FRESENIUS

Transcript
Conference Call Q1 2024 results

May 8, 2024

CORPORATE PARTICIPANTS

Michael Sen, Fresenius SE & Co. KGaA – CEO
Sara Hennicken, Fresenius SE & Co. KGaA – CFO
Markus Georgi, Fresenius SE & Co. KGaA – SVP IR

CONFERENCE CALL PARTICIPANTS

Barclays, **Hassan Al-Wakeel**
Berenberg, **Victoria Lambert**
Bank of America, **Marianne Bulot**
Citigroup, **Veronika Dubajova**
Deutsche Bank, **Falko Friedrichs**
Exane BNP Paribas, **Hugo Solvet**
Jefferies**, James Vane-Tempest**
Kepler Cheuvreux, **Oliver Reinberg**
Morgan Stanley, **Robert Davies**
UBS, **Graham Doyle**

PRESENTATION

Fresenius: Q1/24 Conference Call

Markus Georgi: Thank you, Maria. 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 first quarter 2024 earnings call. With me on the call, as always, Michael and Sara.

Before we start, I would like drawing your attention to the cautionary language, and that is included in our safe harbor statement on Page 2 on today's presentation. And without any further ado, I hand it over to you, Michael. The floor is yours.

Michael Sen: Thank you, Markus. A warm welcome, everybody. This is Michael. Since last Thursday, we've been witnessing some important announcements, all of which are a token of us driving #FutureFresenius and creating value. Hence, we published our Q1 fiscal '24 early last night.

We have great momentum, and the outcome is remarkable.

Sara and I are going to review the business and financial highlights. We have plenty of time for questions.

After a really good 2023, we had an even better start to 2024 with great growth dynamics at play and strong financial performance. This is a matter of focus and of execution. Every day, we are advancing our mission to be a leader in the global healthcare sector. There has been exciting news in the quarter on improving patient care. And quarter-on-quarter, we are delivering on #FutureFresenius, financially, operationally, and driving innovation, across the board. I am very proud of #TeamFresenius.

Our core, Kabi and Helios, delivered excellent top- and bottom-line growth. Kabi did well in the quarter, but a standout is Biopharma. Our rollout of Tyenne, targeting autoimmune diseases, is progressing well. Breakeven on EBIT in Q1, it is a great start, as we say.

We moved rapidly in terms of executing on our strategic portfolio review. On Vamed, not even a year ago, we took decisive actions. Now we deliver a holistic solution for this franchise. We addressed and solved what was probably the biggest legacy topic. More importantly, we have decided next steps here that include divestment and winding down of noncore activities and the transfer into Fresenius of some attractive assets. It is the best outcome for patients, for Vamed, and most important, for Fresenius.

We are exiting a noncore business and focus our resources. Group complexity is significantly reduced with these transactions and, of course, after the deconsolidation of FMC, enabling faster decision making. More details later.

As we deepen our focus on core activities at Kabi and Helios, we are well placed to accelerate our performance. With our simpler structure and even stronger focus, we will provide even higher-quality earnings and more predictable.

Our efforts yielded meaningful growth in Q1. It’s great to see we already delivered dynamic earnings growth in Q1. We have rebuilt EPS momentum, providing the ability of our Group to drive operating leverage. The whole organization is moving faster, as we speak.

A little over a year ago, we laid out our plans for Fresenius, and we believe we accomplished quite a bit. Let me take stock of some fundamental improvements that, together, give us better visibility on where EPS is likely headed.

Our focus on improved performance is paying off. Impressive track on top line, also this year, we are going to have a good year. Dedicated growth initiatives are showing results, all of this, by the way, organic growth. And also, on cost out, we are running ahead of schedule, and we are executing rigorously. Sara will detail.

Looking at all of this together, we expect EPS to start to show acceleration. And the debt ratio will improve, as we expect EBITDA to grow as well. This is a big part of the revitalization effort we are doing here at Fresenius and creating value.

Just to remind you that underlying all of this progress is our purpose. Fresenius is committed to life, a reliable healthcare partner for society, and we are reestablishing a strong foundation upon which we will build a growth story and our success.

So in a nutshell, we are now a stronger company, with an even further simplified group structure. I already touched on our higher earnings quality that is also likely to be more predictable. Taking that all together and considering the strong start in Q1 and our improved confidence in our operating performance for the remainder of the year, we are raising our outlook for 2024 and are now targeting 4% to 7% organic revenue growth and 6% to 10% EBIT growth for 2024, a meaningful upgrade of our outlook.

Let's go a bit deeper into the operating companies, both of which delivered excellent numbers in Q1. At Kabi, both topline and EBIT level, Q1 was very strong. Kabi revenues were up by a powerful 9% year over year in organic terms, which is above the top end of the structural growth band.

Revenues from Kabi's growth businesses, the growth vectors -- Nutrition, MedTech, and Biopharma -- were up by an outstanding 13% in Q1. The growth vectors really fueled the revenue. Pharma showed its strength as a solid top-line grower resulting in attractive earnings traction. The improved focus here is paying off. For EBIT, Kabi is expanding its margin year over year, and we reached a robust 15.1% of sales. If you take it on an EBITDA basis, Kabi margins were north of 21%.

Helios also delivered an excellent print. Revenues came in at the top end of the growth band. And the EBIT margin is slightly above the top end of the structural range, just an encouraging start going into 2024.

Let's take a closer look at Kabi. Our success at Kabi is being driven by consistent strategy execution and robust product advancements and innovations. We are progressing well with the execution of what we call Vision 2026.

Let me start with Biopharma, which is an important cornerstone of #FutureFresenius and which is picking up speed. We launched Tyenne in Europe and the US and are very pleased with the momentum it has generated.

We also continued to advance our Biopharma ecosystem with a new partnership between mAbxience and Teva. We entered a licensing agreement for a biosimilar candidate currently in development for the treatment of multiple oncology indications. The agreement covers global markets, including the EU and the US. I will provide a bit more detail on this and on mAbxience a little later.

Our pipeline is bolstered with the settlement agreement for an Ustekinumab, the biosimilar candidate on Uste. Kabi together with Formycon reached an agreement with the originator for Europe and Canada, by the way, in addition to the previous agreement for the US.

