15 and Kabi's regional EBIT development. Total EBIT came in at €285 million in Q4, an increase of 6% at constant currency. Year-to-date total EBIT was €1.139 billion, an increase of 2% at constant currency, thus exactly in the middle of our twice-upgraded outlook range of 1% to 3% at constant currency.

EBIT growth excluding those biosimilars expenses is quite impressive with 10%, also here precisely in the middle of our upgraded 9% to 11% outlook range. That gives us, though, a very tough comp to beat for 2019, and we'll talk about that later in the outlook section.

So let's look more at the regions. With 9% growth in Q4 and 10% year-to-date, Kabi North America showed a strong financial performance. The EBIT margin in Q4 improved year-on-year by 110 basis points. Also here, we had some tailwinds from shortages and new product launches. With 10% growth in North America in the full year '18, we were a touch better than our expectation of mid- to high single-digit growth for the full year, again, pleasing, but a high basis for the 2019 growth. Moving onto Europe, we saw a good Q4 in absolute terms which, however, did not match the outstanding prior-year quarter. As I said on our Q3 2018 call, Q4 of 2017 was phenomenal in absolute terms and by far the highest quarter throughout 2017. That was a very tough comp to match. Onto the emerging markets, we had an outstanding 22% growth in Q4, all the more impressive as we also, here, had a tough prior-year comp.

For corporate and R&D, we had €166 million of biosimilars expenses in the year 2018, which was broadly in line with our expectations. As I have said previously, in addition to biosimilars, we are also investing in the future and broadening our portfolio by adding more products in existing product categories and by bringing existing products into new geographies. Thus, we see increased R&D costs in constant currency year-on-year slightly, excluding those biosimilars expenses.

So let's move onto Slide 16 for Fresenius Kabi's regional outlook. North America organic sales growth and EBIT development are notoriously hard to predict, given the volatility of the IV generics business. Our current best estimate is low to mid-single-digit organic sales growth, with EBIT growing similarly, but perhaps a touch less than the top line.

As Stephan said, we are investing in our future, and we are constantly broadening and diversifying our business. Growth in 2019 will be driven by new drug launches, a further ramp-up of our prefilled syringe business, and our growing clinical nutrition business.

Some of our larger drugs, we have seen some competitor launches in 2018 and the first few weeks of 2019. Hence, our outlook assumes more competition for some key molecules. However, as Stephan said, we project a broadly unchanged pricing environment in our base business. As always, we are also assuming that the current shortage situation will gradually reduce. I'd like to confirm that we are anticipating a strong IV drug launch schedule this year with a similar level of launches as in 2018.

Over to Europe, for 2019, we expect, consistent with last year's expectations, low to mid-single-digit organic sales growth. We assume the excellent growth of our enteral nutrition business will continue in the coming quarters. And we expect to see the launch of our first biosimilar, which will of course remain a small part of our 2018 sales, and that contribution will itself be backend loaded.

On Slide number 17, we can see the emerging markets. In China, we will continue to capitalize on the wealth of opportunities there. We are constantly expanding our product portfolio. This will clearly fuel our Chinese growth trajectory. And that will lead to very significant organic growth in this important market. In Asia-Pac outside of China, we have a very positive sentiment, and we expect to see a strong growth momentum in 2019. And in Latin America and Africa, no major changes from 2018, meaning continued strong growth this year, despite a difficult situation for some local economies. So in aggregate, organic sales growth in the emerging markets will likely be in the double digits in 2019.

As Stephan said, we are very pleased to be able to plan to launch our first biosimilar in Europe later this year. This will, however, of course, remain a small contribution to sales for 2019. Therefore, and also for competitive reasons, we will not report biosimilars separately this year. But we will keep you updated on our first experiences in the market.

We have also taken the opportunity to realign our product reporting. Our business has developed and grown significantly over the years, and with that, some inconsistencies have occurred in how we report our sales in some detailed product groups. To be more consistent, we will reallocate some very specific products and groups, mainly between infusion technology and IV drugs in our reporting from Q1 2019 onwards.

