FRESENIUS

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PRESENTATION

Markus Georgi: Thank you, and good morning, good afternoon, depending on your time zone. Thanks, everybody, for joining us today. It's my pleasure to welcome all of you to our Second Quarter 2023 Earnings Call. With me on the call today are CEO Michael Sen and CFO Sara Hennicken.

Before we start, I would like to draw your attention to the cautionary language that is included in our safe harbor statement on page 2 of today's presentation.

And without any further ado, I hand it over to you, Michael. Floor's yours.

Michael Sen: Thank you, Markus. Hi, everybody, a warm welcome. This is Michael. Sara and I are going to go through the strategic, operational, and financial highlights for the second quarter and the first half, and then we will take your questions.

Without doubt, Fresenius has had an eventful second quarter and first half. You clearly see marked progress in every part of our #FutureFresenius program. We continue to deliver consistently improving performance. Kabi and Helios delivered great numbers, both year on year and sequentially.

The simplification process is moving ahead as we said it would, full support at the EGM in July. Now both companies can move ahead more quickly with their strategies and in delivering value. The challenges at Vamed are being addressed quickly and stringently. Also, here, a clear shift in gear.

Transparency has been improved. At Kabi's Capital Market Day in May, we shared information with the market to give everyone more insight as well as understanding and to also lay out their path in terms of earnings growth over the years. Across the company, we've seen real traction with our structural productivity enhancements.

The divestment of noncore assets is a priority as well. This is important when looking at our leverage ratio, in essence, another legacy issue that we are working through. While we do not have specific announcements to make on this front as yet, I can assure you that the work is progressing well. These divestments will help further sharpen the business and support our balance sheet, with positive knock-on effects on lower debt and less interest rate expenses.

All of this means that, quarter by quarter, we are fulfilling our plans to simplify, sharpen our focus, and accelerate shareholder value. And as a global healthcare company, it really means renewed strength to fulfill to our core purpose of advancing patient care.

Our operating companies Kabi and Helios both achieved very strong financial performance in the second quarter and the first half, also sequential improvement in operational and financial performance, revenue up 9% year-on-year and EBIT up 5%, i.e., clearly catering earnings growth.

We've talked about the situation at Vamed, which hurt the results. But also here, we are progressing rapidly ever since group stepped in. We are taking action, making the right changes, and putting the asset back on track. The overall goal is to make the individual businesses at Vamed future ready. This led to one-off charges of roughly €300 million booked for the quarter, mostly for asset impairment, hence mostly noncash.

Look, we're getting our hands around the challenges there, new management in place, Board-level responsibility. We know what has to happen, and we're acting quickly. There will be additional measures, again the bulk noncash, as we work through the entire situation. We will look to draw a line under this, latest, latest by yearend.

We are taking tough action and doing so with speed and diligence and are doing this with the best interest of shareholders in mind when realigning those businesses. There are attractive assets within Vamed, a profitable rehabilitation business operating in a €12 billion market in DACH and Central Europe, i.e., Germany, Austria, and Switzerland, a market that is growing mid-single digit. There's a High-End Services (HES) business for hospitals, which participates in stable and future-ready markets growing nicely, and a Health Tech Engineering (HTE) unit which will house the derisked and smaller-scaled project business.

Vamed is an investment company, and we will evaluate all options going forward.

We expect the turnaround, i.e., positive contributions in underlying operational earnings, for the second half of this calendar year as well as visible and meaningful improvements year-over-year in fiscal year '24 and beyond. Sara will talk more about this in a moment.

Now even as we move ahead in revenue and profits in our operating companies, we continue to take out costs. That is the self-help we've been talking about. This lays the basis for a continuous productivity culture within our businesses. This is part of the plan to structurally improve Fresenius and make our company more efficient on a permanent basis.

We are looking at our footprint and portfolio, optimizing processes, and streamlining procurement, 500+ cost-saving measures identified across all areas in Kabi alone. Our operating companies both performed within the margin bands that we've set for them.

Now looking out for the rest of the year and reflecting the progress on the simplification of our group, we are now switching to an outlook excluding Fresenius Medical Care. Considering performance to date, we're in a position to improve our revenue outlook.

Kabi's outlook, top and bottom line, was improved at the Capital Market Day in May. Goes without saying that we would have loved to go further based on that very strong momentum. Due to being at early innings on the Vamed restructuring, we stick to our group EBIT outlook from February for now.

Drilling down a bit into Kabi and Helios, you see that they have turned in some outstanding numbers. Both top line and at the profit level, Q2 was very strong.

At Kabi's Capital Market Day in May, as you recall, we talked a lot about growth vectors, Nutrition, Medtech, Biopharma. Our emphasis is paying off, with these activities in total turning in double-digit growth in Q2.

Pharma's IV generics business is core to Kabi's activities, with its leading market position and consistent customer relationships. It reported solid organic growth of 6%. In total, Kabi revenues were up by a powerful 8% year-over-year in organic terms.

For EBIT, Kabi is again within its margin band at 14.2%. And if you're looking at the business on an EBITDA basis, Kabi margins were very strong at 20%.

Inflation is still a challenge for the whole healthcare sector, but they've offset some of this with stringent productivity programs.

Helios delivered a strong set of numbers. The top line came in above the revenue growth band. It was a good quarter also on the margin level. The quality of our Quirónsalud asset paced this performance.

The ongoing capacity of both Germany and Spain to really offset inflationary pressures is remarkable. Fertility, to my liking, also showed continued growth momentum, helping the overall operating performance.

On July 14th, we achieved a goal we've talked about for a long time. At the FMC EGM, an overwhelming majority not only voted in favor of the legal form change but also approved all the Supervisory Board nominees. This is a positive step that will ultimately allow each management to pursue their value-enhancing strategies more quickly and more efficiently. It may not seem like a big step, but I can assure you it is.

I will serve as Chairman of the Supervisory Board of the new company, reflecting our 32% holding. I have complete confidence in the FME25 plans they have announced, and I'm already seeing progress as we speak. As a shareholder, I'm genuinely behind ensuring their success.

Not only is the intercompany structure going to be more simple, but we will also have a leaner and more efficient Fresenius Management Board. It will represent our renewed focus on Kabi and Helios as the core operating companies. Following FMC's deconsolidation, which should be completed by the end of the year, Helen will step down from the Fresenius Management Board. Going forward, Michael Moser, who's new to our Board, will take Board responsibility for Vamed. From my perspective, the leaner Management Board will help speed up decision making, free up management time, and will foster greater agility. The Board will be much closer to the real business.

