CORPORATE PARTICIPANTS

Stephan Sturm, Fresenius SE & Co. KGaA – CEO
Rachel Empey, Fresenius SE & Co. KGaA – CFO
Markus Georgi, Fresenius SE & Co. KGaA – SVP IR

CONFERENCE CALL PARTICIPANTS

Michael Jüngling, Morgan Stanley
Veronika Dubajova, Goldman Sachs
Thomas M. Jones, Berenberg
Patrick Wood, Bank of America Merrill Lynch
James Vane-Tempest, Jefferies
Oliver Metzger, Commerzbank
Falko Friedrichs, Deutsche Bank

PRESENTATION

Markus Georgi: Good afternoon, and thanks, everybody, for joining us today. I would like to welcome all of you to our second quarter 2020 conference call. With me on the call today are Stephan and Rachel. So as always, I would like to start the call today by drawing 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 Stephan. The floor is yours.

Stephan Sturm: Thank you, Markus. Good afternoon and good morning, a warm welcome. Thank you for joining us. And as always, we appreciate your interest in Fresenius. Markus has pointed out the safe harbor language to you. So let’s move right to Page 3 with an update on the current COVID situation.

During this unprecedented time, we as Fresenius have truly risen to the occasion. Whilst our doctors, nurses, and caregivers have, with incredible motivation, fought and helped contain the pandemic, our production, logistics, and admin staff have ensured business continuity. I’m proud to say that we have lived up to our special responsibility and have helped save many lives.

So I’d like to take this opportunity to thank all our more than 300,000 employees around the world for their tremendous dedication. They have truly brought to life our purpose to offer better and affordable healthcare to ever more people.

Obviously, we have implemented all necessary precautions to secure the health and safety of our patients and employees in our hospitals, clinics, plants, and offices. And we
have stuck to our commitment to keep prices for essential drugs for COVID-19 patients stable during this crisis. We're here to help, not to take undue advantage.

So unsurprisingly, the pandemic has weighed on our financial results. The more pronounced negative effects in Q2, well, those were anticipated and well flagged. In contrast to Q1, now virtually all geographies were affected throughout the entire quarter. Encouraging though is the visibly strong underlying performance. With all the uncertainties of accurately quantifying the COVID-19 effects, we still estimate that, for both sales and net income growth, we could've been at the top end of our original guidance ranges, excluding COVID-19, now in the first half. But clearly, these are somewhat artificial metrics. And hence, we have adjusted that original guidance to now incorporate estimated COVID-19 effects. And before Rachel will elaborate on that new guidance in a minute, I'd like to clarify our underlying assumptions. Our base case is that a major second COVID-19 wave in our relevant markets can be prevented. Instead, we should continue to see local and regional outbreaks and, as a consequence, more localized or regional governmental containment measures instead of broad lockdowns.

On this basis, our colleagues around the world compiled detailed bottom-up forecasts which in turn have informed our adjusted guidance. Whilst I believe that that base case is realistic, we have to closely monitor the recently growing number of infection herds. Under those assumptions, our new guidance implies an acceleration of earnings growth in the second half. Hence, Q2 is likely to mark the trough. And whilst it also marks a mild stepdown from our original expectations, I believe our new guidance nicely demonstrates Fresenius' resilience.

That brings me to my last point on this slide. Our unique healthcare franchise is in excellent shape to weather this storm. In fact, we will emerge even stronger from this crisis. Why? Our core competencies, developing and providing affordable, high-quality healthcare products and services, will play an even more important role in the future. With our scale, our already efficient and steadily more digitalized hospital and dialysis network, our engineering expertise, and world-class automated plants, there will be many opportunities for us to seize.

Onto Slide 4 and an update on Fresenius Kabi, and you know this illustration from our Q1 presentation. It's meant to show the major developments in the first half of 2020 and key dynamics to be monitored going forward. As before, take green as more positive, red as more negative, gray as neutral, always relative to our original expectations.

So you can see that COVID effects have varied quite meaningfully in timing, direction, and magnitude. You see some fading and also some anticipated trend reversals. I don't want to comment on every single arrow on this slide. The main takeaways are, though, the recovery in China is real but takes longer than expected. In North America, we've seen quite volatile demand for COVID-related drugs and devices. A spike late Q1 and early Q2 included some anticipatory buying by hospitals and wholesalers, increasing their safety stock levels, followed by a rapid easing of COVID-related demand through April and early May. And after a normalization until the end of Q2, we saw demand pick up again recently. That is to be monitored. But taken together, this tailwind could not fully offset softer demand for other product categories resulting from lower rates of elective procedures. We observe those resuming only slowly, from about 40% of normal levels in May to about 60% by the end of Q2. And assuming no major second COVID-19 wave, we expect them to continue to gradually recover.

Profitability in North America remains very healthy, at a margin north of 39% in Q2, to be clear, not driven by price increases, but much rather by product mix. Many COVID-19-related products are high strength and higher-dose presentations. Typically, those are more difficult to manufacture, consequently, enjoy a bit less competition, and hence, carry a higher margin. A word on new product launches. Year-to-date, we've launched 6 products. And while FDA has not reported delays in reviewing applications due to COVID-
19 yet, the agency has postponed site inspections, and this is likely to impact launch schedules. So currently, we expect to launch 10 to 12 new products this year versus the 15-plus expected originally. In Europe, we’ve seen much less volatility in COVID-related extra demand and, also here, the delay of elective procedures having a net negative effect on Kabi’s financials, but also here, our observation and expectation of an at least gradual recovery of elective procedures.

Briefly on biosimilars, only recently, we entered into a marketing agreement with the pharmaceutical distributor medac to cooperate in Germany in the area of treatments for rheumatic illnesses. This partnership offers patients and doctors new benefits and synergies in therapy offerings as well as in consulting. Hence, we are complementing our service propositions. But as I alluded to in Q1, given the immune system-suppressing pharmacological effects of adalimumab, the overall market slightly shrunk during the current pandemic. And as we are not a first mover in the European adalimumab market, this has given us a challenge. We assume, though, that as the pandemic recedes, we can lever our fairly significant tender wins and get more traction in other European markets. Thus, our underlying expectations for the full year 2020 remain unchanged.

At the bottom of the page, Kabi have done a tremendous job of keeping their global supply chains up and running, without any meaningful interruption. But COVID-19 continues to take its toll here in the form of higher costs for raw materials and logistics and for the protection of our employees. We believe that this is likely a longer-lasting effect.