Great progress also in our Nutrition franchise: The first two products in the food for special medical purposes segment are being launched in China. These are a class of clinical nutrition products not registered as pharmaceutical drugs. FSMP are consumed by a variety of patients with a limited or impaired capacity to intake, digest, or metabolize conventional foods, for example, postsurgical patients or cancer patients.

We are strengthening the resilience of Pharma, driving portfolio expansion with product introductions such as Cyclophosphamide injection, a generic substitute in treating several forms of cancer. The introduction adds another life-saving treatment to Fresenius Kabi's broad oncology portfolio.

All of the above -- Tyenne, FSMP, the oncology -- are also great examples of health equity at work, offering more people access to affordable healthcare solutions.

Let's take a more detailed look at our Tyenne launches in the EU and the US. Tyenne is our biosimilar of tocilizumab, a widely used drug for autoimmune diseases, including rheumatoid arthritis and giant cell arteritis.

The Tyenne launches are very important. The originator market is large, and we are an early mover, actually the first mover. Tyenne was the first biosimilar launched in the US [sic -- EU] and has entered into 12 markets. We offer the product in subcutaneous and intravenous administrations.

Our team has made tremendous effort to put us in an excellent position in terms of market access and payer coverage. We have significant traction with multiple significant tender wins. And we see market share gains already, in line with our expectations.

The US launch is underway as we speak. The IV formulation is available since mid-April, and we also have the FDA approval for the subcutaneous formulation.

KabiCare, our so-called patient support program, is supporting the launch and is accessed by patients and healthcare providers. And we get excellent feedback from payers, providers, and healthcare professionals.

We are, we believe, uniquely positioned to serve our patients and to build on a strong market position. Watch this space as we move through 2024.

The acquisition of the majority stake in mAbxience, a key pillar of our Biopharma franchise, was a great step ahead with Kabi Vision 2026 at that time. You can see from this slide how the innovation ecosystem with partnering companies is expanding.

mAbxience is driving our business with end-to-end service offerings for customers basically from two key avenues: firstly, enhancing our biosimilars pipeline for autoimmune and oncology diseases; second, complementing our service offering with a very solid B2B business model in the fast-growing biologic CDMO business sector. Thus, with the acquisition, we gained strong technological and commercial capabilities.

As I mentioned earlier, mAbxience recently signed an agreement with Teva on a biosimilar oncology product. Biosimilars show promising potential in providing more cost-effective alternatives to existing oncology therapies. mAbxience, with its expertise and state-of-the-art facilities in Spain and Argentina, is a strong partner within that ecosystem. And there is more in a steady stream of key partnerships and collaborations. These license agreements create a completely new Biopharma ecosystem for Fresenius.

Let’s now turn to Helios, where we continue to be a leader in innovative healthcare services. Here, it is all about enhancing care delivery for our patients.

A highlight is the Helios Heart Center in Leipzig, Germany, which has an international reputation for high-performance cardiac medical care. The clinic’s specialization will now also benefit other Helios clinics as a result of a strengthened interdisciplinary network. The Helios Klinik Köthen is the first partner hospital to become part of this new heart-health cluster. The bundled expertise and shorter appointment waiting times are good for patients and good for Helios.

Atrial fibrillation is one of the most common cardiac arrhythmias, affecting roughly 1.5 to 2 million people in Germany. More than 100,000 catheter ablations are performed each year. Now using AI, Helios is now developing ECG-based prediction models to improve success rates and reduce recurrences, a great example of AI in daily operations and an important contribution to the safety and quality of life of patients.

Quirónsalud, they continued to deliver strong operational and financial performance. And the professional and patient achievements keep coming. Getting and keeping talent in Spain is tough. And Quirónsalud is placed among the 40 most attractive companies for attracting and retaining talent in Spain in the last year. Within the health sector ranking, the Group is among the three best healthcare companies. What a great achievement, really proud of the team here.

And we continue to innovate the processes and improve the patient experience using digitalization, like with our self-admission check-ins that we roll out in all over Quirónsalud centers. Really great experience, would love for you to see this, it’s a great tool of delivering excellent service to our patients.

A moment on Vamed: We moved fast and acted both decisive and responsible. I alluded to Vamed not being core. We are transacting more than 80% of the franchise as we speak. We've divested the rehabilitation business and, in a separate deal, the local Austrian operations, the historic core of Vamed. Together, these two are standing for roughly 55% of Vamed's revenue.

We initiated a structured exit for the rest of the project business outside of Austria. And the remaining 30% of Vamed's revenue are a decent hospital service business which we will transfer into Fresenius. So we have found the best owner for each part of Vamed's operations. This is in the best interest of all stakeholders. Value will be unlocked. Margins for Fresenius are bound to increase, and the balance sheet and beyond is derisked, and it is directly having an impact on our return on invested capital. And we will reduce volatility with higher quality and more predictable earnings.

Again, it is all about focusing on the core, Kabi and Helios.

Next slide, I want to take the opportunity to invite all of you to attend our Helios Capital Market Day coming soon, June 5 in London. The Group management team and many Helios' leaders will be there. We will be highlighting the attractiveness of our hospital platform, its superior medical quality, the efficiency focus, the ESG agenda, and the ability to really unlock value. In particular, we will also show the sustainable ability of the asset to generate organic growth and, going forward, strong cash flows. Going to be a great day with a lot of exhibitions and demonstration and innovative tools.

But I also want to be clear in terms of this CMD. This will be all about creating transparency. So the market gets a better understanding of what these businesses are all about. So don't get too overexcited on breakthrough news. There will be plenty of time for discussions and questions. And we really look forward to seeing you in London. And with that, I'm handing it over to Sara.

Sara Hennicken: Thank you very much, Michael. A warm welcome also from my side.

We had an excellent start to the year. #FutureFresenius is paying off. We have delivered significant financial progress in Q1. I am pleased by our continued momentum.

Group revenue grew by 6% organically to €5.7 billion, driven by a strong performance of our operating companies Kabi and Helios.

EBIT at €633 million was up by a powerful 15% in constant currency, reflecting our consistent focus on operational excellence and execution.