At the core of everything we do is our strong purpose: advancing patient care. We made considerable progress with broadening our Biopharma portfolio further. The first example is the launch of our biosimilar Idacio, a biosimilar to Humira, in the US. From the outset, I've been telling the market that this will have only a small financial effect in 2023, but this is an encouraging development, showing Kabi's ambitions in the biosimilar space.

The second example is EMA's approval for mAbxience's biosimilar bevacizumab version that's produced in Garin in Argentina, in our Argentina site. As you remember, we acquired the majority in mAbxience and run the company in partnership with Insud Pharma.

The European approval of the Garin site gives access to a very competitive supply chain platform for a fairly volatile market environment driven by a lot of tenders. So we expect a positive financial impact from this. This approval also opens doors for our CDMO customers by demonstrating just the ability of the Garin facility to support not only US but also European markets. mAbxience operates a B2B business model. So having sufficient capacity and a backup manufacturing facility helps the business stay cost competitive. This is a real strong step forward.

You may have also seen in a recent interview from our biosimilars head that further work on tocilizumab biosimilar approval for the US is needed. At the same time, we received really positive news that our tocilizumab candidate is the first biosimilar recommended to be granted marketing authorization by EMA's Committee for Medicinal Products for Human Use.

We also expanded our critical care portfolio by launching vasopressin injection, a generic equivalent to Vasostrict. Diversifying our portfolio with a leading medicine is a testament of the stringent implementation of Kabi's Vision 2026.

At Helios, we are pushing initiatives aimed at enhancing care delivery for our patients. Quirónsalud's University Hospital in Madrid developed and launched an initiative, the so-called HOPE project, which incorporated technical innovation and an integrated practice unit model for more than 4,000 patients with cancer that it serves annually. First, data collection systematization and early detection of adverse effects has contributed to a significant reduction in hospital admissions. Second, the overall process time was cut from 10 hours over 3 days to just 2 hours in a single day. Further, patient waiting room time was cut substantially. Moreover, the average cost per cancer treatment has decreased 24%, and the number of patients who can receive treatment on a given day has doubled. A very good showcase of driving real clinical outcome and bringing down costs.

Moreover, Helios Germany launched an employee assistance program. This is a future-oriented psychosocial counseling service. The aim is to promote the mental health and general wellbeing of employees. This is good for employees, and it's good for all companies.

All of this shows how committed our passionate workforce and team are in continuing to innovate and provide expert care for the good of the patient.

Now let me turn it over to Sara for more detail on the financials.

Sara Hennicken: Thank you, Michael. A warm welcome from my side. As we said in February, 2023 is a year of structural progression. Our journey towards #FutureFresenius is characterized by three principles: structural simplification, sharpened focus, and accelerating performance. These principles apply as much to finance as to any other part of Fresenius.

Most visibly, the positive vote for the change of legal form by the shareholders of FMC was a clear highlight on our path towards structural simplification. From Q3 onwards, we will report most KPIs excluding FMC. My comments on our financial performance and outlook will reflect this new reality. With that, let me walk you through our financials, which show how we are accelerating performance, our third principle, with a strong Q2.

Revenue reached €10.4 billion, with a strong growth rate of 7%. Operating companies performed even better.

EBIT was very strong, with 15% growth mainly driven by FMC. In a world excluding FMC, the strong performance of the operating companies offset Vamed's weakness, resulting in a flattish EBIT development.

Interest expenses increased by more than 50% year-over-year. Main drivers were refinancing activities in a higher interest rate environment. For the full year, we expect interest expenses of €400 million to €440 million excluding FMC.

The tax rate before special items was 27.3% in Q2 and 26.2% for the first half of the year. This was mainly due to higher taxes at Fresenius Medical Care and no capitalization of tax losses at Vamed. Without FMC, our tax rate would be 25.6%. Thus, for the full year, we expect a tax rate between 25% to 26% excluding FMC.

Operating cash flow was robust at €1.2 billion, mainly due to the strong performance at FMC and Kabi.

With respect to the leverage ratio, we are above our target range with 3.9x. Without FMC, our leverage ratio was at 4.2x. Q2 is normally peak leverage with softer cash flows in the first half of the year, plus dividends paid in May.

Negative EBITDA development at Vamed also played a role, still clearly not where we want to be. The focus is on deleveraging. At the end of the year, the company targets to be below 4x without FMC. Not included are any divestments we may want to make to sharpen the focus, our second principle. That, of course, would give us additional headroom.

Now let's take a closer look at Q2 segment performance. Kabi continued its good start to the year with revenues above €2 billion. This is a strong 8% organic growth above the structural growth band of F-cube, particularly pleasing to see the three growth vectors contributing with a combined 12% organic revenue growth.

Medtech was strong at 9%, mainly driven by the good development in the blood collection business as well as successful product rollouts.

Nutrition saw excellent growth of 13%, driven by good business development in Latin America and normalization of hospital operations in China.

Biopharma growth above 30%, driven by our product launches in Europe and the US as well as continued strong growth in Latin America.

Pharma picked up in growth, showing a nice 6% growth rate, driven by positive volume but also some pricing effects.

The EBIT margin was again above 14%. EBIT growth accelerated sequentially. The growth vectors were nicely contributing with a strong 12% growth, translating into a margin of above 8%.

But also, Pharma showed an accelerated performance with 7% growth and a margin of 21.6%, an excellent achievement mainly driven by the strong revenue growth and good momentum on cost savings that mitigated ongoing inflationary cost pressures.

Helios also had a strong quarter, very robust 7% organic growth above its structural growth band. Helios Spain was once again the major contributor with a very strong 12% growth driven by excellent activity levels, especially in the outpatient business.

In Germany, we saw solid top-line development with 4% growth. While patient volumes grew year-over-year, they are still not fully back on a pre-COVID level. Revenue growth was further supported by more complex treatments and thus favorable mix effects.

Fertility saw ongoing positive growth momentum with 11% growth in Q2, also helped by a good mix effect and price increases.