Let's turn to Fresenius Helios on Slide number 18. Organic growth at Helios was 4% in Q4 of last year and 3% for the full year 2018. That's in line with our expectation to reach the low end of our 3% to 6% organic sales growth outlook.

Helios Germany showed 3% organic growth in Q4. Price increases and better results from the negotiations with our payers more than offset the fewer admissions we saw year-on-year. In 2018, Helios Germany showed 2% organic growth, which is a little below the growth rates that we are used to. As you heard earlier from Stephan and as we expected, the headwinds and the trends from Q3 were still apparent throughout Q4. We've launched those decisive initiatives to help to mitigate the regulatory effects, but do expect some headwinds to persist over time.

Moving onto Helios Spain, we've seen very strong sales growth, with 8% in Q4, reported sales growth of 17% for the full year obviously significantly influenced by the additional month of Quirónsalud consolidation. Organic sales growth was excellent, with 7% in Q4 and 6% for the full year. Hence, Helios Spain is, as I have indicated in February 2018, at the upper end of its historical organic sales growth range of 4% to 6%.

Onto Slide number 19, where we have an overview of the EBIT development at Fresenius Helios. Total EBIT came in at €277 million in Q4. That was a decrease of 2% year-over-year. The transfer of the German post-acute care business also had a significant effect on the EBIT line. And excluding this effect, EBIT increased by 2%. For the full year 2018, our combined hospital business showed a flattish EBIT, at the lower end of our outlook range of 0% to 2%. Adjusted for the post-acute care business, EBIT was up by 3%.

With €137 million in Q4, EBIT for Helios Germany decreased by 15% on a comparable basis. That is excluding the transfer of the post-acute care business. We see continued earnings headwinds from the DRG catalog effects, the staffing measures, including external staffing, and the continued investments in our preparation measures, such as clustering. You heard from Stephan about the details of those activities at Helios Germany in preparation for the new regulations in 2020. More specifically here, we expect a high double-digit million euro gross impact from the new legislation, which will partially be offset by direct countermeasures. Activities in other areas of our German business could further help to offset the expected impact.
Helios Spain showed yet again an excellent quarter. In Q4, Helios Spain increased EBIT by 19% to €127 million. Clearly, the strong Q4 '18 top line had a significant positive effect on the EBIT line.

Moving onto Fresenius Vamed on Slide 20, where we are very pleased with Vamed's strong Q4 and full year '18 performance. The company not only exceeded its original organic sales outlook, and it was the upper end of its original EBIT outlook range, but Vamed also outperformed the new outlook ranges for both metrics significantly.

Total sales came in at €697 million in Q4, an outstanding 45% year-over-year increase. If we strip out the transferred German post-acute care business, growth was still excellent, with 22% in Q4 and 19% in the full year. Organic sales growth was very strong, with 20% in Q4 and 16% in the full year. Both of Vamed's business lines performed well in Q4, with the service business standing out. With a 58% share of overall sales in 2018, the less cyclical, less seasonal, and higher margin service business now clearly outstrips the project business. Sales growth was also supported by the stronger collaboration between Vamed and Helios, which led to higher intragroup sales.

EBIT growth at Vamed was stellar, with 39% in Q4 and 45% in the full year, establishing a high base for 2019. The transferred post-acute care business contributed significantly also on the EBIT line. Excluding this effect, EBIT grew at 11% in Q4 and 9% for the full year.

We're very optimistic for 2019. The diversified and record order intake in 2018 of €1.2 billion gives us confidence when it comes to sales development in 2019 and beyond.

So let's move onto cash on Slide 21. A healthy Q4, with €1.193 billion of operating cash flow for the group. Kabi's Q4 cash flow of €220 million, top left, brings the full year '18 cash flow to €1.04 billion. That's a new all-time high. The last 12-months margin was also great at 15.9%. The excellent cash flow performance of 2018 was mainly driven by a strong operating performance, in particular coming from North America. Helios cash flow was negatively impacted by the earnings development in Germany and some phasing of working capital. Here, operating cash flow of €167 million in Q4 took the last 12-months margin at Helios to 6.2%. With €108 million, Vamed showed an outstanding operating cash flow in the quarter. So, at the group level, the Q4 cash flow performance took the group last 12-months margin to 11.2%. If you deduct CapEx of 6.2% in the middle column, you'll arrive at the free cash flow last 12-months margin, bottom right, of 5.0%.