EPS was up by 8% in constant currency. You can see operating leverage at work, with earnings growth momentum outpacing the revenue figures. Following our announcements around Vamed today, we will move towards core EPS focusing on Kabi and Helios starting Q2.

Interest expenses at €115 million and the tax before special items at 24.5% were in line with expectations.

Cash flow wise, Q1 was as usual soft. We expect to see a catch up over the next quarters.

Our leverage ratio slightly improved compared to Q4, ending the quarter at 3.75x net debt to EBITDA. In Q1, leverage normally peaks, so good to see a slightly positive development quarter over quarter despite the soft cash flow in Q1. Year over year, the leverage ratio improved by 21 basis points. We confirm our clear target to be within the target range of 3.0 to 3.5x net debt to EBITDA by yearend.

Let’s take a closer look at the segments in Q1. Kabi’s revenues grew organically by an excellent 9% to more than €2 billion. That is clearly above the top end of the structural growth band, also supported by positive pricing effects from inflation in Argentina. Overall, growth was largely fueled by our growth vectors, with a strong 13% organic growth rate. Kabi’s Vision 2026 is picking up momentum.

Nutrition showed ongoing strength with an organic growth of 8%, driven by the US and other international markets, in particular Argentina. China continued to be soft, as anticipated. We expect it to recover in the second half of ‘24.

Biopharma had an excellent quarter, with growth of 117%, mainly driven by our licensing business at mAbxience as well as the Tyenne launch in Europe. There is more to come as the rollout continues.

MedTech was up 1% over a tough prior-year comp.

Pharma showed a solid organic growth rate of 5%, with positive momentum across many regions, including the US and Europe. Product supply in the US further improved in early Q1, with significant reduction of backorders.

With an EBIT of €310 million and a margin of 15.1%, we saw a significant year-over-year improvement of 60 basis points. EBIT growth was strong, with 8% in constant currency. We have adjusted the constant currency EBIT growth rate to eliminate effects from hyperinflation in Argentina.

Biopharma being EBIT breakeven in Q1 was a strong positive contributor. A positive phasing of license payments helped to achieve this. While we do not expect this to repeat every quarter, we feel very comfortable to confirm the EBITDA breakeven target for the full year.

The growth vectors in total showed a margin improvement of 220 basis points to 11.4%. Operational leverage from strong revenue growth and ongoing progress on the cost and efficiency measures supported Kabi’s margin expansion.

Helios was also off to an excellent start in full year ‘24. Revenues at Helios grew 5% organically to €3.2 billion, great performance at the upper end of its structural growth band. In Spain, growth of 7% was driven by very healthy activity levels as well as positive price effects. In Germany, the increased DRG inflator and favorable mix effects supported revenue growth of 4%. This compares to a tough prior-year comp.

Helios’ EBIT of €353 million resulted in a very strong margin of 11.1%, slightly above the top end of the structural margin band. Helios Germany delivered an excellent quarter, with an EBIT margin of 10.8%, driven by phasing of energy-related government relief funding as well as operating leverage effects from the top line. The EBIT margin at Helios Spain was strong at 11.6%, despite the Easter effect in March and some negative mix effects.

Overall, EBIT grew by an exceptional 14% in constant currency. The strong growth was driven by the strong top line, phasing of government relief funding, as well as ongoing cost improvements.

Let’s turn to Vamed. You heard Michael. I’m pleased that we have a solution which is best for all stakeholders.

Briefly to the Q1 numbers, Vamed showed organically a flattish revenue development. EBIT was marginally positive at €2 million, making it the third consecutive quarter in the black.

The transformation of the asset resulted in special items of €47 million in Q1, predominantly from the project business and mainly noncash.

On the strategic dimensions, as you know, Vamed has been a volatile business for Fresenius, and it is now time to set out a concrete and achievable plan for ending our exposure and focusing on our core operating companies.

There are three pieces to this plan: the rehabilitation business and Vamed's Austrian operations, which account for around 55% of revenues, is set for sale in the second half of '24. Starting with Q2, we will report this as a separate line item as an asset held for sale.

Second, the high-end hospital service business, which is around 30% of revenues, will be transferred into Fresenius. It is a stable business which we know well, has good growth prospects and mid-single-digit profitability.

The remaining project business accounts for around 15% of revenues. It will be managed for a structured exit which we are planning to have largely completed by the end of '26. Until then, it will be carried below the line as special items. This plan has clear benefits in terms of reducing complexity and added management focus.

There will be costs associated with it, but there will also be immediate and longer-term financial gains. We expect transaction-related one-time charges of up to €600 million from the divestments. These are noncash. At the same time, the transactions will reduce net debt immediately by around €400 million. Based on our current assumptions, the costs associated with the remaining project business exit will be roughly a high-triple-digit million-euro amount booked as special items. A significant portion of this is expected to be booked already this year. Most of it will have a cash effect over time. For '24, we expect broadly one-third of the overall costs to be cash relevant. We will update you on where we are throughout the process.

Beyond the organizational improvements, this plan has benefits in a few other ways. It will be margin accretive on day 1. We will benefit from eliminating a source of negative cash flow and cash needs going forward. Our net debt is reduced, and our ROIC is supported. Earnings visibility and quality are improved too.

So this is an important step for the company and a key part of our #FutureFresenius journey.

Moving to our cost and efficiency program, a hallmark of #FutureFresenius, you can see how our focus and commitment have paid off. In Q1, we delivered €25 million of incremental cost savings, clearly ahead of plan. The biggest piece of the savings came, again, from Kabi, as they are rigorously increasing their organizational health.

To give you an example, in Q1, freight costs fell as we rolled out a pan-European exercise to bundle freight volumes and services and focus on selected key suppliers. Important to remember that the impact of these programs are permanent in improving cost structures and efficiencies. The combination of these gains and operating leverage with top-line growth will drive our bottom-line performance.

On to our cash flow development. Operating cash flow stood at €2 million. The first quarter is traditionally a softer quarter, with catch-up effects over the course of the year. Kabi, however, continued its very good trajectory from Q4 and showed a strong cash flow development in Q1. This was paced by a strong operating business performance and strict capital efficiency, for example, in the areas of inventory and payables. It's great to see that our initiatives are gaining traction.