With €311 million, the EBIT margin stood at 10%, right in the middle of the structural margin band of 9% to 11%. Year over year, we are seeing some margin pressure, mainly driven by inflationary headwinds as well as less favorable mix effects in Spain. Higher energy costs at Helios Germany were compensated by stringent energy-saving measures across the clinics as well as government support. Overall, EBIT grew by 3% supported by the high activity levels in Spain as well as ongoing cost-saving initiatives.

Over to Vamed, Q2 saw a continuation of the weak performance with a negative EBIT of €20 million. As we announced in Q1, we are taking decisive actions to address the challenges at Vamed quickly and with rigor. We have initiated an in-depth analysis of Vamed’s processes, its governance, and business model.

In recent years, Vamed pursued a growth and internationalization strategy at the expense of profitability. That led to a heightened risk profile starting to bite in the pandemic, as many of these business initiations did not materialize as planned. In addition, cost increases put pressure on existing contracts, in particular in the project business.

A comprehensive transformation and restructuring program has been launched, with the immediate target of, A, prioritizing profitability over growth and, B, reducing complexity as well as the overall risk profile.

Substantial adjustments to the business model and volume have to be taken. Key elements include, first, in the project business, a redimensioning of activities and a material reduction of the risk profile; second, on the services side, a systematic withdrawal from main international markets outside Europe and noncore activities. And of course, this also includes a comprehensive reassessment of the company’s organization and risk culture.

As a result of the termination of business activities, €332 million of special items have been booked in Q2, resulting from write-downs of balance sheet positions and building of provisions. They are predominantly noncash and excluded for guidance-relevant purposes. Based on the comprehensive restructuring work ahead of Vamed, the new management team expects potential further special items of around €200 million to €250 million as of today. There can be an improvement to this number but also a tail end.

The figure includes restructuring costs of around €60 million to €80 million with an expected payoff of up to 2 years. In addition, further charges for discontinued activities are expected. Potential further asset revaluations and restructuring cannot be excluded as per today.

This assessment is based on detailed analysis carried out by the management team at Vamed with the support of external experts and shall be completed by yearend.

Looking ahead, Vamed management is expecting an operational turnaround for the second half, with sequential improvements in Q3 to a positive Q4. This recovery is mainly driven by the technical services and the rehabilitation business. The core of that business is expected to be performing in the margin band in the second half of the year. Based on the current status of the restructuring program, Vamed is also reaffirming its expectation to be within the structural margin band of 4% to 6%, latest by 2025.

Coming back to structural simplification and the planned deconsolidation of FMC, following the EGM on July 14th, we will start to apply IFRS 5. From Q3 onwards, FMC will appear as a single line item in the group's balance sheet and P&L. This will have a major impact on how we disclose our financials as well as KPIs. For illustrative purposes, we have highlighted some pro forma Q2 KPIs on the left-hand side.

Moreover, IFRS 5 requires a revaluation of FMC in our accounts. Based on the very strong share price performance of FMC over the recent months, we will not have a one-time P&L effect. Once the change of legal form takes effect, we move from IFRS 5 to at-equity accounting. This will potentially have further deconsolidation effects but, in any case, recognized as a special item without a cash impact.

Operating cash flow increased year-over-year by 17% to €1.2 billion. Q2 '23 was positively impacted by the strong operating performance at FMC and Kabi. Cash initiatives launched at Kabi show positive impacts on its working capital development.

On the other hand, phasing effects from higher working capital, in particular at Helios Germany, weigh on the cash flow. Moreover, the negative EBIT development at Vamed also had a negative impact on operating cash flow.

The Q2 performance took the group's last-12-months margin to 10.7%. Deducting CapEx of 4.2% the last-12-months free cash flow margin stood at 6.5%. Excluding FMC, the operating margin was 9.7% with a free cash flow margin at 4.8%.

Our cost-saving program is progressing well. We are delivering on our structural productivity measures. We achieved about €280 million of cost savings. Excluding FMC, we are at €145 million. We already realized more than half the targeted cost savings for 2023 in the first half. Kabi is even further ahead. At the same time, our one-time costs are tightly managed and nicely below what we initially accounted for.

Consistent with our structural simplification, we are now presenting our outlook without FMC. On the top line, we now expect an improved mid-single-digit organic growth revenue for the full year. This reflects the strong operating performance of Kabi and Helios in the first half of '23. Previously, we guided low to mid-single-digit growth for FSE including FMC.

As far as EBIT is concerned, we stick to our outlook but are optimistic that we will end in the upper half of it.

Moving over to the segments, Kabi raised its guidance for the Capital Market Day for revenue as well as EBIT. This is now reflected here. Organic sales growth is expected in the mid-single digits rather than in the low to mid-single-digit percentage range. As far as EBIT is concerned, Kabi now expects a margin of around 14%. Previously, we guided for 1 percentage point below the structural 14% to 17% margin band.

The expectation for Helios is unchanged.

Vamed is still expecting revenue to grow in the low to mid-single digits. For EBIT, Vamed still expects to be clearly below the structural margin band of 4% to 6%. However, a positive EBIT for ‘23 will be a stretch. Vamed is optimistic that operating performance will improve in the second half of ‘23 and that we will have seen the trough in Q2, with sequential improvements from here onwards.

In the backup, you will also see we have updated our other guidance items to account for the exclusion of Fresenius Medical Care. I will not go over them in detail in this call.

With that, happy to hand back to Michael.

Michael Sen: Thanks, Sara. Before we get to questions, I want to underline the progress we’ve made at Fresenius in a pretty short time and where we still have work to do.

Clearly, the focus on Kabi and Helios as the core to #FutureFresenius is paying off. We’ve focused their organizations, simplified our priorities, and yes, we got legacy challenges that we will also fix, but underlying performance is markedly improving, both in quality and in consistency.

Two quarters are not a trend but are a good start. And then what we are doing here is not just short term. We will drive all of this to ensure that the value-enhancing measures are permanent, long term. Costs will come down further, and we will and are working on the divestment strategy in a deliberate and concise way.

We’ve cleared away a lot of the complexity that we had running the company. This is a good thing for everyone.

We’re keeping this momentum going, continuing to change the culture, improving the company and its people, the governance and its risk management.

We had a great first half, and 2023 is looking strong, a year which we labeled as the year of structural progression. We’re laying the foundation to make Fresenius even better for 2024 and beyond.

Now let’s take some questions.