You heard Stephan. 2019 will be marked by group-wide significant investment programs. Hence, the CapEx-to-sales ratio will increase from the usual 5% to 6% range to rather 7% in 2019, driven particularly by Fresenius Kabi. I would like to reiterate that those investments are testament to our organic growth abilities and have a nice low-risk, high-return profile.

We finished Q4 at 2.71x net debt to EBITDA. Excluding the Sound divestiture, we ended at 2.91x. That is in line with our expectation that the full year '18 leverage ratio will be around the level that we ended 2017 with. For 2019, we expect the leverage ratio to be broadly in line with that at the end of 2018. That is, of course, excluding the acquisition of NxStage and excluding IFRS 16.

A further word on IFRS 16. The accounting rule change will obviously technically increase our leverage ratio. Hence, we increase our current self-imposed target corridor of 2.5x to 3.0x net debt to EBITDA to 3.0x to 3.5x based on this technical impact.

With that, let's turn to Slide 22 for the 2019 outlook by business segment. So firstly, the 2019 guidance, we have a 2018 basis that is adjusted for the following: transaction-related expenses, for example, revaluations of biosimilars contingent liabilities; the FCPA provision and related tax entries; the gain related to the divestiture of Care Coordination activities at Fresenius Medical Care; and the H1/2018 is adjusted for the operating contributions from those divestitures; so basically, the figures we reported in 2018 before special items for guidance purposes with the only difference being the operating contributions from divested Care Coordination activities in the first half of 2018.

In 2019, we are, as usual, excluding special items, for example, transaction-related expenses, for example, revaluations of biosimilars contingent liabilities and the acquisition of NxStage; and costs associated with the cost-optimization program at FMC that you heard about from Stephan earlier. We also have excluded the operating result of NxStage, since the transaction is not quite yet closed.

To have a truly like-for-like comparison against 2018, as I mentioned earlier, we are also excluding IFRS 16 effects from our guidance ranges. We have detailed the effects on our financials in the backup of this presentation. In a nutshell, however, we expect the following impact of IFRS 16 on our KPIs. EBIT is expected to increase by around €0.1 billion, and net income is projected to decrease by around €30 million. The slightly negative impact on net income is driven by the phasing of interest charges for lease contracts, meaning we see higher interest in the first years of the contracts.

So let's get to the outlooks for 2019 themselves, which you find consistent with the expectations we gave you in December.

So Kabi's organic sales growth first, where we project 3% to 6% growth. That's the blend of the regional contributions I mentioned, low to mid-single digits for Europe, likely double digits for the emerging markets, coupled with low to mid-single digits for North America. On the EBIT level, we also expect 3% to 6% growth, of course, against a very high 2018 base.

Over to Helios, where we expect 2% to 5% organic sales growth. For 2019, we expect Helios Spain to continue to grow at its historic organic sales growth range of around 4% to 6%, and thus, a bit faster than Germany. For EBIT, we project an aggregate decline of minus 5% to minus 2% in 2019. Also here, we expect Helios Spain to grow in a similar range to sales, whilst we expect the headwinds to persist in Germany, including the technical effect from last year's post-acute care transfer, which has a small negative year-on-year impact at Fresenius Helios.

For Vamed, I already mentioned Vamed's well-diversified order intake and order backlog as a factor giving us confidence. We expect organic sales growth in the full year 2019 of around 10%, thus a bit of an acceleration against our historical range. For EBIT, from a high starting point in financial year 2018, we guide 15% to 20% growth on a reported basis, including the post-acute care business. On an underlying basis, that is a similar range to the historical 5% to 10%.

Thus, taken altogether for the group, and that's now on Slide number 23, starting with sales growth, we expect 3% to 6% growth in constant currency. And even though we are guiding in constant currency and not organically, you will see that we have no significant inorganic effects baked into our expectations. Remember NxStage is not included here.

