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PRESENTATION

Markus Georgi - *Fresenius SE & Co. KGaA - Head of IR*

Thank you. Patrick. Good afternoon and good morning to the U.S. Welcome to our Q1 Conference Call. With us today is Stephan Sturm. Stephan will give you an update on Q1 and cover the financials, followed by a Q&A session. After the call, a replay and the transcript will be available on our website. Before I hand over to Stephan, please pay attention to our usual disclaimer which is on Page 2 in the presentation. With that, it's my pleasure to hand over to Stephan for his opening remarks.

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Thank you, Markus. Good afternoon, good morning, a warm welcome. 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 Slide 3.

Negotiating and announcing the acquisition of Akorn and our investment into the biosimilars business, those were definitely our Q1 highlights. These transactions prepare Fresenius Kabi for the next decade, not only, but in particular, in the U.S. Akorn will enhance and complement our current injectables business and will diversify our product portfolio into adjacent growth areas. The investment into the biosimilars business builds on many of our existing strengths and offers great opportunities, while the chosen transaction structure nicely contains the risks. The transactions will allow us to leverage already strong institutional market access that we have in the U.S., maybe even more. And while Akorn will provide us superior access to physicians and the retail market. That's valuable in the short term, but even more so, once we get to launch our first biosimilars.

The internationalization of our hospital business was another Q1 highlight. We successfully closed the Quironsalud acquisition, end of January. And our new colleagues already made a meaningful positive contribution to group earnings. And I'm convinced there's more to come. Integration is running smoothly with intense and broad activity related to best practice exchange for mutual benefit.

Now with regard to Fresenius' financial performance. We had a strong start into the year. We were, yet again, very satisfied with the consistency of organic growth across our 4 business segments. I'm extremely pleased with the earnings growth, 26% above the not exactly weak first quarter of '16, that's just fantastic. Given these strong results and bright prospects ahead, we raise our group earnings guidance to 19% to 21% on a like-for-like basis. Like for like means comparable with the parameter, we based our original guidance on in February. And that is before effect of the acquisitions we announced for Fresenius Kabi last week. But even including the roughly EUR 50 million of expenses to further develop our biosimilars platform in the second half of this year, we project earnings growth within the original range of 17% to 20%.

With that, let's move to Page 4 and our key financials. The growth rates shown on this slide are on a constant currency basis. So directly comparable to our group guidance for sales and net income. We have delivered 17% sales growth in the first quarter at the upper end of our guidance range. Fresenius Medical Care's agreement with the U.S. Veterans Administration, I call it the "VA", is included and stands for about 2 points of growth. But on the other hand, Quironsalud has contributed for only 2 out of the 3 months. And that stands for ballpark, 3 missing growth points. EBIT, their growth reached a mighty 25%. And net income grew even 26%. And yes, that includes 5 points from the agreement with the VA. But again, relative to the coming quarters, we're missing one monthly contribution from Quironsalud. I'd say that bodes well for the rest of the year.

Let's take a look at the group P&L on Slide 5, where the growth rates are, again, on a constant currency basis. Net interest was EUR 157 million in the quarter, up EUR 8 million from Q4 last year. Key driver of the increase was obviously, the Quironsalud acquisition financing, but in that respect please bear in mind that this Q1 expense is not a fully loaded run rate yet. And for the full year, therefore, we prefer to confirm our February guidance of EUR 670 million to EUR 690 million. Q1 tax rate in the group was 29.1%. The year-over-year increase, that's mainly driven by FMC's agreement with the VA, which is taxed at U.S. rates. Therefore, it's temporary in our minds, isolated to Q1. And for the full year, we continue to expect a 28% to 29% tax rate.

Now that leads us to the 26% earnings growth in the first quarter that I already mentioned. That rate is likely to decrease going forward. But frankly, I've always preferred Q1 to be ahead of guidance rather than having to play catch up.

Slide 6 illustrates the momentum at our 4 business segments. Sales growth rates on the left, our organic for ease of comparison to our individual guidance ranges and EBIT growth on the right is at constant currency. Let's start with Kabi. A strong 7% organic sales growth with contributions from around the world. EBIT growth at 2%. So behind sales growth, but slightly ahead of our expectations. Given the tough comp from the first quarter of last year, we actually believe positive EBIT growth is quite an accomplishment. We're also very happy with Helios' Q1, 60% EBIT growth. Now that's obviously driven by the first time consolidation of Quironsalud albeit for only 2 months. But even excluding our Spanish acquisition, we saw a remarkable 14% growth. And while Vamed's growth rates may look disappointing, this is down to the typical quarterly fluctuations in its more lumpy project business, combined with small numbers in any Q1. In absolute terms, the EBIT shortfall is just EUR 1 million. Before taking a more detailed look at Kabi, Helios and Vamed, a brief word on Fresenius Medical Care. Also, FMC showed strong sales and earnings growth in Q1 and is well on track to meet its full year guidance. I'd like to congratulate Bill Valle, who's now at the helm of FMC's North American business to a very successful start. And I'm particularly pleased to see that the value-based care programs in that region, well, they continue to flourish. And for the avoidance of doubt, we at Fresenius firmly support FMC's acquisition of CURA in Australia. CURA is about day clinics rather than acute hospitals. And that is FMC's home turf. More details later this afternoon from Rice and Mike.