Q&A

Operator: Ladies and gentlemen, at this time, we will begin the question-and-answer session.

Veronika Dubajova: Good afternoon, Michael, Sara, and Markus. And thank you for taking my questions. I will keep it to two, please. One big picture, just would love to get your perspective obviously with the restructuring of Vamed into the three new operational segments.

What does that enable you to do that you were not able to do before? And I guess, does that change how you’re thinking about the future of Vamed within the broader Fresenius Group? And maybe sort of when might you have a better sense for, as an investment company, what the future of this business is?

So that’s my first big picture question maybe. And I’ll let you answer that, Michael, and then I’ll ask my second one after that, if that’s okay.

Michael Sen: Okay. Well, good catch, Veronika. Hi there. Look, yes, what we're saying in essence, we're realigning the business and putting it back on track. Yet Vamed, as it may have been perceived as not interested or a convoluted business from the outside, has clearly structured businesses which belong to an end market and are very attractive. Therefore, these are three very distinct assets, very distinct business models, very distinct customer groups. And they need to be managed with their own tools and have a totally different risk environment.

And that's why we were highlighting that they are pretty attractive and operating in attractive markets, for example, the rehabilitation business, the second a High-End Service business. And then there's a project business where, if you listened to Sara, this is exactly where we're going to -- how should I say it -- right-size it to really have the real risk-bearing capacity matching the risk profile, matching the capabilities, but also matching the balance sheet.

In essence, this is, like all our steps, giving us more optionality to go forward. And then on top of that, it is important to understand that, as an investment company, first and foremost, it means that we manage and steer the business differently than our operating companies because we don't have 100%.

Yet what we've done, we have put in place measures to have a real stringent governance and, since we're the majority shareholder, to ensure that all shareholder interest, i.e., shareholder value creation, is at the pinnacle of everything we do.

So we changed the Supervisory Board. We got now two of our best board members in there. Sara is in there. She is now also chairing the Audit Committee. Michael Moser is in there. And we have discussed with the management, which by the way is new. Two folks left the old Management Board of Vamed. So two people are new to the Board. And we have been discussing with them a clear plan how to turn the business around. And that is so important because, in essence, that plan is the core tool for everybody within Vamed to realize what they need to focus on. And that plan can be dissected in those three assets as well. And you heard me say all options are on the table. And I also said it caters more optionality.

Veronika Dubajova: That's very clear. Thank you. And then my second question is both for you and for Sara. Just if I look at the OpCo EBIT growth at 5% in the first half of the year, I know you've given us guidance including Vamed. And I'm asking you to comment excluding Vamed. But I'm just curious. Are you comfortable with sustaining this sort of mid- to high-single-digit EBIT growth in the OpCo in the back half of the year and then as we shift into 2024? I don't know if you have any thoughts on that, either for you, Michael, or for Sara. Thank you.

Michael Sen: Want to start?

Sara Hennicken: Look, I think we have thought about our guidance and the guidance we are presenting today. I think, as Michael alluded to, we are sticking to our EBIT guidance for now. We are at the initial innings around the Vamed story. But, however, as I said, I think we feel -- we hope that we achieve the upper half of what we stated as the EBIT guidance, as we see how the second half of the year will materialize.

Michael Sen: Yes, and let me add I think it is implicitly in your question. Obviously, without Vamed, the whole thing would look much better. And that's why we explicitly said, or I even said it, I would have loved to also adjust the entire -- maybe that was our initial plan when we started the whole exercise. But it is what it is. And we are dealing with what we have here. And the operational companies, the OpCos, are actually in pretty good shape. I guess, during the call, we will debate how second half compares to the first half. Kabi told you what they expect for the full year. They delivered in Q2. And we expect them to deliver further in Q3 and Q4. And Helios keeps on running.

And then put in mind that we said Vamed is going to turn around. Probably Q3 more stabilizing, and you see more visible kind of trajectory turn in Q4 because, don't forget, the new management just started like, what, 2 weeks ago. But the plan is there. The plan is in place. And that's what they were going to work on.

Veronika Dubajova: Okay. Understood. Thank you so much, guys.

Hassan Al-Wakeel: Hi, good afternoon, and thank you for taking my questions. I have two, please. Firstly, again on Vamed, could you talk about what the remaining order book looks like, both in terms of quantity as well as quality, and your confidence around the feasibility of these orders? And given the significant restructuring here, how do you view the trajectory of margins in the remainder of the business next year and into 2025? And will the expansion margins be more backend loaded?

And then secondly, on Kabi, could you talk about the step up in growth in the clinical nutrition business and how the strength in the quarter is decomposed by region as well as perhaps enteral versus parenteral? How much of this growth is share gains versus a stronger market to your mind? And how sustainable is this? Thank you.

Sara Hennicken: Should I start with Vamed? On the order. So what we have is an order backlog of around €3.2 billion [~~€2.3 billion~~]. And that is composed, if you want, in -- I would say -- 60% in the DACH region, so Germany, Austria, Switzerland, and the residual is international.

Now if you look at it and compare it, there is some in the order backlog where we do have discontinued activities, which will kind of work their way out of the system over a period of time. It's fair to say, in general, our order backlog as it currently stands is for around 2 to 3 years. We have obviously done an extensive KPI analysis on that backlog.

There is in the €3.2 billion [~~€2.3 billion~~] a conditional order backlog, which we are highlighting, of around €1.2 billion -- sorry, it's around €1 billion. And that is predominantly subject to confirmation of financing. I think that is also an element you should probably be aware of in the current situation with heightened interest rates and more volatility. And that is also a consequence of what we are seeing on the macropolitical arena. There is obviously a longer lead time to some of those projects which we are normally seeing. And thus, some of that order backlog clearly is conditional on a confirmation on financing.

I hope that helps you a little bit on that.

Then the other question was on trajectory of margins. If you look at it, I would want to come back to what Michael said on the decomposition of Vamed into the three segments. So if you look at the services business and you look at, in particular, high-end services or the rehabilitation business, the core of that is performing well.

I think what we are seeing here, and this is exactly what we are doing in the restructuring, we have focused too much on growth, and we are focused too much on venturing out in too many countries.

Now the restructuring is focused on clearly kind of having a refocus on Europe, having a refocus on really our core and the services. And what we can see is that the core of services is not burdened by one-timers, is performing, and is performing in the margin band. And that will drive kind of the sequential improvement within Vamed.