With that, over to our hospital business starting on Slide 5. What we show here is the delta between the occupancy rate at Helios Germany in 2020 versus 2019. As we said in our Q1 call, we had a good start to the year, only to face an unprecedented admissions decline from the second half of March due to COVID. We really saw the trough in April. Adjusted for the Easter effect, where Easter 2019 was a couple of weeks later than this year, we would’ve seen more a lateral development throughout April. But from May, occupancy has gradually recovered, reaching a much more reasonable level in June.

Also in Spain, not on this slide, we have seen a strong January and February and the significant COVID impact from March. Occupation rates in March and April were still at a decent level, given the intense inflow of COVID-19 patients, specifically in Madrid and Barcelona. But under the government-instigated state of alarm, we have treated virtually no elective cases in our inpatient facilities in April and May. But from May, we have seen a gradual recovery. The count of elective treatments for June is encouraging. Especially in large metropolitan areas such as Madrid, Barcelona, Seville, Valencia, or Zaragoza, we have seen a solid recovery of elective procedures, bolstered by many safety initiatives and hospital actions to resume patient treatments that had to be postponed.

Hence, onto Slide 6, with an update on Helios Germany. Over the course of Q2, government interventions have become a less meaningful constraint. We have seen the inversion of the principle, in line with our proposal. When, originally, we were prohibited from treating elective patients in order to reserve capacities for potential COVID patients, we are now permitted to treat elective patients as long as we can guarantee spare capacity. Right now, the aggregate number for our 83 acute hospitals across Germany shows a mid-double-digit number of COVID patients, thus negligible. Going forward, we are impacted by government-induced distance regulations. Two brief conclusions from that. First, whilst 2-bed rooms are today by and large the norm in Germany, we still have a few hospitals where we also have a few 3-bed rooms. So going forward, we will spend some CapEx to convert these. Second, this will moderately weigh on our available capacity, however, estimated only in the mid-single digits.

The admission development that I have just shown is obviously mainly driven by the patients’ willingness to seek elective procedures. But based on a representative survey to
identify the most meaningful concerns, we have established and communicated targeted initiatives to increase our patients’ confidence.

That brings me to an update on reimbursement in Germany. The law to ease the financial burden for hospitals mitigated most but certainly not all negative sales and cost effects in the first half. The compensation payment of €560 per forgone treatment day was recently amended to a range between €360 to €760. And while the majority of Helios’ hospitals remained in the €560 category, overall, that update is slightly positive for us. The current law to ease the financial burden has an end-of-September expiry date. Will it be extended? Unlikely in the current form. What will be amended? Unclear. Basically, for our guidance, we are assuming compensation payments to cease in Q4.

So how should you think about the remainder of 2020? We have assumed an ongoing recovery of elective treatments, bolstered by our marketing activities. We assume the second half could see some normalization and even some catch-up effects. But is the second half going to reach the levels of, say, a normal second half and, therefore, fully making up what we have lost in this past quarter? I doubt it.

Onto Slide 7 covering our Spanish hospital business. As discussed, the development in Spain is lagging behind. Q2 was still heavily marked by Quirónsalud’s exceptional contributions to combat the pandemic and the mandated postponement of elective procedures under the state of alarm that lasted until late in the quarter. In particular, the forgone elective treatments, unmitigated fixed costs, increased costs for the protection of our patients and staff, as well as for medical devices, have led to a very significant negative impact on our EBIT.

So what’s the latest on reimbursement and compensation? As far as the reimbursement for actual COVID-19 patients is concerned, at the time of our Q1 results, I already referred to the rates that have been discussed for the Catalonia region and that we were firmly working on the assumption that those rate levels sooner or later would also be generally reimbursed by other payers. As of today, we continue to believe that this is a very fair assessment. Actually, in all other regions, primarily depending on the COVID-19 prevalence there, private hospitals continue to negotiate with regional governments fair reimbursement tariffs or compensations measures, and we expect these discussions to last until the end of this year. But we would characterize these discussions always as fair and reasonable.

Let me remind you that Quirónsalud generates close to two-thirds of its hospital revenues with private health insurance companies, in short the HICs, and that we treated many privately insured COVID-19 patients. Thus, the conversations with those private HICs readjusted reimbursement levels are just as important. And we have been negotiating with virtually all of them in the past 2 months and are making good progress.

The Spanish government, as you know, has announced a €9 billion COVID-19 fund to help restore the healthcare budgets of the 17 Spanish regions. It is increasingly clear that this fund is not meant to reimburse for COVID-19 patients nor to compensate the healthcare sector, but rather to inject funds into the 17 regional public healthcare systems which suffered extraordinary cost burdens.

Our assumption is for the regional governments to use those funds to bolster their reserves to provide liquidity support in case of a second wave. And we would also expect them to reduce their patient waiting lists, which substantially increased during the COVID crisis and, last but not least, to pay their bills potentially a bit earlier. That would obviously be a welcome type of financial support. But for the avoidance of doubt, overall, I am not expecting anything remotely similar to the COVID compensation program in Germany. So we’re rather expecting fair reimbursement and some minor compensation for reserved capacity and additional costs. And from an accounting perspective, providing a true and fair view, we have recognized some of the just-mentioned negotiation
progress in our Q1 and Q2 results already. So I don't expect meaningful P&L upside from the final agreements with the payers.

How should we think here about the remainder of 2020? We assume that the new normal will bring a capacity utilization which is a notch below the historical levels. As far as distance regulations are concerned, we assume that, whilst the impact on Helios Spain is not zero, it is clearly much less relevant than for Helios Germany since the overwhelming majority of our hospitals in Spain have already purely 1-bed rooms.

As I got this question recently a few times, let me emphasize that we believe that doctor shortages should not be a bottleneck for the recovery in Spain. A large portion of our doctors at Quirónsalud are self-employed and could not perform their usual elective treatments during the second quarter, resulting in a pretty steep decline in their activity and personal financial income. Additionally, many of their patients truly need to get back to hospital to be treated, particularly those that were already diagnosed pre-COVID and had to cancel their planned treatments due to the state of alarm. Hence, doctors have a direct incentive to try and fill that gap by catching up during the summer period and treat the well-filled pipeline of elective patients.