At Helios, cash performance was impacted by higher working capital, in particular driven by nursing-budget-related receivables built up at Helios Germany. The team is fully focused on generating improvements and speeding up things here.

Group CapEx was tightly managed below the 5% level and stood at 3.4%.

Free cash flow generation for Q1 picked up nicely year over year, also helped by some of the disposals announced end of last year.

Over to our outlook for full year ’24. We are raising our expectations based on our strong start in Q1 and an expected better operating performance in the full year. Let me give you some details on how we arrived at our expectations.

We are removing Vamed from our outlook. Vamed was expected to deliver a positive EBIT this year coming from negative last year. With Vamed out, we are thus missing some extra points of EBIT growth. However, this is balanced with the simplicity and quality we’re gaining. So in the end, it is the strong operating performance, in particular at Kabi, which drives the guidance upgrade. In Q1, the underlying growth of the operating companies was 9% in constant currency. For the full year, Kabi has raised its top- and bottom-line outlook.

With the new constant currency EBIT growth range of 6% to 10%, we are targeting double-digit growth at the upper end of that range, testament that #FutureFresenius is paying off and that we are back to a growth trajectory.

On this slide, you see the summary of our improved expectations. Starting with Kabi, we are raising our expectation and are now targeting mid- to high-single-digit percentage organic revenue growth. This is based on strong progress across our growth vectors and the solid performance of the Pharma business.

We are also raising our expectation for Kabi’s profitability and are now targeting an EBIT margin between 15% to 16%. The improved guidance is based on the strong performance of our growth vectors in the first 3 months, in particular the Biopharma business, as well as more visibility into the year.

At Helios, we confirm our outlook for revenue and EBIT margin.

For the Group, we are also raising our top-line expectations and are now targeting 4% to 7% organic revenue growth for the full year. As far as EBIT is concerned, we are now guiding for 6% to 10% growth in constant currency for the full year.

Overall, we have seen another quarter of excellent execution and progress on our #FutureFresenius agenda. The operating performance has improved significantly. The focus on Kabi and Helios is paying off, and we are still early in on our transformation journey.

Now let me hand it back to Michael.

Michael Sen: Absolutely, Sara. Thanks also for your remarks.

We have seen significant progress on #FutureFresenius in Q1. After a bit more than a year from announcing our strategic plans for growing value at Fresenius, we don’t want to rest for a moment. There is good momentum, solid performance, operational and product milestones reached, and 2024 looks to be a strong year.

With the announced holistic solution for Vamed, we believe we have found the best outcome for our patients, customers, and employees. And let’s face it, a significant overhang for our equity story is also resolved.

And we are only in the first innings. We will focus and work hard on driving down leverage. We will also keep working on driving cost efficiencies and productivity further. At the same time, we will also deliver on improved cash generation, and we will keep the operating performance momentum at Kabi and Helios.

We are seeing the acceleration of the journey to fully realize the value of Fresenius. All of this means we get more opportunity to develop world-class therapies for the future and advance patient care.

Now Sara and I will take your questions.

Q&A

Operator: We are now starting the question-and-answer session.

Veronika Dubajova: Hello, Michael. Hello, Sara. And hi, Markus. Thank you for taking my questions. I have sneakily three. I hope that's okay. My first question is just on the performance year to date, so the 9% growth in EBIT that you've already delivered in the operating companies in the first quarter. Just trying to understand why the guidance for the rest of the year is still 6% to 10% if we're at 9% in Q1. Are there particular risks that you foresee as you think about (inaudible)?

My second question is on Kabi more specifically. (Inaudible) you've said, in Biopharma, you still expect to be EBITDA breakeven. If that's the case, which of the other growth vectors are driving the surprise in profitability and more optimistic expectations for the remainder of 2024?

And then my third question is a big-picture question. And congratulations on simplifying the business. Obviously, the next question we're all going to ask you is, now that you've divested one of the investment companies, what is happening with the second investment company, the stake there? So would love to get your updated thoughts, Michael, and what you're looking for from FMC as you try to assess when and how to realize the value of that investment. Thank you so much.

Michael Sen: Thank you, Veronika. I'll give it a shot first, and Sara may second if there's things over. Let's start with the last one because it's easy. Look, these are -- they may be phrased investment companies, but one is gone. That's the first difference.

The second thing is totally different animals. As I mentioned in my speech, this was more or less kind of like a drag on the equity story. We needed to find a solution in order to get the best outcome, which we believe we have done, so we can focus on what is really important on our core at Kabi and Helios.

The other one is a meaningful investment. Nothing has changed. This is also not playing defense. It's a great asset. They have a great plan. They want to get to their margin target of 10% to 14%, still some way to go. We have heard what they have been saying yesterday. We are investors like you are. We were instrumental in changing also parts of the management team there. So we believe things are going to evolve to the better. And then there is a lot of potential to be grasped on that one. And of that one, obviously, then it is creating value, so no need to discuss this or put it into any bucket in the near term. The investment can create value as we speak.

On Kabi, maybe on the Biopharma and everything, so Nutrition obviously is going to be a very good business. Nutrition has been -- how should I say -- in parts impacted, which goes a little bit to your first question, from China, where we have seen that there is contraction in China.

So from that point of view, Biopharma was the shout out, and going forward, Nutrition, together with the progress we are still going to make on Biopharma, will carry the Kabi growth vector margins as we speak. And there, you can do the math who is kind of like more on a steady development, a third guy in this growth vector bucket.

And on the EBIT, I think we have to take it from where we started, even though we started with Vamed. We said 4% to 8%, already an acceleration to last year. And we said we're going to hold our operations tight to what they need to deliver in their financial frameworks. And if we believe there is risk items to be covered on a corporate level, we do that. That is basically the technical wash you see on Vamed because we have been saying time and again they are not out of the woods. That's why it is so good that they now have been -- we have been taking a solution on that.

Now with the new guidance, obviously, there is a meaningful upgrade. It's 200 basis points on the low end and 200 basis points on the upper end. And we are still in really early innings. It is encouraging. Are we still encouraged? Yes, we are encouraged, but a few things still have to materialize.

Let's take Tyenne for example. Tyenne, very good traction we see in the first couple of weeks. We now have the US launch. I guess this will be part of the Q&A also. Going forward, we basically removed -- not we, but the biggest roadblock in terms of risk has been removed, which is the regulatory clearance because, there, we clearly were dependent on a third party, and it was a very digital decision. That one is gone.