Now the project business, I would say, is harder hit, in particular also in terms of the price increases we are seeing as a result of the war in Ukraine. And that impacts our projects. And as I have given you a 2- to 3-year kind of work through on the order backlog, you see that, obviously, there are some projects still in there where profitability is challenged. And that will continue, and we will continue to see for some time.

So again, here, however, on the project side, I think it's very fair to say what we're doing here is clearly -- and that's part of some of the special items we have booked in Q2. We've reevaluated the assets. We again focused on our core business and on the project side as well. And we clearly downsized the risk profile of that asset to make it fit to an overall Vamed balance sheet and to an overall Vamed risk-bearing capability.

Michael Sen: Hi, Hassan. This is Michael. Let me add on the Vamed side. Look, there is logic behind having those three businesses, what Veronika also asked. And I think Sara just outlined that they have different dynamics.

And minimum two of them are in pretty good shape and are in very attractive markets. All of them are, but two of them are in pretty good shape as in being in attractive markets which are growing, which are sizable, and the assets are attractively positioned in that one. So at the end, that then boils down to, how do you manage those assets to tap into that potential. And the plan calls for the trajectory Sara has been alluding to.

On the project business, that needs to be more right-sized. But in the core, this is also an attractive business where you can, with the right capabilities, with the right risk management, with the right scoping, also make an attractive business out of that one.

So two of them, let's say in '25, 2- to 3-year timeframe, should even be able to cater earnings margin more at the top end or beyond the top end of the margin band, whilst if I take all three together, where they would be in the margin band is then a function of how the project business develops going forward. So there, you already get more transparency what you have seen.

Now maybe on the Kabi side, I know this is your favorite one on the nutrition and enteral and parenteral and the split over all geographies. This I would think would take longer than the call. But I can tell you it was a very nice growth rate on nutrition, actually broad based across all regions. Let me start with the US, nice growth but from a very small base, as you know, right? We are there with parenteral nutrition, early innings, but there's growth. Then very broad based in Latin America, in Europe, in Asia, and also in China, by the way, which was holding us back in the last months of last fiscal, and then we saw the nice pent-up in January and the first 2 weeks of February, by the way, at that point in time, with lower SG&A spend, which normalized a little bit now.

So broad-based growth, by and large, this is attributable to the entire Kabi. What we also see that we grew by volume and by price. And where we have pricing power, we made use out of that one. And that is especially true also for nutrition. And that was, for example, in Latin America the case. So it was a very nice kind of growth trajectory for nutrition and overall for Kabi on volume and on price. And yes, I guess that's about it.

Hassan Al-Wakeel: That's very helpful. If I can follow up on Vamed, where I appreciate the transparency, just on the phasing of the margin, is that project weakness likely to still more than offset the improvement in the other two businesses in 2024? And so is that 4% to 6% band in terms of the margin which you expect in 2025 likely to be more backend loaded?

Sara Hennicken: So maybe let me take that. And I think, coming back, it's early innings, right? The new management team is in office, so to say, since 1st of July. We are clearly working with them towards that restructuring plan. I think the ambition is for that margin band to shine through earlier. However, I think it's too early to commit. That's what I would say. So what we said, in the margin range by '25, but there is a strong ambition for us to overdeliver.

Michael Sen: And of course, Hassan, there needs to be -- what we said, both of us, in our speech, there needs to be a clear visible improvement, meaningful improvement year-over-year. So '24 needs to be meaningfully better than '23. And for '23, we even gave you the data points as to where we believe they will end up, and that would be -- the base starts today, but that would be the base then on a year-over-year meaningful improvement. And then you go again into a year-over-year, and the calibration is with the margin band.

Hassan Al-Wakeel: Thanks a lot.

James Vane-Tempest: Hi, good afternoon. Thanks for taking my questions. First one, please, is just curious on the portfolio overlap potentially at Pfizer's North Carolina site, devastation with tornados, just wondering if that creates shortage opportunities.

Second question is just the overall pricing environment right now for traditional injectables, if you can comment on that.

And then my final question is -- interesting slide giving the metrics excluding FMC. I was just wonder, looking at the return on invested capital going from 4.6% to 5%, just wondering whether you used book value or market value or how we should think about how you calculate that. Thanks very much.

Michael Sen: Should I start? Let me start. Let's start with Pfizer. Look, I've seen all the reports when the thing happened. First of all, it's a terrible thing which was taking place. And first and foremost, it is all about the patients in America and how we can cater them. And what I can tell you immediately, we are in touch with all relevant stakeholders. We are in touch with the regulators, with the FDA. I've reached out to the CEO of Pfizer, offer our help. And the most important thing, we are with our customers and partners.

Now let me, from what we know, try to put this thing in context. This is not a long-term systemic capacity outtake of one player. This is a terrible event which happened, and it remains to be seen what is really impacted, warehouse, factory, cleanroom, safety stock, and so on. So you see there's a lot of questions where the answer is probably not in our court but with somebody else. What I can tell you is, as I said, we are close to everybody which matters.

The second thing is we are there. We have capacity. Fresenius Kabi is in the US. We have capacity in the US. And we are in conversations with our customer. And the way it works is we really go into nitty-gritty details. We go SKU by SKU. People need to know what is in stock, what is in safety stock, and what they need.

And if they need it, then we ask about -- or the second question is, what kind of contract is it? Are we also on the same contract? So you have to deliver with the same price which was priorly negotiated, or is there a list price? But that are the second to third derivation questions which come.

So it's too early and too premature to call for any kind of opportunity because, first of all, as I said, we are there on the ground for customers and for patients. And even customers, we don't see them panicking or freaking out. So they also know how to deal with the overall situation.

So that is less a top-down exercise for a management consultant coming from market and market share. You really have to go medicine by medicine. And then if we have that, then it depends on, do we have the capacity? Do we have the stuff in stock already? And then we are ready to deliver. But that's too premature to put a number on that one.

Second question was the pricing environment. Look, yes, pricing environment, it’s good that Kabi had their Capital Market Day because, as far as I recall, the CFO Andreas Duenkel also said that the pricing will, in essence, more normalize in the second half, i.e., and therefore, we’re so happy about seeing the IV generics and fluids business cater such a strong number in Q2.