A very positive signal is the better-than-anticipated performance of the ORP business, where we’re now providing COVID-19 services to corporates by leveraging both our risk prevention expertise in the workplace and our healthcare capabilities from the hospitals. Beyond the ordinary ORP medical checkup services, we are now also offering COVID-19 safety protocols, including consulting and testing services, to help our corporate clients get back to work, while minimizing infection risk.

Let me add that, in our recently acquired LatAm hospitals in Peru and Colombia, we have also been making very significant efforts to fight the pandemic, as COVID-19 is affecting the region quite severely. Our hospitals are playing an important role in helping combat the crisis and have also seen their elective treatments reduced but are nonetheless showing a robust development.

Taking that all together, we remain optimistic for a healthy recovery in the second half of this year and expect a pronounced catchup effect of postponed treatments.

With that, over to Slide 8 and an update on Fresenius Vamed, where as already described on our Q1 call, COVID-19 weighs on virtually each stage of the company’s value chain. The project business continues to be marked by delays, postponements, as well as cancellations. These are accompanied by general execution delays due to COVID-19-related travel and quarantine restrictions as well as supply chain restraints. Obviously, this leads to incremental expenses due to project delays. We expect this trend to last well into the second half.

The service business is also significantly impacted. We had to observe capacity constraints, given health authority-induced shutdowns of rehab facilities coupled with less demand for rehab services due to postponed elective procedures. But consistent with our assumptions for Helios, we now expect a gradual recovery of post-acute treatments in the second half.

The technical services business is not significantly affected by COVID-19, but also here, we see some negative effects from postponed elective procedures such as for instrument sterilization services.

Let me close with Slide 9 and a picture from our largest Spanish hospital, the Fundación Jiménez Díaz in Madrid. In the darkest days of this crisis, our doctors and nurses were standing in front of the hospital every evening, applauding each other for their courage and expressing consolation. They acted with compassion where help and support for those in need was called for and supported and motivated each other as team players. I
continue to be truly inspired by their dedication, and they are definitely our heroes of the hour.

With that, I'm happy to hand over to Rachel. Thank you for now.

Rachel Empey: Thank you, Stephan. A warm welcome to everyone. As expected, we've seen a weaker Q2, but based on our current assumptions, we think the trough is now behind us. In light of the unprecedented challenges presented by COVID-19, I believe our new full year guidance is testament to the resilience of our well-diversified business in these exceptional times. I'm especially pleased by the group's sustained excellent access to the capital and credit markets amid this highly volatile situation. So with that, let's take a closer look at the Q2 2020 results, which you'll find on Page 11.

The results for Q2 are shown in our usual fashion, so before special items. A comprehensive overview of all special items is provided at the back of our Investor News and in the Results Center on our Website. Our financials include COVID-19 effects and thus are not comparable with our original guidance from February of this year. I'd like to remind you of my comments in May. It is very difficult to accurately estimate the impact of the pandemic, in particular the more indirect effects and as time goes by. Nevertheless, to give you the maximum transparency on how our business is developing, we are providing you with ranges based on our best estimates of the quantitative impact of the COVID-19 pandemic on the group in the back of the presentation.

So let's move to the numbers. Growth rates on the slide are on a constant currency basis. So we delivered sales growth of 2% in Q2. And for the half year, we're at 5% growth. So even in these challenging times, we continue to generate top line growth. COVID-19 had a negative effect of around 4 to 5 percentage points on our sales growth in Q2, obviously mainly driven by Helios Spain. But also, Kabi’s and Vamed’s top lines were negatively affected by COVID-19. Having said this, the underlying sales growth for the group was very strong and could have been more around the top end of our original guidance range of 4% to 7% growth, excluding COVID-19 effects, for both the second quarter and for the half year.

EBIT was flat year-on-year in Q2 2020 and declined by 1% in the first half. Missing sales combined with incremental COVID-19-driven expenses, for example, in our production sites and supply chains, as well as negative operating leverage at our Quirónsalud and Vamed facilities, took their toll. Moreover, following higher levels of investments in previous years, we see higher levels of depreciation and amortization in 2020. Overall, however, the expected EBIT developments at Helios Spain and Kabi were partially compensated by Fresenius Medical Care’s strong EBIT growth, resulting from the strong underlying business performance and the recovery of cost incurred in Q1 as well as the recovery of some valuations.

Interest decreased year-on-year by 7% in constant currency to €167 million in Q2, mainly driven by successful refinancing activities and lower interest rates. Given that the improved interest rate environment and expected financing activities, but also considering the ongoing market volatility, we now project our interest expenses for the full year 2020 to be slightly below the prior-year level. With much of the reduced rates affecting FMC instruments, we do not expect much of an impact on our group net income from this slight reduction in interest versus our previous expectations.

The group tax rate before special items reached 23.5% in Q2 2020, in line with our expectations. Without any fundamental changes in the tax environment, we confirm our expectation of a tax rate of between 23% to 24% for the full year. However, with a tax rate of 23.1% in the first half, we now see that the upper end of that range is less likely.

Let's move onto net income. Here, Q2 saw a decline of 13%. And year-to-date, that's a decline of 6%. The underlying earnings growth is also, though, very healthy. Excluding
our estimated COVID-19 effects of 13 to 17 percentage points, Q2 could have been within our original guidance range of 1% to 5% growth, although not at the top end of that range. For the first half year, given our good Q1, we would even have been more towards the top end of the original guidance range.

Let's move onto Page 12, which illustrates the Q2 2020 momentum at our 4 business segments. Let's start with Kabi. The company showed 2% organic sales growth with differences in developments across the regions. In Europe and the US, tailwinds from the spike in extra demand for COVID-19-related drugs and devices in late Q1 eased in April and hence could not fully offset the effect of fewer elective procedures throughout Q2.

In Europe, we've also seen our biosimilars business lagging a bit behind our expectations, given the immune-suppressive characteristics of adalimumab. Thus, net, the US saw an insignificant sales impact from COVID-19, whereas Europe saw a relatively significant negative effect.

Emerging markets had a mixed Q2. Latin America continued to show strong growth, but Asia-Pacific was significantly impacted by COVID-19. In China, we have seen a slow but gradual resumption of activity, driven by a recovery of elective treatments, with June showing positive organic growth again. Overall, COVID-19 had a moderate negative effect on Kabi's sales growth in Q2.