Now we have prepared everything for the launch. We feel very confident, yet we still have to launch and sell and win tenders. And even if you won tenders, you have to get the sell through so that you can post revenues. This is still to come, and we expect a steeper ramp up on the revenue side in Q3 and Q4.

So again, we will be very transparent with our assumptions. And as we move along the line during the year, during the course of the year, we will update you.

Also on China, I've seen that China is -- I've said in Q3 China will be soft. We will be going soft into 2024. And this is what we see and out of three things as we said at the time, general economic weakness, anticorruption, and volume-based procurement.

Now we're going to see how this all pans out in Q3 and Q4. Depending on that one, we will have a more confident stance on where we are on that margin range, whether we are at the mid or at the upper end of that margin range or somewhere else.

This is, I think, a fair assumption. It makes a lot of sense if you see what we did. We increased the revenue outlook on Kabi. So if that revenue comes, then obviously, it will have margin conversion. And if that has margin conversion, it has margin conversion also for the entire group. So that is the logic.

Veronika Dubajova: That's very clear. Thank you, guys.

Markus Georgi: Next question, please.

Hassan Al-Wakeel: Hi, thank you for taking my questions -- two, please. So firstly, with the exit of Vamed and multiple other assets that we've seen in line with the plan that you laid out for us last year, where do you think you are in the Fresenius simplification story? And is there more to do in the short term outside of FMC?

And maybe to ask for Veronika's question in a different way, do you think enough has been done in the short term on leverage such that you are now no longer in a rush to lower the number of investment companies further in the short to medium term?

And then secondly, you call out strength in US Nutrition. Can you talk about market growth here and whether you think you're gaining share in US parental nutrition, and if so, anything in particular that's driving this? Thank you.

Michael Sen: Yes, let me start with the whole portfolio topic. Look, we've been saying in February last year it's roughly a handful of assets which will find a different home, should find a different home out of different reason. Its focus, strategic focus, but also in a way, capital allocation because, as we said, Vamed has a direct impact on the return on capital.

And the FMC was another piece on the whole simplification exercise. So on that five assets, we are done. We're done. Will there be always pruning of whatever we have, countries, cutting the tail kind of thing? Yes, there will be.

On the leverage, I think we also have been very clear. This is a prime focus also for this year. And we are taking every lever and, we believe, every lever which makes sense. The portfolio pruning, as we said, in a way, has limited to only marginal impact on the leverage as such because of -- if you especially think of the net debt-to-EBITDA ratio, if you lose EBITDA and the same old song we are seeing.

But we -- as EBITDA grows, if we enhance our EBIT outlook, concurrently, our EBITDA outlook should grow. And that obviously should have an impact. That's why Sara alluded to we will be in the target margin range.

Also, you heard both of us saying the focus is on cash. And we want to deliver further cash out of the businesses, also in Helios, where they need to do some more homework. And maybe, as you said, what needs to be done short term and long term, Kabi is on a very good trajectory. But this is also roughly a 2.5-year journey.

We, at that time, redirected the business, increased the transparency, changed the organization, introduced the program. And now they are operationally just delivering on top and on bottom line and now also on cash.

Helios, if you so wish, will have to do the same. Just from a management change perspective, we changed management at Helios only a half a year or 8 or 9 months ago. So they know. The management team is eager that they need to do some catch up, especially on the cash. And that's the way we see it.

On the Nutrition piece in the US, yes. Don't forget it's small basis. It's parental nutrition. It's especially lipid emulsion and, yes, picking up market share in a market-leading position.

Hassan Al-Wakeel: Perfect. Thank you.

Victoria Lambert: Thanks for taking my question. My first question is just on -- hello, can you hear me?

Michael Sen: Yes.

Victoria Lambert: Thanks for taking my question. So it's just on your biosimilar of Humira. Looking at the most recent data, it looks as if you've got below 1% market share. And some of your competitors have managed to increase their share quite significantly in April through some private label partnerships with the large PBMs. I just wanted to check if Kabi was considering a similar sort of private label partnership for its Humira biosimilar and maybe also for the denosumab biosimilar because that also will go through the pharmacy benefit market. Thank you.

Michael Sen: Yes, Victoria, hi. Thanks for the question. Look, I also read it. I think it was day before yesterday on the market dynamics of other companies. We will not comment on other companies obviously. Thought it was an interesting slide to take prescriptions and then derive a market share out of that.

We focus also, obviously, on the economics of deals. I think we said from the very beginning that, on the Humira, our expectation in terms of numbers and economics are not big. The market share has moved tiny. Others have managed to get on formularies.

We also drive a multichannel strategy there, a multichannel strategy. We said last time I think that we may go also into, let's say, an unrendered version and maybe have a direct sales channel to a few players.

We have seen some sales, by the way, also in Q1 of our adalimumab, but that is not moving the needle. And as I said, with everything we do, we still look at the economics. And on the deno part, the studies is completed, and we are also getting ready for everything.

Markus Georgi: Next one, please.

Graham Doyle: Thanks, guys. So just firstly on Tyenne and the launch in the US, would you be able to give us a sense for how much capacity you have for the manufacture of this product itself and I suppose in terms of where you are in that launch in access terms and also the investment you've made from sales and marketing, just to get a sense as where we could get to as we go through the year?

And then secondly, it might be a bit preempting the Helios CMD, but one of the things that's obviously very clear when you talk about Kabi is the number of growth vectors within there and the opportunities within those growth vectors. It's quite specific.

When we look at Helios, it's obviously been very stable and doing a very good job over the last 2 or 3 years in sometimes tough circumstances. But where are the growth vectors in there that we could think about to maybe move the dial now the business is more simplified and you've got a new management team in there for almost a year? Thank you.

Michael Sen: Want to take this?

Sara Hennicken: Yes, happy to comment on your Helios question. Obviously, not wanting to kind of jump ahead on the Capital Market Day, but if you look at it and if you look at how we are positioning Helios within our broader portfolio, right, it is a stable business per se.