The underlying industry structure in the US has not changed that there is a lot of competition, a lot of new entrants, and that there is intense pricing. Let’s call it that way.

On the other hand, we also have drug shortage. And we have been able in Q2 especially to step on top of the normalized business, if you so wish, to step in, in the supply chains where stuff was needed. That is obviously something you cannot plan for. That is very much driven by which customer needs what in very short term. And if we’re there, the likelihood obviously increases the larger your portfolio is and the more capacity you have and obviously a functioning supply chain and warehousing and everything. And therefore, we expect an intensified pricing environment in the second half. But again, shortages are also there. And that’s why there’s a little bit a normalization.

Sara Hennicken: So then let me move to the ROIC question. I think, in general, if you look at the KPIs, you will see that the profitability-related KPIs improve in a world without FMC. And that is no different on the ROIC side. And we define ROIC as net operating profit after tax over invested capital. And that means book value of invested capital.

Now it’s at 5% for H1, and we have given an outlook or guidance for the full year which says it will be around that number, maybe slightly better than that.

James Vane-Tempest: That’s great. Thank you.

Graham Doyle: -- taking my questions. Just two from me. Firstly, just on the -- you can see on slide 20 you’ve kind of got -- you highlighted some things that you’ve achieved and are kind of in the process of achieving.

I can see the FMC deconsolidation is kind of the gray tick, which sort of implies it’s on the way, and we know it’s more a matter of time than anything. And maybe could you give us some context on where you are in the portfolio exit? So it was -- like do you have the assets identified and sort of structured in such a way that you can sell them? And are those processes ongoing? I appreciate it’s slightly tricky, but any color you could give there is great.

And then one quick question on guidance, when I sort of tease out the individual parts, it looks like you should be able to get to the very top end of your range for this year, assuming Vamed plays out as you’ve sort of indicated you’re hoping it will. Is that the bit that’s sort of holding you back from changing the guidance then, just the fact that there’s just some little risk around that rather than anything -- any sort of variability around Kabi or Helios as we look into second half? Thank you.

Michael Sen: Look, Graham, hi. It’s Michael. Thanks for the two questions. Both can be answered pretty brief. If you listened to what I’ve said, you said, have you identified the assets, if it’s structured. We’re beyond this. So that’s why we said we have -- both of us said we have the leverage in mind, and there are different levers to the leverage. That one, the portfolio is, by the way, not only a lever for the leverage. It is more also on focusing and focusing on the really core and making that one even stronger by redeploying capital maybe. So yes, stuff is underway. And if we can report on this stuff, then we will do so. But yes, identified anyways. Some of them are structured. Some of them are even in the process, if you go by a degree of implementation. And on the guidance, both of us also -- how should I say -- said what you said.

Okay. Graham?

Graham Doyle: Sorry, just got cut off. No, that's great. I really, really appreciate it. I wasn't quite expecting as much transparency there. Thank you so much, guys.

Hugo Solvet: Hi, hello. Thank you for taking my questions, two on Helios, please. On volume growth, which you mentioned is not back yet to pre-COVID level, when are you expecting volumes to fully normalize, if you have any indication on that?

And I think, Sara, you mentioned less favorable mix in Spain. Can you maybe talk to what you're seeing in terms of the different activities that you have in Helios Spain there? That would my two questions. Thank you.

Sara Hennicken: Sure, happy to go in that. First of all, I think, just to reflect on it, growth is not yet there in terms of patient admission on a pre-COVID level. However, year over year, we do see that growth coming in. And we have seen a nice growth in H1 this year compared to H1 of last year. So that is something we are optimistic on.

And in terms of Quirónsalud, I said, with the 12% of growth which they delivered, that is a strong activity level across all. And we have seen also some really nice growth in the outpatient. Now the outpatient, that also means that, on an EBIT level, there were some mix effects on the Spanish side leading to slightly lower margin on the Spanish side. However, if you look at it from a growth perspective, Quirón still had a 5% growth on EBIT.

Hugo Solvet: Okay. That's very clear. Thank you. And maybe I could squeeze in just one quick follow up on biopharma. Are you seeking for interchangeability of Idacio to help get even better traction than what you have now? Thank you.

Michael Sen: Yes, thank you, Hugo. Not yet. If -- we always have portfolio and development discussions. If you would go for that one, not interchangeability, more on the double concentration -- interchangeability, there are also some kind of regulatory movements.

We'll see how much the interchangeability proposition is really a proposition. So the double-concentration formula is a different one where we will decide. That's also a question on timing, and when can you get to market? Don't forget it's already crowded on adalimumab. And the second is we have citrate-free for outside the US, and we plan to cater that one for inside the US. And also, in the US, as I said last time, we are driving a multichannel strategy.

Hugo Solvet: Thank you very much.

Robert Davies: Yes, thanks for taking my questions. I've got three, if I can. One was just on the expected outlook through the back for the Helios business in terms of profitability. I know you mentioned, I think, in your intro comments around the inflationary headwinds that you'd seen in that business. And I remember last year, I think margins stepped down a fair bit from 2Q to 3Q. So just wondering how to think about the shape of margin trajectory in Helios specifically through the second half.

The second question was just around Vamed. And what's the sort of state of play of those businesses in terms of incoming orders, new orders. Are you taking a sort of normalized level of incoming orders of things to shut down while you're running the sort of the fix or the business assessment? I just wondered what the incoming flow was there into the order book.

And then the last one was just on your sort of expectations. Is there any kind of new message around your plans for the FMC now obviously the shares have sort of gone up maturely from last year? Just be curious in terms of your conversation with the Board. Has there been any change in thought process? Thank you.

Michael Sen: Let's start from the back, and then we'll dive deeper into Vamed and outlook for Helios. Sara will cover that one. No, there's nothing which has changed on the FMC. Time and again, we have been saying that we are -- this is a very meaningful investment. Therefore, it's an investment company, in this case not even having the majority, but a very meaningful stake and, therefore, also, the Supervisory Board we have with Sara and myself being part of the Supervisory Board and me even taking the chairmanship.

Also there, we want to also participate from the value creation we believe is in there because we know the plan. We know the people. We know the market. We know the industry.

And Sara has been alluding to the accounting effects after the EGM decision. Half a year back, the accounting effects would've looked differently, i.e., the share price was a different one. So why would we not participate and ride that wave? And so nothing -- in short, nothing changed on that.