As to the currency translation effect, if current exchange rates prevailed until the end of the year, we would see a small tailwind of 2 percentage points, mainly from the US dollar.

Onto net income, where we are projecting around 0% growth. Also here, we are not expecting any significant inorganic effects. And we hope to be on the more positive side of this 0% expectation. Again, NxStage is not included here, and we don't expect a significant impact on FSE Group level from this transaction. With regard to currency, we also expect a small tailwind here, again around 2 percentage points.

One word on the phasing of our growth in 2019. We do expect to see a softer first half this year and a stronger second half to the year. This is triggered by a few things. Helios, we expect a slight acceleration of performance in the second half of 2019, as the positive effects of the initiated measures will materialize more in the second half of the year. At Medical Care, we anticipate also a back-loaded acceleration of growth due to the phasing of the contributions from the Global Efficiency Program II and other initiated measures. And you'll hear more from that from Mike later. And it will be somewhat mitigated in terms of the overall phasing by Kabi, where we expect to see a stronger first half due to the projected easing of drug shortages in the second half of this year. To be clear, this is particularly true overall for our earnings growth, rather than our top-line phasing. Just as in the previous years, this is an operating guidance, thus excluding those special items I mentioned earlier, but also any other large special items. So we feel comfortable in the absence of those with the guidance that we've given.

So last but not least, let's come to the midterm targets for the group. And that's on Slide number 24. We expect overall very healthy growth in the medium term. Organic and inorganic growth will both continue to play important roles for us. In terms of sales, we expect 4% to 7% organic sales growth. At the earnings level, we see growth a touch faster than sales, with 5% to 9% organically. For that purpose, we have taken the expected 2019 financial results as a basis and have calculated CAGR's over the four-year period to 2023 using constant currency.

We expect that our launched and contemplated sales growth and efficiency improvement initiatives, as well as the expected breakeven of Fresenius Kabi's biosimilars business, will drive an acceleration of group earnings growth over that period. Small and medium-sized acquisitions are expected to contribute an incremental CAGR of approximately 1 percentage point to both sales and net income. And to be clear, that comes on top of the ranges that I just mentioned. We also exclude special items here and very significant acquisitions or disposals. And overall, this is in line with the indications that we gave you in December.

So with that, many thanks for your interest in Fresenius. And Stephan and I are now very happy to take your questions. Thank you.

Operator: (Operator Instructions). Tom Jones from Berenberg.

Tom Jones: Oh, good afternoon. Thank you for taking my question. I've got loads, but given the tight time, I think I'll just limit it to one. And in relation to Helios, I think you mentioned in the prepared comments that the measures you're taking are in anticipation of returning to growth in the medium term. I was just wondering if you could be a little bit more specific about what you mean by medium term. Is 2021 a reasonable expectation, or do you think it could be earlier or later than that timeframe?

Rachel Empey: Tom, it's Rachel. Thanks for your question. I think, clearly, today, we've given you a group level medium-term guidance. And we've purposely not broken that down to an individual business level. Nevertheless, you've also heard from us that we're very active with those preparatory measures in 2019. And you also heard in my script the high double-digit growth effect we expect from the new legislation in 2020 and how we believe that we're beginning to be able to offset that and how we think that that will evolve over time.

I don't want to give you a specific year in terms of when we think that we will see those trends concretely reverse, but you should be clearly encouraged by the overall growth that we see at the group level and the contribution that we think that Helios can bring, and we remain very positive in terms of those overall growth opportunities for Helios in Germany.

Tom Jones: Perfect. That's all very clear. I'll jump out of the queue.

Operator: Patrick Wood from Bank of America.

Patrick Wood: Thank you very much. I'll keep it to one as well. Mine's really on China and clinical nutrition. Obviously, very, very big numbers on the clinical nutrition side. I'm assuming that that's China. And it sounds like the volume growth is very, very strong, setting the pricing. So I guess my question is, could you help us understand how sustainable that growth is and structurally how we should be thinking about that going forward? Because those are very big numbers that are coming out at the moment. Thank you.