So what we have and which is I think a nice complementary portfolio is a stable Helios business, which is critical infrastructure in the markets we operate. So in Spain, in Germany, we are critical infrastructure. And we are growing top line. And with growing top line, that also means we are growing EBIT. And with growing EBIT, we are also growing EPS.

So I think the perspective we have towards that asset is not to expect them to move significantly in terms of margin, right? We have the guidance out for them to be within that margin range. I think it is great to see actually, and we have seen really nice margins from that business come through.

Irrespective of how adverse the market environment has been over the last couple of years, if you also go back with COVID and getting out of COVID and so on, those two companies, Quirón as well as Helios Germany, have nicely kind of managed that adverse effect, have also nicely managed what is an increasing cost base in a high inflationary

environment, and have still delivered within their margin bands and delivered top line growth. So for me, it's stable, but it's growing, and so happy to have that within our portfolio.

Michael Sen: Yes, absolutely. And it's good to have a stable business in our portfolio because, if it is stable, it has stable earnings, and we will do everything, Sara and myself, that they will also going forward deliver stable cash flow, and then it's good. And you will see that they are market leaders in their respective markets and what else they can do and maybe take a little bit the fear of that being a regulated business because there's also opportunities in there.

And to your preparation on the US, Tyenne, everything is working according to plan. We have the IV dosage form. We have the formulation. We have been working very hard on access. We're getting great customer feedback. We even sold stuff, as we talk, and now in the first weeks of Q2. And so everything looks very promising.

But tying that to Veronika's question, the real pickup then in real numbers will be obviously in Q3 and Q4. And then we'll see what it does and hopefully it does also in terms of margin conversion. So we feel very confident there.

Graham Doyle: Awesome. Thanks a lot.

Hugo Solvet: Hi, hello. Thanks for taking my questions. I have two. Maybe, Michael, on Kabi and the phasing of growth for Biopharma, which you just alluded to, I guess that -- I'm conscious of the fact that you're not a one-product company, right? But just can you help us get a sense of the contribution of Tyenne to growth this quarter? And are sales increasing twofold quarter over quarter a good run rate? Is there some stocking here?

And second, Sara, you mentioned that you have more visibility for Kabi, which drove the outlook increase. Can you maybe share your thoughts on what you're seeing in China? You called out VBP at the beginning of the year. Maybe some more details here. Thank you.

Michael Sen: Want to start with China?

Sara Hennicken: Sure, happy to start with the Kabi and our increased confidence as well as visibility into the year. And maybe that ties to your first question as well because Michael also alluded to it, right?

It's the milestones we achieved with Tyenne where we do have indeed now. With a key milestone which was in our hand with the FDA approval, we have that now. Now it's on us to roll Tyenne out in the US. It's also on us to roll Tyenne further out in Europe. So we always said the Biopharma will be something which we will watch very carefully and where we expect to see an uptick in the second half.

Similar is what we said on China where, in Q1, we continued to see softness on China, and we continued to see the softness on China, as Michael outlined, on the anticorruption campaign as well as on, I would say, a more cautious spending from some of our large customers, right?

So I think this is what we're seeing. We're expecting a pickup in the second half. No great or great or good or bad updates on the tendering. I think, there, we know what will be upcoming, but we haven't had any news, be it left or right. So I think China for us is something to watch very carefully as we move ahead for Q2 but then in particular for Q3 and for Q4.

Where we do have that added visibility is clearly on the Biopharma with the approval of FDA.

Michael Sen: And, Hugo, maybe to add a little bit, I think, in the Capital Market Day of Kabi -- and that's why I said the journey started 2.5 years ago -- this is not a one-product company, as you outlined yourself. This is also not a generics-only company. This can rest on many market segments where we have leading market positions, and then on top of it, it cuts across geographies.

So the opportunity to grow is manyfold. And even if one is maybe temporary below potential, if you manage the bulk of the businesses in a performant fashion, it will grow. It will even grow nicely. And it will cater margin conversion.

And also regionally, yes, we flagged China, which is important, but it is important only, where are we in terms of the guidance range? Are we more at the upper end, or are we more in the mid, or where are we?

It is not that it is an impediment to all our trajectories we have. But it is an important element. If and when we gain even more visibility in Q3 and Q4, we will have the discussion with you or you will discuss with us where we are on that guidance range. And the same holds true for Tyenne.

Sara Hennicken: And maybe coming back to your first question on Kabi Q1 and Biopharma -- Biopharma, I think I alluded to that, or Michael alluded to that already as well. We have seen a good pickup from the rollout of Tyenne in Europe, but clearly also the license payment in the mAbxience business helped. That is something which helped breakeven on EBIT. This is something which is part of the business model. This is something which is a bit, let's say, more lumpy and will not repeat quarter over quarter to the same magnitude.

Hugo Solvet: Thank you. That's very helpful.

Falko Friedrichs: Thank you for taking my questions. My first one is on your Vamed restructuring. Why did you decide to keep the hospital services business and move it into Helios instead of disposing it? Where do you see the synergies there and even though that it's probably going to be a little bit margin dilutive to the segment?

And then secondly, on Helios, can you share with us how much energy-cost-related reimbursement was booked in the first quarter? And how much more could be booked at this year still? Thank you.

Michael Sen: Yes, Falko, I'll give it first shot, and then Sara will take over on the Vamed, the hospital service business. One of -- first of all, we said it's not too bad of a business. It is obviously not a Kabi business, which is in the growth vector basket and the earnings conversion it has. But it has a business where, in part, it is a captive market because the biggest customer of that business is Helios itself. And then obviously, it has third-party customers. So therefore, there's a natural home because it is services rendered to Helios, which they are paying anyways, right? That's the first thing.

The second thing is, now that we cleared all the transparency and everything with Vamed and the other assets find their home, if there is a more direct relationship between customer feedback and feeding that into service quality, maybe there's even some enhancement on that one.

Sara Hennicken: And maybe, Falko, let me also be specific. It's not going to be folded into Helios. It will be kept under the FSE kind of corporate line and be managed there because it is a business which sits outside of Helios, and Helios is the biggest customer. We feel comfortable with that structure that way.

On your energy cost question, so in Q1, we clearly didn't receive as expected any cash in from energy relief funding. We received a mid-double-digit -- or sorry, we had a P&L -- we had a positive P&L effect of broadly mid-double-digit million.