Before Sara goes into depth on Vamed on the outlook, I think, with displaying those three different businesses, you should get an idea that this is not all about one project business with one order book.

The rehabilitation business is basically clinics. And maybe we know how to run clinics. At least we know in Helios in Germany and in Spain, and Fresenius Medical Care knows it. That's why I labeled it as a very attractive market, growth market. And Sara also said it's healthy.

The other one is the services or High-End Services business, where one of our other folks, Helios, a core customer. And there, they also -- on the services piece, this is not so much about, is there a risky order book? Therefore, this is also a business which is attractive.

And then there's the project business. There, of course, this is about an order book. This is about what is -- how did we craft the contract? This is about, which countries do you serve because, if you serve a country and want to build a hospital, you should know who are your suppliers over there. You should know the regulatory environment over there. You should know how your supply chain works over there. You should actually have folks on the ground. And where this was not the case, we took a decision, which you then saw in the charges. And that is -- but that is mainly pertaining to this one, and also, on the other businesses where we had to clean up, we cleaned up. But this whole order book project topic is more pertaining to the project, i.e., for structured business. But Sara.

Sara Hennicken: And maybe just to echo Michael's point on that, if you look at the order backlog, which we are disclosing, the €3.2 billion which I gave you, kind of the buildup of that earlier in the call, that is all related to the project business because the project business is where we have the order backlog, whereas on the services side, it's running contracts, as Michael alluded to.

With that, maybe moving over to your Helios question, we have just given you the guidance to say Helios -- we are confirming the guidance we initially gave. We have seen stable margins for a while now. Q3 always is a quarter with some lower margins due to the summer holiday effects. We see some less activities in Spain normally. But we are confident with the outlook we have given to say Helios will be within its band of 9% to 11%.

Robert Davies: That's great. Thank you. Thanks.

Oliver Metzger: Hi, good afternoon. Thanks a lot for taking my questions. First is on Kabi at also the margin improvement, which was driven by the IV business. So the IV business is clearly the most profitable growth you can achieve right now. And so we saw quite nice growth development over first half.

When I look, growth has picked up, which is pretty good for you. If growth in the IV business stays more, let's say, in the 5%, 6% territory, where do you see the margin potential of the business? We have seen the draft last year. Now it's again better. We see the -- we know all the historical levels where we will most likely never go back, but what might be the right level if really growth stays somewhere in the mid-single digits?

Second question is on Helios. So a few weeks ago, the new plan for the hospital system was announced. We have still a lot of uncertainty. But generally speaking, a high degree of specialization of hospitals will be key. It's in the strategy you've started to implement already some years ago. It will take some time, but could you elaborate also what potential changes you might expect, in which direction you still will steer your portfolio? That would be great to know. Thank you very much.

Michael Sen: Oliver, I'll start with the second -- first one. Not sure whether I understood the second one. But look, on Kabi, I tried to depict this in portraying Q2. Let me go back to the Capital Market Day and what the folks of Kabi said. They said, for the IV generics and fluids, both generics and fluids, on a global basis, they would expect on a normalized basis a 2% to 4% growth.

Now we have been labeling Q2 as -- there was a lot of volume, and there was a lot of price. That's why I wouldn't call it the outlier because that would not merit the -- let's say, the efforts the team has on the ground. You can always have quarters where, if you are in a market, especially in the US, where there's shortage, then it depends.

That is the whole strategy of calling that the resilient business, the 3+1. This is the one that, do you have the right portfolio? Do you have the capacity in that country to serve that customer which may come at short notice because the customer is in need of that very specific medicine?

And if you can do that, then you can cater a growth rate which we had this time with the 5% to 6%. And then obviously, you have the corresponding earnings conversion because, partly on that one, if you are then able to get in and take list prices, the earnings conversion obviously is even higher.

So that's why our current assumption is, in Q3 and Q4, this is more on a normalized basis. And therefore, obviously, if you compare Q3, Q4, or the second half to the first half, you would say, well, the first half was better. Yes, it was. If I do a year-over-year comparison, the second half will clearly be above the second half of last year.

And the other one I didn't --

Sara Hennicken: Hospital reform. Happy to give you an idea. It's fair to say it's early days. We are obviously monitoring any discussions on federal and state level quite closely. And in general, we are welcoming some of those aspects of what's currently being discussed. And in all honesty, a lot of those aspects we are implementing already.

Take, for example, the greater collaboration across hospitals. I think that's something we have been speaking about for a while now. Our entire clustering initiative, I think, goes exactly to that point.

Then the new reform is talking a lot about quality. And again, here, I would say we are welcoming that initiative. The current initiative is speaking about quality in terms of infrastructure and structural quality. We would love to see that being taken even a step further and talk about patient treatment quality. And that’s what we’re doing at Helios with the clustering strategy, but also, this is something we are publishing on our Website is the treatment quality we provide to our patients. I think that is something. In general, we welcome more openness. And we welcome more transparency in the interest of our patients.

Now if you look at the financing, in our view, what’s currently being discussed is not an abolishment of the DRG system. It’s much more a kind of -- what can I say -- a holding fee which is independent of treatment, which is up to 60% and which is being paid out of the current DRG budget.

Now it’s fair to say our ambition level clearly is to serve more than have a holding fee of 60%. So for us, this is not an abolishment of the DRG. This is a base fee being covered. It is also fair, the reform is scheduled to take effect in January ’24. However, for example, the treatment-independent holding fee is only foreseen in 2026 onwards. So there is still some time.

You should also acknowledge that the whole nursing cost is still in the nursing care budget and is out of the DRG system as of now.

And then I think, where we see further opportunities and what we would love to see because we see -- we think there is a lot of benefit in -- for our patients is obviously if we get more flexibility between the inpatient and outpatient care. And in particular, the smaller hospitals and the medical service centers are more kind of growing together in a way, serving patients in the best way possible and not have that strict regime between in and outpatient.

That’s our current take. But as I said, we are obviously following the discussions very closely. And we’ll see what they bring over the summer.

Michael Sen: Then one thing which the reform has which we would very much welcome is reducing bureaucracy. That is also one of the goals the Minister of Health has. So everything we have seen, in essence, works in favor to our structure.