Stephan Sturm: Patrick, it's Stephan. China is a market where, traditionally, we have been strong with parenteral nutrition, but where over time we have gradually also increased our presence in enteral nutrition. There is, as I mentioned in my prepared remarks, a new and forming market, FSMP, Food for Special Medical Purposes, that then foresees the administration of enteral nutrition in an out-of-hospital setting. Well, obviously, given the large number in the Chinese population and given the large number of Chinese patients, the growth potential, the potential market size is massive. We are at the forefront of this. I do believe that our strong presence in the hospital setting, in particular when it comes to EN, will give us a bit of a lead here. Manufacturing on the ground is going to be important for regulatory purposes, but also for customer acceptance. As you probably know, we have a partner in our Chinese joint venture who is running the leading drugstore chain across the country. And hence, we believe that we're well equipped to capitalize on the opportunities of this new and forming market.

Patrick Wood: Very clear. Thank you very much.

Stephan Sturm: Thank you.

Operator: Veronika Dubajova from Goldman Sachs.

Veronika Dubajova: Thank you for taking my question. I will also keep it to one, and maybe if I have time, have one more follow up after that. But I wanted to ask a question about the Kabi guidance for 2019. Slightly surprised to see the revenue range start with a 3. And I'm curious because, as I reflect on the remarks you have made throughout your prepared remarks, it sounds like emerging markets are growing very well. You are expecting low to mid-single-digit growth, both in the US and in Europe. And so the 3 seems inconsistent with that. Is there anything that is particularly worrying you at this point in time? How should we be thinking about that?

Rachel Empey: Veronika, it's Rachel. Thanks for your question. You shouldn't be concerned, Veronika. The comments we made absolutely stand in terms of the broad-based growth that we see across the Kabi group. Nevertheless, we have an outstanding 2018. That gives us a very high base to start from, not just in terms of EBIT, but also in terms of sales. And you also heard very clearly, both from Stephan and I, our assumptions in terms of the drug shortage situation in North America and how that will or how in our assumptions we think that that will evolve through the year. The 3% to 6% for us, completely consistent with what we said in December and completely consistent with the very solid, very healthy ongoing growth we expect for Kabi.

Stephan Sturm: Veronika, it's Stephan, and let me complement what Rachel was saying, specifically when it comes to the contribution or not of drug shortage situations in North America. I very clearly remember the question that you were asking at the backend of our Q3 call. And my answer to that, which at the time was trying to alert everyone to a higher level of conservatism, we have -- our view on this has evolved over time. And over the course of November and December, we have been a bit more upbeat as to our potential ability to capitalize on longer-lasting drug shortage situations. In the meantime, we have turned a bit more conservative again from what we're hearing, from what we're already starting to see in the market. And therefore, in the interest of truly meeting expectations, again, we have turned a bit more conservative when it comes to modeling and guiding you specifically when it comes to the drug shortage phenomenon. Hope that's helpful.

Veronika Dubajova: That's very helpful. And if I can, one follow up, on the Kabi part of the portfolio, the infusion therapy business meaningfully slowed down in the fourth quarter. I know you had a very strong Q4 last year, but anything you can comment on, on that front would be helpful. And I'll jump back into the queue after that. Thank you.

Rachel Empey: Veronika, again, me. I think you did a very good job at answering your own question. We had meaningfully strong growth in the fourth quarter of 2017. We specifically were profiting from some drug shortages in North America that started for some of those products in the fourth quarter of '17. And essentially, you see the annualization of that in Q4. Nothing to worry about in terms of the overall trends for that business, but just a technical effect from that lapping of the shortages from a calendar perspective.

Stephan Sturm: Veronika, was that clear?

Veronika Dubajova: That was very clear. Thank you.

Stephan Sturm: Okay.

Rachel Empey: Thank you.

Stephan Sturm: Thanks.

Operator: Julien Dormois from Exane.