And maybe to get back and remind you, in 2023, we said we received roughly €300 million in cash flow, of which, in '23, we recognized around two-thirds. And that was mainly related to the lump sum payments we received from a per-bed basis basically.

Now for '24, what we're going to expect is, A, we're going to expect some more cash in, in Q2 and in Q3, from more funding under that lump sum payments per bed. That has always been anticipated and expected. And then we also said that, in Q2, Q3, there will be the settlement of those individual reimbursement claims for which we applied last year and which was part of the €300 million of cash flow received, however, for which the final settlement of that number was still open. And thus, it will only become P&L effective, with the largest effect and largest parts, once we get the confirmation.

Falko Friedrichs: Okay. Thank you.

Marianne Bulot: Yes, hello. Thank you. Thank you for taking my questions. Maybe the first one, on Tyenne, obviously, you're having a good traction in Europe, especially in Spain and Germany. Just wondering if you could provide a little bit more color on how the rest of your European countries are working?

And second question, just on the Pharma business, what drove the 5% organic growth? Was it any specific product, weaker competition? Do you think it's sustainable, or is it something just for this quarter? Thanks.

Michael Sen: Yes, hi. I'll start, and then Sara will add. On Tyenne, yes, as we said, Europe is doing great. We see great pickup already starting in last year, 12 countries. We already are serving 12 countries. Market share is easy. We have the top market share if there's only one player. In the class of biosimilars, obviously, we see it country by country, interesting dynamics of the class uptake. We did win the tenders in especially the big countries and would rather now also capacity wise focus on which countries we serve and where profit pools are the biggest and, obviously, where we are in a strong position also with our Ada franchise because Ada also had a good track record outside the US, where we made great inroads. And there, you are perceived as a good biosimilars player vis-à-vis the customer.Germany, you mentioned, is great, also others.

We need to keep in mind, though we won the tenders, we still have to pull through the molecules, if you so wish, to then post the things.

On the US, I'd give it a first shot on the Pharma business. First of all, not only US, in Pharma in general, we always say Pharma and solutions. On the solutions, which we always said, also the Capital Market Day, a very stable business.

When I mentioned that Kabi is doing an excellent job in executing a strategy on the cost side and on the operational excellence side, it also means that businesses where we are in a good market position and have innovation power or other, let's say, USPs, we can also talk about pricing power.

What we have been seeing in Q1 is that we were not only growing by volume, which is great as such, but we were also growing in price. And that is different to a regular generics business. And that's why it makes all sense to have this dissection into the growth vectors and the base business. And in the US in general, by the way, there's still drug shortage. And we also benefited from that one. Also, outside the US, we've benefited in Europe on drug shortage. On oncology, we have the capacity. We are a big player. So we could go in there.

Sara Hennicken: And one thing to add in the US and in particular in January and February, obviously, we had a significant reduction of back orders, which helped top line. So that is added.

James Vane-Tempest: Hi, thanks for taking my questions -- two, please. Firstly, just with leverage at 3.75x, you've articulated obviously the path to delevering. My question is more how we should potentially think about an exit rate for this year. If you receive the proceeds from divestments as planned and I guess you deliver on your kind of business plan, what could be an indication where we could potentially be at the end of the year?

And my second question is just on Biopharma. I think we've seen a number of biosimilar Humira deals such as with [unauditable] or Cordavis with Sandoz, for example, to improve access. I guess some in the industry think that the US is on the cusp of an inflection in terms of broader biosimilars uptake. So I'm just kind of wondering, how material do you see these types of partnerships to Kabi's strategy to participate and how you see this going forward? Thank you.

Sara Hennicken: Happy to take the leverage question. Look, from the outset, the topic of leverage but also debt was part of #FutureFresenius and received full focus and attention. Now if I look at how we are moving this year, we at 3.75x. We need to accelerate, right? But if you look at it and decompose it a little bit, I'm very confident and comfortable here.

So we have EBITDA as one key pillar. You've seen Q1 very strong. You've seen we just lifted our outlook for the full year. So on that element of improving last 12 months EBITDA, that's one of the core topics on leverage driving that ratio down.

The other one obviously on the debt, that's a cash flow topic. We are fully focused on cash flow. Q1 was soft. It's a usual soft. So we will need to see an acceleration throughout the year. You have, however, also seen that traction Kabi is getting with all the initiatives they are putting behind their cash flow focus and their net working capital focus. You have seen that coming to light in Q4, I think, of last year. And we have also seen that in Q1.

There is an increased focus and attention on the Helios side to also deliver and pick up on cash flow and cash return. That will drive cash throughout the year. And then obviously, we have the proceeds from the disposals we have already. If you look at free cash flow, free cash flow in Q1 already reflected some of the cash in from the disposals announced end of last year.

Now with the Vamed, obviously, what we announced on Vamed, there will be an immediate debt reduction coming from the transactions. There will, however, also be some added cash out from the structured exit of the project business.

Clearly, however, what is also helping is the no dividend out in 2024. So overall, strong focus on cash remains and in particular on operating cash flow, net working capital, and overall, I would say, capital discipline and efficiency.

Michael Sen: Yes, and maybe your question on Biopharma, in this case actually biosimilars in the US, we believe there is dynamics. It's a very dynamic market. And this class will take and have its fair share. Nevertheless, it is early innings but probably on an inflection point.

I think, time and again, I've said, for us but also the last couple of calls for the market, maybe the Humira molecule is not the best showcase. This is the largest molecule, north of 20 billion originator for 20 years. So I think that has its own distinct dynamics.

The questions from your colleagues have been alluding to what also peers do that there is some dynamics, and probably, when we see the latest market share reports and compare and contrast them to December and January, we will see more pickup of biosimilars also in the adalimumab space.

And what everybody does and we also do is to try out different channels, and concurrently, everybody is having real conversations also with the agencies, with the government. I think the FDA made a lot of statements how it makes sense also on interchangeability and so on and so forth.

So again, if the primary goal of a country is to serve patients with innovative medicine with affordable prices and there is price potential or cost potential for the overall healthcare system, depending on the study, between 40% to 60% on the overall subscription of biologics in oncology and autoimmune, this is a big potential. And why would it not pick up?