Moving onto Kabi's EBIT, where we've seen a decline of 5% in Q2, that is as expected in line with the Q1 result, even though with very different underlying dynamics. Overall, COVID-19 had a moderate positive effect on EBIT growth. So why is the EBIT development excluding COVID-19 even a bit weaker? The explanation is a technical effect in our biosimilars expenses. We did see a positive one-time effect in the prior-year quarter, which we explained at the time, and that's related to a balance sheet valuation of Idacio in Europe. That had a significant positive impact on our biosimilars costs in the second quarter 2019. Coupled with a slight increased underlying spend, we've seen an 18% higher corporate and R&D spend in Q2 this year.

If we take a closer look at the regions, starting with North America, here, we've seen an EBIT on the prior-year level with a very healthy margin of 39.3% in Q2, quite consistent and slightly up on Q1. The year-on-year margin contraction is mainly the result of the very strong prior-year basis, which also included a positive one-time effect. Europe, with solid 4% growth in Q2, here, we saw a positive contribution from the sale of COVID-related products. In emerging markets, we saw a return to growth in Q2, with our business outside of China compensating the temporary COVID-related headwinds in China. Here, we've seen a sequential improvement, even though the pace of the recovery of elective treatments is only gradual.

So let's move onto Helios, which showed a 2% organic sales decline in Q2, obviously driven by the meaningful forgone revenue predominantly in Spain due to the state of alarm that was in place for much of Q2. Excluding estimated COVID-19 effects, we would have been well above our original organic sales growth guidance range of 3% to 6% for Fresenius Helios.

You heard Stephan. Our Latin America business, although affected by COVID-19, is holding up well and thus continues to contribute positively to reported sales growth.

The situation in Germany was mostly mitigated by the law to ease the burden for hospitals. Hence, COVID-19 had only a slight negative effect on the 4% organic sales growth in Germany in Q2. Based on the very strong first 2 months of this year, a soft prior-year comp as well as positive price effects, the year-to-date organic sales growth remained strong with 6%.
If we move to EBIT, we saw a decline of 29% in Q2. In Germany, we’ve seen an EBIT decline of 5% in Q2. The decline was mainly caused by higher costs to protect our employees and patients and some missing sales. The law to ease the negative financial effects for hospitals supported us but, as we have indicated, did not fully offset the negative effects of the pandemic. Year-to-date, we’ve seen an increase of 3% based on the strong development we saw in Q1. In Q2, the very significant EBIT decline of 58% in Spain was completely related to COVID-19. The gradual recovery of elective treatments in June was not able to compensate for the incremental costs and the very significant negative operating leverage effects following the revenue lost from earlier in Q2.

Let's move to Vamed, where we have seen only a slight organic sales decline of 1%, whilst EBIT declined very significantly. The relatively stable top line is the result of ongoing projects, primarily in Germany and Austria, and including intercompany projects with Helios and some revenue recognition where milestones were completed before lockdown measures were implemented. This led to an increase of 18% within the project business in Q2. At the same time, however, we saw a sharp decrease in order intake from international projects, which is a clear signal that this favorable sales development cannot be extrapolated into the second half year.

The service business, especially in rehab and to some extent in instrument sterilization services, was negatively impacted by the lack of elective treatments and other operating restrictions in the first half year this year. EBIT was significantly marked by COVID-19-related costs, especially for the protection of our employees and patients.

Let's move onto cash flow, which you'll find on Slide 13. It was an extraordinary strong Q2 in terms of cash flow that took the group operating cash flow position to €3.1 billion. We have seen an excellent development in particular at Fresenius Medical Care and Kabi, where positive phasing and one-time effects led to significant growth rates.

At Fresenius Medical Care, the strong year-on-year increase was mainly driven by the US federal advance payments under the CARES Act. Thus, the cash flow development for the second half year 2020 is not anticipated to be as strong as we’ve seen in the first half.

Kabi posted a very strong Q2 cash flow of €437 million. An excellent margin of 26% took the last 12 months margin to 18.3%. The development was driven by some early cash receipts as well as some tax payment holidays. These will reverse in the second half.

Helios, also with a strong year-on-year growth of 42% in Q2, a strong margin of 12.7% took the last 12 months margin to a healthy 9.2%. Half one cash flow was €440 million with a margin of 9.2%. The development is driven by the shorter payment periods of the COVID-19 governmental compensation and reimbursement scheme for our hospital business in Germany. This positive development more than compensates the expected weaker cash flow at Helios Spain.

Vamed's cash flow in Q2 was positive at €28 million, driven by timing of payments in the project business as well as some compensation payments from governmental authorities in the service business. For the full year 2020, the cash flow for Vamed remains unpredictable due to the ongoing COVID-19 uncertainties, particularly in the project business.

So for the group, the Q2 performance took the group last 12 months margin to 18.6%. If you deduct the group CapEx of 6.8% in the middle column, you'll arrive at a very strong free cash flow margin, bottom right, of 11.8%.

As you can see from our CapEx, we've been able to continue with our investment programs, although of course, there remains some uncertainty on the timing of projects for the remainder of the year.
So with that, let's turn to **Page 14** for an update on a couple of key points relating to the group's financial position. As Stephan said recently, there seems to be some skepticism from some investors with regards to our leverage. I clearly wanted to reiterate that we feel very comfortable with our longstanding net debt/EBITDA target range of 3x to 3.5x including IFRS 16. We continue to be fully committed to that range over the medium term, although of course, in the current environment, there are more uncertainties than usual. And here, we do anticipate being around the top end of that range at the end of 2020.

The commitment to our leverage target in combination with the resilience of Fresenius' business model is also well recognized by the ratings agencies, resulting in an investment-grade rating by all 3 main agencies. In recent notes and releases, they have emphasized our well-diversified business model of noncyclical and cash-generating healthcare assets. There are no major refinancing needs for 2020 left. For the FSE, we have addressed all major refinancing needs with 2 successful bond issuances in 2020, totaling €1.5 billion. Our financial cushion for the group is very comfortable at €5.7 billion plus available cash. In summary, Fresenius' strong financial position, based on a proven and highly resilient business model, continues to -- supports the continuation of our successful franchise.

Over to **Page 15**, which illustrates the revised outlook for the business segments. So to be clear, our new guidance for the full year 2020 now includes the effects of COVID-19 and, as usual, excludes the effects of special items. Stephan and I already outlined our underlying assumptions for the new guidance, in brief, no major second wave, rather ongoing local and/or regional outbreaks, and thus regional containment measures instead of mass lockdowns.