Let's turn to Page 7 for a review of Fresenius Kabi's organic sales growth by region. In a nutshell, relative to earlier expectations, North America in line, Europe a notch stronger and emerging markets well above. North America, 4% organic growth is in line with our mid-single-digit guidance. And do bear in mind that last year, the first quarter was the strongest quarter of the year, with a massive 20% year-over-year organic growth, boosted by launches of key products like Neostigmine, which has come under competitive pressure since. So against that backdrop, we're happy with the 4% growth.

A brief update on the shortage situation, with 15 Kabi IV drugs designated in shortage end of the first quarter. Shortages continue to ease slowly, but surely. Such gradual easing is reflected in our full year assumptions. It may accelerate though. But even at the risk of being repetitive, there is quite a life beyond formal shortages. And as you can see, Kabi's market position, build on reliable supply and excellent quality, remains very strong.

Approvals. We have received one new product approval so far this year. That's okay. We had said in February, this year's launch schedule was likely to be backloaded. So we confirm our expectation to end 2017 with more than 10 new drug launches. But we'll have some uncertainty until late. So with 4% year-to-date, the shortage and approval situation as described, slightly easing comps on the one hand, but quite some uncertainty around competitive dynamics for some of our key molecules on the other, we feel comfortable to confirm our mid-single-digit organic sales growth guidance for the full year. But we generally remain cautious.

In Europe, we've seen solid organic growth of 7%, driven by our enteral nutrition franchise and an improving product partnering business. We may not be able to maintain that pace, but feel comfortable now to aim for the upper half of that original low to mid-single-digit range we had guided you to in February.

Over to Slide 8 and the emerging markets, where we're seeing continued strong financial performance in Asia. China alone has delivered organic growth of 10% in the first quarter. There, progress on the introduction of the new tender rules remains slow. Only 13 out of a total of 31 provinces have concluded a tender process so far. So we now expect implementation across all of China to be complete only by year-end, leading to low to mid-single-digit price reductions as a full year 2017 impact. At the same time, we continue to experience double-digit volume growth, which then consequentially translates into sustainable sales growth in this very key market. Asia Pacific, ex China, was a notch higher, 11% organic growth in Q1. Structurally growing demand coupled with successfully concluded restructuring initiatives had led to this excellent performance. Latin America and Africa, yet again outstanding with 14% organic sales growth. Price increases are to some degree inflation-driven though. So our expectations for the emerging markets as a whole have slightly improved. We now project organic sales growth to be at least 10%.

Let's turn to Slide 9 and Kabi's EBIT. Total EBIT at the bottom of the page that came in at EUR 313 million, an increase of 2% at constant currency. As I said, there was a risk of negative growth given a tough comp, and I'm glad we managed to avoid that. Let's take a closer look at the region. From top to bottom, 3% in Europe, an in line quarter, we expect EBIT growth to accelerate in the coming quarters driven by an improving enteral nutrition franchise and our product partnering business. Hence, we feel comfortable to confirm of our mid- to high single-digit growth expectation for the full year. Minus 2% growth in North America. That means very close to an outsized first quarter of last year, which was also EBIT wise, the strongest quarter of 2016, with a massive 30% currency adjusted growth at the time. You know that Neostigmine has seen stronger competition since. And Daptomycin creates some relief, but we had told you that for this molecule we're in a partnership. So recognizing all of the revenue, while sharing the profit, is a key reason why sales growth is ahead of EBIT growth. Looking ahead, we believe growth will accelerate, comps will get a bit easier, product launches will kick in over time. And so we feel comfortable to confirm our low to mid-single-digit EBIT growth expectation for North America.

The emerging markets have shown stellar 26% growth. Admittedly, over a relatively modest comp. But excellent contributions, not only from the Asian markets but also from Latin America. And so given the strong start to the year, we turn a bit more optimistic and believe, we may even see double-digit EBIT growth in the full year.