Julien Dormois: Hi, good afternoon, Rachel, good afternoon, Stephan. I would also limit myself to one question, but in three different -- with three different topics on the same one. It's related to biosimilar. You've indicated in the prepared remarks that you expect further development of the product pipeline. So I was wondering whether you could give us an indication of how many products or how many projects you would expect to enter the clinical pipeline this year. The second step would be just to know whether you're purely focusing on organic efforts on that side at the moment or if we should expect something inorganic here. And the last one is in terms of spending on biosimilars. You've indicated you've spent like €166 million in 2018. Was wondering whether you would provide a guidance for 2019.

Stephan Sturm: Julien, it's Stephan. I want to be -- as is industry practice, I want to reserve my comments on something that is high level. I'm not keen on naming names of individual compounds as long as they are not close to a market launch. So as you know, we have acquired from Merck a biosimilars portfolio in the mid- to high single digits of compounds. The three names that we have given so far is adalimumab, is pegfilgrastim, is tocilizumab. We have -- when we're talking about further development, what we do mean is to try and take that number of compounds that we currently have further along in that development process rather than adding additional ones to the pipeline. To the second part of your question, I do not want to rule that out. If that were something for us to do, it would have to entail negligible upfront and running expense for the time being. You have heard our mantra. People at Fresenius need to earn the right to spend money first. So I am keen to see the effects of the market launch of our first compound. I want to see first revenues. Ideally, I want to see more than just one product launch before we can raise our confidence level in spending more.

Talking about spending levels, over to Rachel.

Rachel Empey: Thanks, Stephan. We're not planning to give you a very specific guidance on biosimilars for 2019. But what I can say is, clearly, our teams are remaining very active in terms of the product development pipeline. And we are also building up our sales and marketing capabilities ready for that product launch that Stephan was talking about in terms of 2019. I don't think you should expect a very significant increase year-on-year, but nevertheless, clearly, a continued spending, both in terms of development costs and marketing costs.

Julien Dormois: Very clear. Thank you.

Operator: Ed Ridley-Day from Redburn.

Ed Ridley-Day: Thank you. Good afternoon. In terms of Helios, I understand that you do not want to give absolute guidance on cost or efficiency savings overall. But how should we look at mid- to long-term margins now for Helios Germany? Stephan, you've given us some helpful commentary about where you feel you are now in terms of particularly looking into '20. But it would be helpful I think for everyone if we could either have more absolute guidance on the potential offsets that you can deliver or where we should really be looking at longer-term margins for that business.

Rachel Empey: Thanks, Ed. A couple of comments from my side. So firstly, you heard quite a lot of detail from Stephan in terms of the activities that we see that underpin the comments that I made about how we're going to offset some of the negative effects, both directly and also indirectly. It is clear that we've seen a margin dilution in 2018. And if you have a look going forward, without wanting to give you a very concrete guidance, but maybe to try to give you some kind of feel, if we don't see any further significant additional headwinds, we think that the kind of level of margin that we currently have is something where the risks against that margin remain quite manageable. So clearly, we're talking about a status quo situation in terms of the boundary conditions, but against the margin level that we've reached, we think that the risks against that are manageable. I hope that gives you some kind of feeling for what we see.

Ed Ridley-Day: Thank you.

Stephan Sturm: I would like to add a little softener in here in as much as saying that is against the backdrop of the current regulatory environment. And there, we have a few ideas as to what could be discussed. But in particular, those issues that have not been discussed yet, the unknown unknowns that are obviously outside what Rachel just said, but let them come. We'll deal with them.

Ladies and gentlemen, thank you for your interest. I'm acutely aware that there is an unequal split between prepared remarks and Q&A. I will take it up with Markus to see to it that we may want to bring down -- bring forward starting time of this conference call to 1:30 to have a bit more time for your questions. It was well meant to provide you with much of the information via the prepared remarks.

Rachel and I will be on the road from tonight. We will see many of you. We'll be touring Frankfurt, London, Paris, Zurich, the East Coast. Rachel will do a series of sales group briefings. And I hope that, for many of the unanswered questions that you're likely to have right now, we'll find an opportunity to at least discuss them. Thank you very much for now. Hope to see you soon. All the best.

Rachel Empey: Thank you.

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