Kabi's organic sales growth first, where we now project 2% to 5% growth. This is only a slight decrease versus the original guidance range of 3% to 6%. Given the relevance of the US market to Kabi's overall development, we will continue to watch the state-by-state developments very closely. At the same time, incremental costs for employee safety, supply chain security, safety stock levels, production, and logistics are here to stay in the second half of 2020. Hence, with a 5% EBIT decline year-to-date, we are now expecting an EBIT decline of minus 6% to minus 3% for the full year.

Moving to Helios, where we have a 1% organic sales growth year-to-date, we are now projecting 1% to 4% growth for the full year. This implies a slight acceleration of growth in the second half year, mainly driven by Helios Spain. In Germany, COVID-19 had only a slight effect on sales growth in the first half. However, the law to ease the financial burden on hospitals is expected to end at the end of Q3. And moreover, the comp will not get easier in the second half year. For Spain, we are optimistic to see a good ramp-up of elective treatments in the second half of 2020. In fact, we have seen already in June and July a positive admissions development month on month. And as already outlined by Stephan, the ORP business is currently showing dynamic growth. For EBIT, we have a decline of 14% year-to-date. And thus, we have adjusted our full year 2020 EBIT expectation to broadly stable when compared with the prior year. This implies a significant acceleration of growth in the second half year 2020, also here, mainly driven by Helios Spain, where we expect the operating leverage effect this time to work in our favor.

Let's move to Vamed. With 5% growth year-to-date, we are now expecting the full year 2020 organic sales to decline by about 10%. That implies significant headwinds in the second half year, mainly driven by delays in the project business.

Hence, the usual hockey stick effect in the second half year is not expected this year. In addition, we expect to see only a gradual resumption of the rehabilitation business following ramp-ups in elective procedures. With an EBIT of €1 million year-to-date, we now expect an EBIT decline of around 50% in constant currency for the full year. This
implies a relative improvement in the second half year of 2020 in comparison to the first half year, even though the year-on-year decline is still significant. A lot is dependent on the development of government-induced travel restrictions and thus our activities in our project business, as well as the speed of the recovery of elective treatments and the knock-on effect on Vamed services. Incremental expenses combined with negative operating leverage effects in the rehabilitation business are expected to continue to take their toll.

So if we take all of that together for the group, and you'll find that on Slide 16, let's start with sales growth. Here, we now expecting 3% to 6% growth in constant currency. And in terms of net income, where we now project a growth range, including the COVID-19 effect, of minus 4% to plus 1% in constant currency. As you can see, the upper end of that range overlaps with our original guidance range of plus 1% to plus 5% constant currency growth. I think that this is remarkable in these exceptional times and testament to the resilience of our group.

Of course, there are many uncertainties in the second half, and as explained, we have made some clear assumptions in giving this guidance. As you would logically expect, we are expecting the fourth quarter of the year to be clearly our best in terms of profitability, with ongoing marked COVID-19 effects particularly in Q3.

As to the currency translation effect, if current exchange rates prevailed until the end of the year, we would see a headwind of around 2 percentage points, mainly from the US dollar, for both sales and net income.

We will continue to actively monitor any broader potential knock-on financial impacts of the pandemic also with regards to our balance sheet, for example, changing currency movements, risk premia for emerging markets, and the potential need for revaluations of assets including goodwill. For the avoidance of doubt, if there would be such an impairment or revaluation requirement, that would be treated as a special item, as it is truly one-time in nature and thus will not impact our underlying operating performance and not be included within our guidance metrics.

With that, Stephan and I are happy to take your questions.

Question & Answer Session

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

Michael Jüngling: Thank you and good morning, all. I have sort of two questions. Maybe I can sneak in a third one. Firstly, when it comes to Helios Spain, how much did you record for the expected additional reimbursement in Q2 for COVID costs as well as for fully forgone elective procedures?

Also on Helios Spain, relative to what you thought you may get from Spain in terms of additional reimbursement, how much have you now been booked, or how much have you booked in the first half in percentage terms? Are we 70%, 80% the way there?

And then question number three is on Kabi. For the third quarter, how should we be thinking about the dexamethasone opportunity? Specifically, is it something that can shift the needle? And secondly, if there was extraordinary demand, would you be able to deliver it with your current manufacturing capacity? Thank you.

Stephan Sturm: Michael, Rachel's going to take care of the Helios questions. I'll do Kabi. Rachel Empey: So, Michael, thanks for your questions. I think we got them. Your line connection is not great. Your first two questions in connection to Helios Spain and what we have booked in terms of various types of reimbursement and compensation, I would say there's quite some complexities within the overall story, given the different regional
setups within Spain and also the large number of healthcare and insurance companies with whom we work. And the exact, I would say, split between reimbursement and compensation is also quite mixed.

I would, in trying to answer your question, highlight a mid-double-digit million euro number in the first half year's results that I think relates broadly to the question that you're asking around compensation. And clearly, that is more than 50% of what we would assume for the full year.

Stephan Sturm: Michael, on Kabi, as I indicated when commenting on Slide 4, we've seen in North America a bit of a pickup recently against the backdrop of more infections in individual states. That is something that we have got to monitor. Further down that Slide 4, when it comes to manufacturing, there I believe lies the answer to your question about our ability to supply. Against the backdrop of that spike in demand late Q1, early Q2, we have continued to manufacture basically or close to full throttle throughout Q2 and are now looking at a very comfortable inventory situation.

What we wanted to indicate with the arrow fading into pink before it turns green towards the end of the year is that we actually would have to manage our inventories, unless we saw a bit more of a demand coming through over the course of Q3. So bottom line, I am convinced that we can supply also to extra demand in Q3.

Specifically to dexamethasone, we saw a pickup in demand, but we still believe that the opportunity is relatively small, and to quote you, I do not believe that it's going to move the needle. Thank you.

Michael Jüngling: Great. Thank you so much.

Veronika Dubajova: Good afternoon, Rachel, Stephan, and thanks for taking my questions. I have two, please. The first one is, just curious on an update on China for the Kabi business. I was slightly surprised by the magnitude of decline in the APAC Kabi franchise. Maybe you can give us an update on what you saw exiting the quarter and, more broadly, how you're thinking about the growth rate for Asia for the second half of the year. And then I have a follow up after that.

