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Fresenius SE

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David Adlington: Good afternoon everybody. For those of you who don't know me, I'm David Adlington. I head up the J.P. Morgan research team for medical devices, and services in Europe. It's my pleasure to introduce Stephan Sturm, CEO, Fresenius SE. The breakout room afterwards is the Olympic room. Thank you.

Stephan Sturm: Thank you, David. That was short and sweet as promised. Thank you for your interest in Fresenius. Much appreciated. No slides today. You will have to listen to me. Apologies. For years, I've come to this conference, and I have said that Fresenius is a large and diversified, and growing healthcare company.

Market cap wise, we're not as large as we used to be, but the rest still applies. We're diversified, we're proud of it. We think it's the right strategy, and we're growing. In 2018, we will only reach the bottom end of the guidance range. The year didn't go exactly as planned, but we're still going to make our numbers.

Therefore, 2018 is going to mark yet another record year in Fresenius's history. 2019, we will continue to see very healthy top-line growth, but we will continue on our path to prepare the company for the opportunities ahead in the next decade.

We have called 2019 an investment year, and I will give you a few examples in a minute what we mean with that. Therefore, profitability growth is for once I should say going to fall short of our top-line growth.

I believe that this is going to remain an exception. We are in the process of formulating our exact guidance for 2019 which will be published in conjunction with our full year 2018 results on February 20th, so bear with us. At that time, we will also provide the market with new midterm growth targets.

An investment year. Pretty much across the four businesses that we're active in, and that we expect to remain active in. At our largest business, Fresenius Medical Care, and maybe some of you have had a chance to listen to their presentation earlier today, we are in the process of wrapping up the acquisition of next stage that will get us firmly on the map as far as the growing trends towards home dialysis is concerned.

With a benefit of hindsight, we should have invested into this area ourselves earlier, but we had other priorities at the time, and therefore we chose to do the acquisition of next stage. All the prerequisites from the various authorities have been met.

I am working firmly on the assumption that we will be able to wrap up, and close this transaction any time soon. Probably as soon as the government shut down comes to an end whenever that is going to be.

We will also expand our business in Asia, and in China in particular, and we will put in place infrastructure to serve the Chinese population in need in particular with our peritoneal dialysis products. That is startup investment that is going through our P&L, and that therefore is going to represent a burden for our profitability next year.

Fresenius Kabi, our second business. There, we continue to have a marvelous run, and our colleagues who are in charge of the business as well as some of our customers are in the room here.

We are serving the US population with utterly needed injectable generic drugs. We have every intention to further broaden our product offering in this space not only, but in particular when it comes to injectable generics, but also in adjacent product areas.

We have made further progress with our parenteral nutrition products. We have made further progress with our infusion pump. We have now formulated an investment strategy that will get us on the map when it comes to infusion solutions.

In this country here, and at the end of the day, it is our aim to provide our customers with as comprehensive a product bundle as possible. Last year at this time at this conference, I spent about, David, 90 percent to 95 percent of my time answering investor questions with a company called Akorn.

The strategic rationale behind the attempt to acquire Akorn namely to further broaden our product offering remains unchanged. Akorn wasn't to be for various good and not so good reasons.

For those of you who follow our story, or the Akorn story closely, we have created a new precedent in front of the US court, and this transaction for good reasons is not going to happen. As I just said, the strategic aim remains unchanged, and we are looking into alternative means to get to the very same end result.

What is also an investment that we are stepping up in 2019 is our biosimilars portfolio. This is an area where we have been active since 2017, an area that we are increasingly comfortable with.

We're preparing ourselves for the roll out of our biosimilar products in Europe starting this year, and we're also looking at a launch of Adalimumab, a generic Humira from 2023 here in the US. It is a controlled investment that we're doing, but we do believe that it is a very interesting addition to our overall product offering.

Many of the headlines recently were caught by our hospital business in Europe. Those who are following us will know that we are the largest hospital operator in Europe. The largest hospital business in Germany. Also the largest in Spain, and that we have recently also gone onto further expanding our hospital presence into Latin America.

Spain has been with us since 2016. It is a hospital chain that is performing extremely well. It is an acquisition that we have absolutely zero regrets about, and that we will continue to enjoy. In Germany, we have run into a few regulatory issues that we saw coming from quite a distance, and that we were trying to prepare ourselves for.

I do believe that we are extremely well prepared for these regulatory hurdles, but in the attempt to prepare ourselves for them, and to ensure our well-being in the next decade, we lost the view on the ball a bit as far as near-term profitability is concerned. Our third quarter in 2018 was not in line with markets, and also our expectations.

The situation has stabilized in the meantime. We have formulated quite a few initiatives, and plans, how to rectify the situation, but as we said at the time, there is a knock on, a time lag effect that's going to weigh on our earnings, and our earnings growth in 2019.

2019 is going to show negative earnings growth in Germany only partially offset by positive earnings growth in Spain, and that therefore is also going to weigh on overall profitability growth of the group temporarily.

The smallest of our four businesses is called VAMED. We are providing hospital infrastructure around the world. It is a steady high grower typically in the high single digits, and with commensurate also earnings growth. Unfortunately, it is the smallest of our four businesses, but it is a very nice addition to the overall growth profile.