With EUR 89 million, corporate and R&D costs are up 14% year-over-year, driven by a bit unfavorable phasing and also, some nonrecurring expenses. Going forward, also due to the 2 acquisitions announced last week, we will see a changed phasing of R&D projects or a replacement of current R&D platforms. Hence, for corporate and R&D costs, we now expect a broadly flat development year-over-year rather than a slight increase. So in summary, a broad-based positive development that leads us to increase our guidance.

With that, let's turn to present you Helios on Slide 10. Where we've seen strong organic sales growth of 5% at Helios Kliniken in Germany. Solid broad-based admissions growth across the entire hospital network. And a bit of a tailwind as Easter was a Q1 event last year. That will turn into a bit of a headwind in the second quarter. And so I'd be surprised if we managed to keep the Q1 pace.

Some operating news: In March, we opened Helios' new hospital building in the city of Duisburg for up to 350 inpatients. Construction took 2 years and Helios invested EUR 50 million. This is just one example for how we continuously invest in our facilities to further improve the medical quality for our patients. And at the same time, we drive efficiency and manage to increase our margins. Everybody wins in projects like this one.

Over to Quironsalud, which is consolidated since February 1. I'm very pleased with the performance in the first 2 months with good sales and excellent EBIT numbers. Financial integration was hard work, but it went very smoothly. No surprises. And Quironsalud is fully on track with first integration projects. We call it integration through interaction. And we experience a highly professional and well-organized company at Quironsalud. Eager to learn and to share knowledge for mutual benefit. And jointly, we have already made a first meaningful investment decision. Quironsalud will build the proton beam therapy center in Madrid for an estimated amount of EUR 14 million, scheduled for opening in 2019. It will be the first facility of this type in all of Spain. So our investment will take cancer therapy in the country to the next level. And we will make a return on it, win-win.

On to Slide 11, where you can see that total EBIT came in at EUR 255 million, up 60% year-over-year. Also margin wise, an improvement to 12.6%. The strong EBIT growth of 14% for Helios Kliniken in Germany, that's a reflection of the strong top line growth and a modest comp, given Easter was a Q1 event last year. Quironsalud made a nice EUR 74 million contribution. So about 1/4 of our full year guidance, but in just 2 months. Do us a favor, please don't get carried away, don't extrapolate: A), the Easter effect also applies to Spain; and B), expect some seasonality with a quite pronounced summer slump. Take it as a strong start, but we'll maintain our guidance.

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Over to Fresenius Vamed on Slide 12. Where organic sales growth was a modest 2% in the first quarter. Service business nicely up. The more volatile and lumpy project business down, but all within the normal range of quarterly fluctuations. EBIT was EUR 1 million short of last year, nothing to worry about. And yet again, we're looking at a very solid order intake. And that has taken down its order book to a new all-time high, above EUR 2 billion for the first time. So we have reason to be optimistic for the remainder of the year.

On to Slide 13, where we're looking at a strong cash flow quarter. Kabi posted a Q1 cash flow of EUR 192 million, top left. A 12% margin is excellent for a first quarter. And that, therefore, increased the last 12 months margin by almost a point to 17.4%, a great start to the year. Likewise, at Helios, cash flow of EUR 184 million represents a margin of 9.1% and also, took the LTM margin up by almost a point to 11.5%. So for the group, at the bottom of the slide, this solid performance took the LTM margin to a strong 12.1%. Deduct group CapEx of 5.2%, middle column, and you'll arrive at a free cash flow margin, bottom right, of 6.9%. That's the upper end of our historical track record.

And that free cash flow meaningfully mitigated leverage, post-closing of Quironsalud. We finished the first quarter at 2.98x net debt to EBITDA. So despite the largest acquisition in Fresenius' history, we managed to stay within our self-imposed target corridor of 2.5x to 3x. That won't be possible, pro forma the acquisition of Akorn and our investment into biosimilars. We expect leverage at year-end of about 3.3x, but fairly rapid delevering thereafter. I'm confident we can again rely on our delevering track record, driven by continuous free cash flow generation, while growing EBITDA. And all 3 rating agencies share that view. You will have seen that they have confirmed our current investment grade rating last week.

Let's turn to Slide 14 for the full year outlook by business segment. And Kabi's organic growth first. On the back of a solid first quarter, we prefer to stick to our guidance range of 5% to 7%. That's a blend of the regional contributions, I mentioned, low to mid-single digits for Europe, skewed towards the upper half of that range. At least 10% growth for the emerging markets. And mid-single-digit growth with some uncertainty for North America. Onto EBIT, where we raised our guidance by one point to a 6% to 8% range. I gave you the reasons for the expected low to mid-single-digit EBIT growth in North America, and the mid- to high single-digit growth in Europe. Blend that with our improved outlook for the emerging markets of now likely double-digit growth and our revised expectation of broadly flat corporate and R&D costs, and you'll get to that incremental 1 percentage point.