Stephan Sturm: Veronika, as we indicated also, we have been a bit disappointed about the pace of recovery in China when we were talking to you as part of our Q1 call. We were a bit more optimistic, but unfortunately, it is taking longer in China to get back to normal. Just because you were talking about Asia-Pacific, and yes, that is where we tend to give at least some qualitative guidance, this time around, there is a pronounced differentiation within Asia-Pacific. And our observation is that the rest of the Asian markets have actually recovered pretty well and are already exhibiting some healthy growth again, and China is standing out as a bit of a laggard.

What therefore we have indicated on our infamous arrow chart is that, yes, it will take the third quarter for us to get into the gray, i.e. neutral zone before probably only late in Q4 we would get back to the original expectations.

But obviously, there is quite some uncertainty. I want to spare you individual quantitative growth rates. But what I can leave you with comfortably is that we see a month-over-month pickup in demand. So at the very least, we are headed in the right direction. Hope that is helpful.

Veronika Dubajova: That is, but I guess, is it fair to assume that China still is down year-on-year, even exiting Q2?

Stephan Sturm: Yes, it is.
Veronika Dubajova: Okay. Okay. And then my second question was sort of a bigger picture question on Helios and trying to understand the slightly kind of different dynamics that you're seeing between Germany and Spain and maybe get you to tell us as you think about the full year for both of those regions in terms of where you think you'll get to by yearend. It seems to me that you're maybe a bit more optimistic about the catchup in Spain versus Germany. Maybe elaborate on why that is the case. And when you think about 100 was the number you thought you were going to get in both of those markets pre-COVID, how far off do you think you will be by the end of the year?

Stephan Sturm: Veronika, yes, as a matter of fact, we have seen the COVID phenomenon pretty differently between the two countries. It only kicked in later in Germany. Maybe as a consequence of that, it kicked in only much more gently in Germany relative to Spain. What we were seeing, though, is that, in both countries, we have seen a very pronounced regional differentiation, where in Spain, you really only had two hotspots, and COVID at least as far as we can see, didn't play that much of a role outside Madrid and Barcelona. And also, in Germany, there is quite a number of Helios hospitals where we're still waiting for the first COVID patient to show up. I think the most pronounced differentiation is obviously the reimbursement and compensation mechanism, where reimbursement played much more of a role in Spain because of the substantially larger number of COVID patients, and compensation does not play a role, at least not yet and not for the time being, in contrast to Germany. And that clearly has something to do with the financial state of affairs between the two countries.

I would go back to our underlying base assumption with only local or regional outbreaks going forward. And I would also very much expect that a nationwide lockdown is more than unlikely going forward because we will have learned quite a few things from the first wave. And that is in particular that hospitals in general, ours in particular, have done an extremely good job in emptying capacity, vacating capacity for potential COVID patients fast and that therefore the complete abolition of elective surgery in my mind is not going to be repeated.

See, and I'm mentioning this at quite some length because what has really hurt us in Spain is the large number of hospitals where we did not have a pronounced COVID outbreak but still were prohibited from doing elective surgery without any compensation. And I just find it, against the backdrop of the experience that we've made, very unlikely that history is going to repeat itself in that regard.

I'm also taking quite some comfort from the pickup of elective surgery in the recent months sequentially, April -- excuse me, May over April, June over May, July over June. And I therefore do very much expect, and that is baked into our guidance, that we're not going to have that typical summer quarter this year but that, much rather, Q3 could be at a Q2 level this year. We have talked about the financial incentives for doctors. We've talked about the patients anxiously waiting to get elective surgery. And therefore, it is realistic to assume that we're going to see that pickup that we have modeled for guidance purposes. I want to stop here and hope that this at least partially answered your question.

Veronika Dubajova: Yes, thanks very much, guys.

Tom Jones: Good afternoon. Thank you for taking my question. I had just one, but it was a fairly broad and expansive question really. And you sort of alluded to it when you talked about spending some CapEx on some of your 3-bed room hospitals, reducing them to 2-bed rooms.

But if you look across the three non-Fresenius Medical Care businesses, what permanent changes do you think the COVID situation is going to precipitate in your various business lines, perhaps thinking of it both from a revenue opportunity as well as from a cost --

Stephan Sturm: Tom? I think we've lost you. Tom?
Tom Jones: Hello? Can you hear me?

Stephan Sturm: Now we can hear you again.

Tom Jones: Do you want me to ask the whole question again?

Stephan Sturm: No, no, no. Permanent, you were saying more permanent consequences of COVID on revenue opportunities and cost situation?

Tom Jones: Exactly. I'm just wondering how you think your business and your world looks in a post-COVID world once all the volatility of what's going on now dies down. What permanent changes might ensue from all of this?

Stephan Sturm: You said it, more expansive, and I would also say that is a moving target where, obviously, we've got to get through this first before we can give a more definitive answer. But as far as our hospital businesses are concerned, I believe that our underlying assumption that we've had all along, namely that many of the procedures that are being performed in a stationary setting right now are going to move to an ambulatory setting. And many of those that are in an ambulatory setting already have a chance to be rendered at home virtually, digitally. That is the thrust of many of the things that we're doing right now. You may have seen further initiatives by us on the digital front recently, and we feel encouraged. Now for the avoidance of doubt, there is always going to be a need for an acute care stationary hospital setting. And we believe that our efforts to go about clustering, about centralization in particular of the more intricate indications, will also pay off in a post-COVID environment.

As far as Kabi is concerned, my key observation would be that the already fading trust in the global supply chains has taken a further blow in that COVID environment. And there is a lot of talk about nationalization of crucial manufacturing infrastructure, and not because of a lack of trust, but just because we do believe that we have got to be close to our customers. You know that our motto has been all along that we wanted to manufacture in the country that we serve, and so in particular in the US. And therefore, further broadening of the manufacturing infrastructure is going to happen generally, but we have done most of the investment in our minds already.

When it comes to Vamed, and I'm really only -- I really can only give you highlights per business segment. When it comes to Vamed, then I really want to pick out the post-elective -- the post-acute rehabilitation services, where I also do believe that quite a few of these services are going to be redundant going forward and will be taken care of more in a digital setting, where I would argue that we are the most advanced. At least I haven't seen anyone being more advanced than we are in providing digital post-acute services and effectively combining them with what we're doing in a stationary setting.