And we see on other molecules -- as I said, on Tyenne, we are getting ready. We will see how it pans out, but the dynamics clearly is positive. We're very confident, also on customer interactions and the feedback we receive.

We are also on Ada doing a multichannel strategy. We are talking about an unbranded version which also has a lower WACC. There is a system which is highly complex with PBMs in between and rebates and who has which incentives. And that one is on the block to be clarified, at the end of the day, to the benefit of the patients. And therefore, we are encouraged on what the dynamics hold in the US on this class.

Oliver Reinberg: Thanks so much for taking my questions. And the first one would be on Vamed. So it's obviously great to see that this kind of exit has been now quickly realized but, to be fair, also comes at a cost. So can you just share a bit of insight what triggered this kind of high triple-digit million cost for the exit of the project business? And also, can you just clarify the kind of future cash flow? So what kind of cash proceeds do you expect from these divestments? And also, what kind of cash out do you still expect from the costs from last year? That would be question number one.

And secondly, just on the Biopharma license payments, I'm just wondering, can you give us any kind of indication like the magnitude of these license payments in Q1 and how they compare to the normal license revenues in a normalized year? Thanks so much.

Sara Hennicken: Let me start with the Vamed question. And again, let me phrase it a little bit. On Vamed, we took the decision we're not the best owner. We want to focus on our operating companies, which is why we set out this plan for ending our exposure, right? And there are clearly some legacy topics which also explain the high triple-digit amount we're now setting for the structured exit of the remaining project business.

What you maybe need to take into consideration is not an insignificant part of the current cost base. So if that business would have just continued to perform, obviously, there would have been costs associated with it year over year over year. What we're doing is we're basically pulling it all forward into that one number.

And then of course, what went into that is an analysis kind of country specific and project specific how these projects can be managed, and what is the best solution for these projects, for an individual project, for an individual country?

And based on where we currently stand and based on our analysis we have conducted so far, this is where we derived at. We will give you an update as we move forward, but maybe let me be very clear. We will work very, very hard to make that number as small as possible as we are progressing.

In terms of cash out, given that, as I just said, part of it is the cost structure we have in the business anyway, that also explains the cash out, right? And as we embark on the structured exits, there will also be more cash outs to come.

We have a clear focus on getting that structured exit to the largest extent done by 2026 and, ideally, get the bigger chunks earlier out of the door than later for you and us to get clarity and visibility. We will update you as we progress along.

Michael Sen: Yes, yes, and don't forget what Sara said in her speech. Yes, there's a price tag, but there is also clear benefits immediately attached to that one because this has also positive impacts on the margin, on the return, and obviously, on us focusing going forward.

The milestone payments, we usually do not disclose them. It is important to understand that is not like a one off, and it doesn't recur anymore, but it will not recur every month. It is embedded into that business plan. And mAbxience, as they build out their ecosystem, there will be a milestone payment every now and then. Now the best way to triangulate for you to do this is, obviously, take the EBITDA breakeven for the full year and then take Q1 where we stand and then move along quarter by quarter with us. And then we'll see also what the pickup of Tyenne does. And then you get a better picture on the trajectory in the Biopharma space.

What we can say probably is that the milestone payments are more frontend loaded for the fiscal year. And that is also why we have to see in Q3 and Q4 how things overall with the entire portfolio work out.

Oliver Reinberg: Perfect. And are there any kind of divestment proceeds coming for rehab in Austria?

Sara Hennicken: Yes, look, we -- if you look at it, and I think what Michael said, there are costs associated to this, but there are immediate and longer-term financial gains. If you look at the transactions on a standalone basis, it's around €600 million of special items booked, however, as noncash. And then there's €400 million of direct debt reduction. And part of that is a clear cash in from the proceeds which we will receive from selling those two assets.

Another piece to it is also clearly in the rehab. There's a lot of lease liabilities which we move out with the sale of that asset. So if you look at the €400 million, you can somehow dissect that.

Michael Sen: Yes, so the thing is ring-fenced and in partly funds itself from the transaction.

Oliver Reinberg: Okay. Thanks.

Robert Davies: Thanks for taking my questions. Most of them have been covered. Just had two quick ones. Just within the growth vectors segment profit, could you just give us any more color in terms of the moving parts of what's helped profitability year on year? Was it mainly the Biopharma kind of improvements, or was there anything significant else to call out within the division?

And then the second one was just, could you give an update on the corporate cost guidance for the full year, or just what's the latest comments you've provided around that? Thank you.

Sara Hennicken: Sure. Let me pick up the corporate cost. I think, in Q1, we're standing at slightly above €30 million. Now if I were to be in your shoes and look at a phasing, I'd

say that they're probably higher cost towards kind of or ramp up in cost. Let me put it that way.

I think you can take that ramp up. You can take and add on in terms of innovation budget, which we outlined to you in our full year '23 call. There are also operating model changes as well as temporary costs as we transform the company. That all speaks for an increased corporate cost base going forward.

So probably, as a rough estimate, take our last year cost, and there will be a good add on to those last year costs. As we move the hospital services business into the corporate line, obviously, we will provide you an update a little bit later on where we would be standing there. But that obviously counterbalances, if you want, that corporate cost line.

Michael Sen: Yes, on the growth vectors maybe, I think we reiterate what we said on the Biopharma business, right, the good data point in Q1 and EBITDA breakeven for the full year. So they will obviously contribute if you look at it on a year-over-year basis for the full year.

Nutrition is a great business. Even though we see the softness in China, this is a big business. This is -- for the full year, it is a €2 billion-ish business or north of €2 billion-ish business with a great margin. So there's cost savings underway. Sara alluded to how cost savings keep coming in basically as a result of hard work and structural cost savings. So we're going to see operating leverage over there. And then we'll take it from there. So from the growth vectors, we're actually satisfied.

Robert Davies: Okay. Okay. Thank you.

Markus Georgi: Thanks, Robert. Many thanks, all of you, for your attention and joining today's conference call. We will do roadshows in the next days and weeks and hopefully meet many of you in person. Once again, as a reminder, Helios CMD is taking place on June 5th, and if you would like to register or if there any further questions, please contact the IR team. With that, thank you and goodbye.