Our preliminary expectations for 2019, to be further refined, and quantified in mid-February, a call for mid-single digits top-line growth, and no meaningful profit growth. Rest assured, we have said that we will be looking to improve that situation.

We're working hard on it in particular when we're not talking to our shareholders, and I am confident that we can repeat, or that we can maintain our track record of unabated, not only top-line, but also bottom line growth.

For the medium term, our expectations that we communicated to the street in early December called for consistent, and sustainable mid-single digit organic top-line growth, and profit growth that is at least slightly ahead of top-line growth.

Now, that is slightly below earlier expectations, and it's triggered a harsh share price reaction. For the avoidance of doubt, I would like to reiterate that the mid-single digits top-line growth that we're expecting as of now is purely organic, and it compares with an earlier mid-term expectation that was about two to three points higher, but included the effect of small to medium sized acquisitions.

Some of our shareholders interpreted that methodological change that we're no longer interested in acquisitions. Also for the avoidance of doubt, that is not the case. We learnt a few lessons throughout the Akorn process, but in particular, we learned that our risk management processes do absolutely work. Therefore, we continue to be wide open for acquisitions going forward.

It is just that in our budgeting process, we work purely organic, and do not factor in any acquisition growth, and therefore in a sense, we're now comparing apples with oranges. When you look at organic to organic, we're missing about a point relative to earlier expectations.

That to some degree is driven by portfolio adjustments. Some higher growing businesses in particular within Fresenius medical care we have disposed of. It is also driven by the higher base that in the meantime, we have put together for ourselves.

Thirdly, it is driven by the assumption that drug shortage benefits that our Kabi business here in North America is currently benefiting from are at least gradually going to recede. That is an assumption that we have had for quite a while. We have been proven to be too conservative over time. That doesn't deter us from holding on to that modeling assumption.

Organic growth continues to be at a healthy level in the mid-single digits, and that I would expect very much across the board. We do see ample opportunities volume wise in particular in our dialysis, and in our Kabi business.

We also see ongoing patient growth in our hospital businesses coupled with attractive reimbursement increases both in Germany, and in Spain, and therefore, overall, we do see ample support for the growth expectations that we do have.

We have also the firm belief that if our biosimilars portfolio catches on, and I can assure you that we're very well prepared for the imminent market launch in the various European countries as well as the market launch here in the US later on that there is upside to these growth expectations that we currently do have.

As far as the group structure is concerned, we continue to believe that size matters in healthcare, and that the combination of the four businesses that we're currently running does make a whole lot of sense.

We're bringing down our beta, our implied risk, and relowering therefore the cost of equity. We are bringing down the cost of debt. There are various tax advantages out of the combination.

For instance, the losses that for the time being we are creating with the development of our biosimilars portfolio can be very nicely offset against the profits in our German hospital business.

The group structure from our perspective does make a whole lot of sense. Over and above that, we are increasingly embracing the concept of synergies between the different group companies.

We have said that we want to proactively go into the infusion solutions market here in North America. We're going to work with a multi-manufacturing hub strategy to make sure that our cost of production, and also the logistics cost are to the advantage of our customers. That stability reliability of supply is secured.

We're working very closely on the manufacturing front together with our brothers from Fresenius Medical Care who have large manufacturing, and logistics outfits here in the United States.

Again, over the past, we have grown organically as well as via acquisitions. David, and a few others have asked me whether the Akorn saga would have lasting impact on our acquisition strategy. The answer is no. Absolutely not.

This is not a matter of will. This is not a matter of financial capacity. This is a matter of availability of suitable targets. From time to time, I'm asking myself whether we should drive our market share in dialysis service here in the United States further up. I have my doubts about it.

As far as dialysis service businesses around the world are concerned, there's hardly anyone left that we haven't acquired yet. From my perspective, this is by and large down to organic growth going forward.

As far as our Kabi business is concerned, yes, I would like to see organic growth coupled with acquired growth, but I also want to make it very clear that we will remain selective. When it came to Akorn, I could make myself comfortable with a few products that were not injectable.

Anything that is difficult to manufacture is right down our alley, and we will be very open for acquisitions. I also want to very clearly rule out that we're going to go into oral solids. We're just no tablet pressers, and therefore, the number of acquisition targets, there is few and far between. Those that are around, we are generally open for an acquisition.

As far as further acquisition growth in German hospitals is concerned, I am not very optimistic. Hospital privatizations in Germany have never been very attractive, and very popular. They are even less so today.

In Spain, I'm more optimistic that we'll get a chance to further consolidate that market, and as I said a bit earlier, recently we have endeavored to go into Latin America market where we are seeing an acute under penetration of hospital beds relative to the population when our presence in Peru and Columbia, and I wouldn't rule out further acquisition steps also in other neighboring countries.

When a year ago, I was almost exclusively talking about Akorn, I'm glad to see that the investor meetings that I've heard so far today, that doesn't seem to be playing a role anymore. We are well prepared to take further advantage of the various opportunities that we do see.

2018 didn't go entirely as planned. I think we learned our lesson on various fronts. 2019, we will continue to invest into the medium term future of our company, and Fresenius will remain a large, and diversified, and growing healthcare company.

The breakout session, David, is going to be in the Olympic room for anyone who would like to ask questions about what I just said. Thank you for your attention so far.