Don’t forget we have roughly seven maximum level hospital -- in German, we call Maximalvorsorger -- who then can treat the very complicated cases, which by the way, they want to because this is exactly where the competency sits for complicated cases, which also economically is the most feasible one.

And then as Sara mentioned, quality -- and I gave you an example of Quirónsalud on the cancer care is actually the way healthcare systems should go and be measured by.

Oliver Metzger: Okay. Great. Very helpful. Thank you very much.

Falko Friedrichs: Thank you. Two questions, please, from my side. Firstly, on Kabi, I think one of the many things we learned at the CMD was that one of the bigger levers to improve the segment margin is your Medtech business, right, improving the margin there. So in light of the pretty nice top-line growth you have shown in this business, is it fair to assume that the margin is also starting to slowly improve?

And then my second question is going back to Helios Germany. Was there some kind of government support now in your numbers for these higher energy costs or not? Thank you.

Michael Sen: Yes, Falko, I’ll take the first question. We don’t break out the margin, obviously, but your assumption is right. Year over year, there is improvement. Where I would like to caution you a little bit, what they said on the Capital Market Day, this is a development. This is a trajectory. The Medtech margin will be improved over the years. They went to 2026 then, where they will end up in the margin band, working on different levers, which will take time to then take effect.

Obviously, it is very helpful if they grow the way they grew. But don't forget Ivenix, when the rollout comes, we're still -- where it's really working well is bringing down the costs per unit. But then again, it is about the placement. The placement can be dilutive. On the other hand, others when they grow have nice earnings conversion. So your assumption is right, but that doesn't mean this is a quarter-by-quarter development. This will be more or less a year-over-year development over the course of the next 3 years. But yes, this quarter was a margin improvement.

Sara Hennicken: And maybe a word on Helios on energy. So under the hospital financing law, there is a per-bed basically lump-sum compensation for inflation-related cost increases. So it's not taking into account the kind of cost increases you see, but it's a lump-sum assumption. And all hospitals received it in Q1 on a per-bed basis. And we were no exception to that. We received for Helios €85 million roughly in Q1 as cash in. In total, it was €88 million, given we also have some bed installed on the Vamed side. And now we are obviously kind of showing that in our P&L as we progress throughout the year, which is why, in Q2, you will see that we have booked for the first half of the year in total €68 million on an EBIT level, and it's €64 million, I believe, for Helios alone, excluding Vamed.

Falko Friedrichs: Perfect. Thank you.

Sara Hennicken: And maybe just to add to that, that is obviously fully reflected in our guidance and has been fully reflected in our guidance from beginning of that year onwards. And we mentioned that also in the full-year call of '22 that that is included.

Falko Friedrichs: Understood. Thank you.

Richard Felton: Thanks. Good afternoon, Michael, Sara, Markus. Just two questions from me, please. A first one is a follow up on the Helios margin, so very stable at the midpoint of your target margin band for that part of the business in Q2, despite inflationary pressures. As you think about those inflationary pressures, and I'm guessing notable ones would be labor and energy, but as you think about those into the second half of the year, are you starting to see clear signs of those easing, or is that more going to be waiting until 2024?

And then my second question is on US biosimilars. Look, I appreciate that the Idacio launch is very recent, but any initial observations or learnings from that launch that you're able to share would be very helpful. Thank you.

Sara Hennicken: Yes, happy to start on the Helios margin. Look, we do see that inflationary pressure. I think, as you rightly said, labor, energy, there's obviously also some material cost increase. And we are seeing that. And I think that is maybe taking the inflation question a bit to a higher level, if you want, and kind of raise it above the Helios level.

If you look at it, I think what we are seeing in general is some stabilization in terms of the inflationary pressure we have seen, in particular, in the second half of last year. We do see some price increases, but I would say the pace of increase is more stable more recently. However, we also see some pockets obviously of, in particular, I would say, around the material price increases, where we see an acceleration as well. So in particular, if you go into selective individual material pieces which are very specific, be it for hospital or input on the Kabi side, we do see some spikes, whereas in general, I would say our inflationary environment is stabilizing.

Now focusing back on Helios, we have had negotiations on the labor side, predominantly in the first half of the year. I think, based on the environment we are in, they went as expected and are in line with what we have envisaged for.

Also, on the energy side, you’re completely right. We have seen -- I would say, in particular, in Spain, we have seen energy prices coming down actually. However, if you look at our overall energy input costs, it’s also fair to say that, obviously, we work a lot with forward contracting, and we purchase energy well in advance, which helped when we saw prices spiking up, which however also means that, if energy costs come down, we are seeing that effect as a mix effect coming through over time as well.

So overall, going into the second half of the year, we do expect to have a similar, I would say, inflationary pressure as we have seen in H1. However, it is in line with what we expected going into that year, so no negative surprise on that side.

Michael Sen: Yes, and we mentioned in the speech it is remarkable how they were able, on the Helios side, to offset the -- because on the pricing side, they’re limited with DRGs and nursing budget and what have you. So this shows you a little bit the fabric of Helios that, yes, there’s cost increases, inflationary pressure, but then you can also countermeasure. And this is what they have done in the first half, and this is what they’re going to do in the second half.

And all in all, year over year, because the whole inflation topic started Q3, Q4 last year, if you do a year-over-year comparison, that should not be the increment going forward.

On the Idacio, well, as you rightfully said, very early innings. I’m repeating what I’ve been saying. I don’t expect any material financial outcome, especially this year, so not meaningful in terms of any revenue posted for this year. But it’s starting. As I said, it’s also very crowded. We have a team on the ground working day and night on every opportunity, the Kabi management team, also there’s a global biosimilar head and also Pierluigi. They are tracking every opportunity, every customer. This is a market at really early innings, and in the making.

On Idacio, it’s a complex customer structure. There’s not only one go-to-market model. You need to have a multichannel model, which we have. There’s national formularies. There’s regional formularies. There’s several channels. So as I said, financially not meaningful, but a lot of learning and a lot of focus on this one in terms for future molecules because, at the end of the day, we need to work on the pipeline.

Richard Felton: Thanks very much. Very helpful.

Markus Georgi: Thank you, Michael. Thank you, Sara. Thank you to all participants for your attention and joining today’s conference call. Wish you a restful summer break. We’ll be back in September participating in several conferences. Until then, stay safe. Thank you, and goodbye.

Michael Sen: Thank you.

Sara Hennicken: Thank you.