Tom Jones: Perfect. And maybe one sort of derivative question of that I'd like to ask is, how has the last 6 to 9 months affected your willingness to put additional capital to work in the hospital space and perhaps more outside Germany and Spain? This has been a really terrible, difficult time for acute care hospitals, and you've been quite lucky in Germany. The government's been very supportive. Spain's been a bit more mixed. But has this whole situation -- because I don't think any of us think this pandemic's going to be the last of this kind of thing -- affected your enthusiasm for putting additional capital into the acute care industry, whether in Germany, Spain, or anywhere else?

Stephan Sturm: In general, I would say no. My -- one of the lessons learned out of COVID for me are the virtues or the strength of a larger chain, where assets, where capacities, where knowledge can be transferred, not entirely freely, but fairly effectively in a hospital chain and also between countries. We're seeing those synergies between...
Germany and Spain, between Spain and Latin America. And that is something that I believe is going to be even more valuable going forward.

I do believe that this pandemic in general is going to flash out who the weakest -- who the weaker market participants are and that we're going to see more of a consolidation. As you know, we have taken in our core markets, Germany and Spain, already for a while the position that we would very actively look at what is happening, but not necessarily. And that applies particularly to Germany, also use capital to further enhance our market position. I am convinced that, in particularly, when it comes to Germany, there is going to be an acceleration of the reduction of installed hospital capacity.

Tom Jones: That's all very clear. Thank you very much.

Stephan Sturm: Thanks, Tom.

Patrick Wood: Perfect. Just a quick one from me. I'm curious as to whether you think, as a result of COVID, just top down, there's going to be more public health spend. You kind of alluded to it in your comments on Spain, but more spend within centralized healthcare systems and hospitals overall, like in Spain, areas of that, and what you feel the potential implications of that could be for your hospital business on the private side. Thanks.

Stephan Sturm: Patrick, I do believe that, both in Germany and in Spain, there is an inertia to protect, to maintain the system that is installed for now just to -- on the side of caution for now against the backdrop of a potential second wave. But I would expect that, in particular, once we get to the stage that we have an effective vaccine, I would expect the different systems to be more differentiating and more focused on what can be sustained from a cost side structurally in the long term. And therefore, I would expect, as I just tried to allude to in my answer to Tom, that we're going to see more of a specialization, more of a differentiation that some of the installed capacity is going to be taken offline in order to make sure that these systems can be performed just as effectively but at a lower cost run rate.

Patrick Wood: Super. Thanks for taking those questions. Thanks.

Stephan Sturm: Thanks, Patrick.

James Vane-Tempest: Hi, thanks for the questions. Just on Kabi, looking at the guidance range you've now given, looking at the performance in the first half, just curious, the low end obviously implies a slight decline in the second half. So just wondering what scenarios would have to play out for you to reach that and not see the sequential improvement.

Second question is about (inaudible), but did you or are you reiterating your midterm guidance? I didn't see any mention of that in the results this morning. Thank you.

Rachel Empey: Hi, James. Let me take the first question. So if I understand correctly, in relation to the Kabi organic sales growth guidance, where we have achieved around 4% for the first half year and we have guided 2% to 5% for the full year, clearly, I think two things to say. Firstly, important to remember that, within that first half year results, we've seen a broadly, I would say, outside of China standard Q1. And then as we went to the end of Q1 and into Q2, we saw in Europe and the US that spike in demand for the COVID-relevant drugs. And then as Stephan was explaining earlier, the knock-on impact of fewer elective procedures and, clearly, the slower recovery in China.

But net-net, there are clearly some very positive impacts in there coming from the standard months that we had at the beginning of the year in our major markets as well as that peak, that spike in demand that we saw.
Now clearly, of course, we've looked at some scenarios for the second half year, as you quite rightly identified. And of course, it is around how the pandemic plays out within that kind of local and regionalized cluster sets of assumptions that we talked about in terms of underpinning the whole guidance.

And clearly, it is about the mix of the timing of the uptake of elective surgeries, the volumes and quantities of drugs that are existing within the supply chain today, i.e. with distributors, wholesalers, and with clinics themselves, versus what we may see in terms of regional or local peaks and then renewed spikes in demand of COVID-relevant drugs.

So clearly, you have both positives and negatives depending on in which geographies and in which timeframe and with which stock levels the participants are operating. But clearly, if we were to be, as you suggested, more towards the bottom end of the range, that is more playing out with a slower resumption of elective surgeries, there already being quite a lot of stock within the supply chain, and not any repeats in terms of peaks and demands that we've seen in the first half.

Stephan Sturm: James, on midterm guidance, we tend to actively reiterate that on a quarterly basis. But -- and hence, we haven't done that today, but you should not read into that that we're not standing behind our guidance anymore. As you know, this is a CAGR that runs into '23. We have always said that, to quite a degree, it is backend loaded, which is driven not only but in particular with our expectations as far as the biosimilars business is concerned. Very obviously, given where we started this year and where we have adjusted our guidance to now including COVID, we are a bit below our original expectations. But that does not mean at all that we no longer believe in our midterm guidance. As we also indicated on the various arrow charts, we do believe that there is catchup potential to some degree later this year, to some degree also next year. So we will have to see whether, as far as growth that we've lost that we're likely to lose this year, can be recouped in '21 and '22. In any case, it is too early against the backdrop of this uncertainty to say something definitive on this guidance. And I would like to ask you for your patience. Next February, as always, as part of our full year deliberations, we will spend a bit of time on that midterm guidance.

James Vane-Tempest: That's great. Thank you very much for clarifying that, and absolutely. A very quick follow up if I can. And that is, in Helios, if you could talk about your digital strategy. A number of providers kind of across Europe have talked about their digital platforms and how much investment, just given the changing dynamics of how patient (inaudible) initially, just wondering if you could just remind us in terms of the key differentiator drivers and how much investment that needs. Thank you so much.

Stephan Sturm: The subsidiary between Fresenius, Helios, and Vamed is called Curalie. There, when originally, we were starting with digital offerings for post-acute care, in particular in orthopedics. We are in the process of broadening this to a broader application when it comes to chronic diseases.

We are involved in telemedicine, have educated and qualified quite a number of our internal doctors, but also a mid-triple-digit number of external doctors who will be working on this platform.

When it comes to providing additional patient services, so in particular, when it comes to registration or also visibility of their documents, that is also something that we have already gone about. And there are quite a few additional examples. I want to encourage you to look up Curalie on the Web. And you will find quite a few additional interesting information. Thank you.

James Vane-Tempest: Thank you very much.
Hi, good afternoon. Thanks a lot for taking my question. The first one is on Helios Germany. So you showed a chart of the occupancy rate, which is at least for June around 10 percentage points lower than the year before. So even for the 2 months before, it was much lower. However, you still were able to report an organic growth of 4.6%, which was, as you said and reported, subject to the corona-related elective procedure compensation scheme, but it’s still impressive. If you look for the underlying development, so apart from that, what are your observations? Do you see some improvements in patient volumes and the case mix on a year-year comparison? That’s the first question.

The second one is on biosimilars. So in the past, you made some comments that you won some tenders. Earlier, you said that the market dynamics for adalimumab are -- have a little bit changed due to lower demand. These tenders, which should have typically a fixed volume price agreement, so how are the dynamics from the tenders? Did you see some lower volumes from them, or is it just the incremental business from which is currently not there?

Rachel Empey: Oliver, it’s Rachel. Let me try to address your question on the growth in Helios Germany in terms of trying to understand it. As I mentioned in my speech, there is a slight negative effect that we estimate from COVID in Germany in the second quarter, so i.e. as we’ve discussed before, the law to protect us from the financial burden of COVID has helped us significantly but has not completely offset the downsides that we have seen. So there is a slide negative effect on the revenue that we’ve reported. And thus, you’re right, the underlying business we believe would have looked stronger.

How do you reconcile that with the figures that you can see? Well, what Stephan is showing you on the chart is the absolute occupancy rates. And clearly, what you have to remember is that, firstly, the law, the Rettungsschirm, protects us based on the capacity in comparison to the previous year. So any of those vacancies are already effectively compensated through the law.

Then of course, there is always a question in terms of the case mix of the patients, and then there are the underlying price effects that have happened between last year and this year. And that is why you can reconcile, if you like, that development in terms of occupancy versus what we believe would’ve been an underlying growth rate of a little bit stronger than the one that we’ve reported of around 4%.

Stephan Sturm: Oliver, on biosimilar tenders, before I answer your question specifically, I want to use the opportunity to again point out how heterogeneous Europe is in that regard. There are prescription markets. There are tender markets. There are tender markets where the winner takes it all. There are also tender markets where you get regional tenders. Within those, the winner can take it all, but there are also individual regional tenders where you have a small number of players who will then qualify for further distribution.

When -- in my prepared remarks, I was talking about noteworthy tender wins recently. What I really meant are 4 regions in the UK where, for the next 2 years, we have qualified as a supplier of Idacio going forward, very importantly for us in combination with a homecare offering, where we have installed capacity already, a very interesting feature that we would like to see being applied also in other European markets. And secondly, we have been successful in 6 important Italian regions.

Now what I meant with the COVID impact is that the -- whilst we have won these tenders, the implementation and the -- of that tender win, the change from the pre -- from the incumbent to us being the new supplier, that has taken longer because of administrative hurdles, where many of the administrative bodies were not equipped, put it that way, to deal with that during the pandemic. But I can also positively confirm that,
since late May, early June, the pickup in demand under these tenders that we have won is becoming increasingly visible.

Oliver Metzger: Okay. That's good to hear. Thank you very much.

Stephan Sturm: Thank you, Oliver.

Falko Friedrichs: Thank you. I have one question left. Could you provide an updated thought on potential M&A activities? And has your thinking around this changed to some extent due to the pandemic?

Stephan Sturm: Falko, not meaningfully, at least not relative to what we were saying as part of our Q1 call. I do believe that, more than in earlier times, there is an investor focus on our balance sheet on our leverage, which is why we wanted to use time on this call again today to explain to you how comfortable we are with this. At the same time, we take investor concerns very seriously, and therefore, this is not the time to do anything major, anything bold, quite apart from the fact that I do not see any meaningful seller out there in the current environment.

But as far as our general thrust is concerned, we have always prided ourselves of combining organic growth with acquired growth. That is also something that we want to live up to going forward. It applies to basically all of our 4 businesses. There is at the same time no appetite whatsoever to add a completely new business leg to the group.

I think most of you are particularly interested in our view on a further -- potential further expansion in the hospital business. And let me hence single that out. We're happy with our LatAm expansion. However, we have always characterized that as opportunistic, and I do not expect any further activity, at least no meaningful further activity in the near term.

As far as Spain is concerned, we have always said that we are keen to look for further consolidation of this highly fragmented market. You heard what I was saying about our expectation of COVID fallout. And I would not be surprised if, later this year, maybe next year, we would see some willing sellers, and then we would be actively investigating those opportunities but, at the same time, be selective.

Lastly, on Germany, our home base, and there, we have a very good market position already. We will rather rely on a further reduction of installed capacity out there driving more or less passively our market share.

At the same time, you've seen our move with the hospital owned by the order of Malta in Bonn. There, we expect the closing of that acquisition over the course of the third quarter. And I want to stick to what I was saying recently. Is that going to be a regular theme from here on? No. Is there a potential for a very selective repeat of such a situation where there are very near-term and very tangible synergies? I wouldn't rule that out, and I would actually welcome that.

Bottom line, I do not foresee major acquisition spending in the near term. Our priorities are somewhat different for now. Let's revisit that once we're thoroughly through that current pandemic.

Falko Friedrichs: Okay. Thanks very much.

Stephan Sturm: Thank you, Falko. I believe that concludes our conference call today. I hope our answers have informed your thinking further. Markus is available for further questions that could not be answered in today's forum. Rachel and I are also selectively available for investor calls. So feel free to reach out.
Bear with us. We will be working hard to make that adjusted guidance -- to turn that adjusted guidance now into reality and hopefully maybe even do a bit more. And -- but first of all, stay safe, stay healthy. Have a good summer.

**DISCLAIMER // FORWARD-LOOKING STATEMENTS**
This transcript contains forward-looking statements that are subject to various risks and uncertainties. Future results could differ materially from those described in these forward-looking statements due to certain factors, e.g. changes in business, economic and competitive conditions, regulatory reforms, results of clinical trials, foreign exchange rate fluctuations, uncertainties in litigation or investigative proceedings, and the availability of financing. Fresenius does not undertake any responsibility to update the forward-looking statements contained in this transcript.