For Helios, in terms of organic sales growth, on the back of 5% in Q1, albeit helped by Easter, we should be good to confirm our 3% to 5% guidance range. Reported sales, we seem slightly ahead there, but watch the reverse Easter effect in Q2 and a softer summer quarter in Spain. So whilst, we feel very comfortable, at this point we prefer to confirm our guidance of roughly EUR 8.6 billion. And the same applies to EBIT, where we firmly stand behind our guidance range of EUR 1,020 million to 1,070 million for the full year.

For Vamed, I already mentioned the huge and well-diversified order book, and that is the factor that gives us quite some confidence. And therefore, we confirm the guidance ranges of 5% to 10% each for sales and EBIT growth.

Taken all together, for the group, that's now on Slide 15, we confirm our guidance of 15% to 17% currency adjusted sales growth. And as to the currency translation effect, if current exchange rates prevailed until the end of the year, we'd see a tailwind of 1 to 2 percentage points, mainly from dollar strength. For net income, primarily the incremental contribution that we expect from Kabi allows us to raise our full year guidance to 19% to 21% currency adjusted growth. Also here, as of today, we expect a 1 to 2 point currency tailwind.

For good order, I mentioned this guidance range is like for like. So based on our February parameter, specifically, it is before transaction costs, which are mainly related to financing the acquisition of Akorn. And before approximately EUR 50 million costs for the further development of Merck's biosimilars business, which we expect to incur between closing and year-end. However, even including those recurring development costs, we project earnings growth within the previous 17% to 20% range.

So as you can see, very healthy growth and bright prospects at all our businesses. We're raising our guidance with confidence. And from that position of strength, we are protecting and building our business for the next decade, not because we need to because we can.

With that, I'm happy to take your questions. Thank you for now.

QUESTIONS AND ANSWERS

Operator

And our first question today comes from the line of Lisa Clive of Bernstein.

Elisabeth Bedell Clive - *Sanford C. Bernstein - Analyst*

On your biosimilars acquisition, I'm just thinking on the milestone payments. Are any of them around sort of broader regulatory issues or are they all specifically around the progress of the pipeline? And specifically, I'm thinking about the upcoming U.S. Supreme Court decision around the timing of the notification processes as well as the so-called patent dance. And if you could just provide your views on that situation, particularly, how meaningful the patent dance issue could be if it doesn't go in the biosimilars favor?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Thank you, Lisa. On your first question, frankly we have agreed with Merck to be rather uptight on this, but the milestone payments, in general, they are much more molecule specific. Number two, on the Supreme Court's decision, patent dance. Yes, that is something that we have factored into our models. Obviously, a delay and a stronger protection position by the incumbents is going to weigh on our pipeline. However, I believe, we have generally taken a conservative stance here and may easily also see some upside. In general, and I said that after the announcement to most or all of the investors that I've seen on the road. You get to share our belief that going forward that has got to be a common interest in making these very effective, proven, safe drugs available to larger parts of the population. And against the backdrop of increasingly constrained health care budgets, we just believe that given due time, that is going to happen. As far as patent dance decision is concerned that would affect all of the competitors in the biosimilar space and may even help us in those compounds, where we maybe a bit behind.

Elisabeth Bedell Clive - *Sanford C. Bernstein - Analyst*

Okay. And then, could you give us an update on your nutrition business in North America? Obviously, it takes quite some time to try and build out a sales force to sell a completely differentiated product like the 3-chambered bag. But just an update on that and sort of what we should think about in terms of revenue contribution for that product? And then likewise, the same for infusion therapy. Becton, Dickinson clearly have their hands full with their own M&A. Is there -- just how should we think about that 10-year supply agreement and where it is? How it's looking for this year?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Okay. Lisa, on your third question, parenteral nutrition. For the avoidance of doubt is our 3-chamber bag, where we have an approval where we've launched the product, but as we said before for the time being, you should not be overly enthusiastic about the sales and earnings contribution. This is a, as you rightly said, differentiated product. It is in contrast to the common and long-standing medical practice in the U.S. So this is about convincing key opinion leaders first, that this is a well, almost revolutionary, at least game-changing practice, which is on the other hand doing a lot of good for the patient, while being very effective also, on a hospitals working capital. So what we need to do going forward is to do more marketing vis-a-vis these convincing -- these key opinion leaders, convince those KOLs to spread the good news, but at the same time also, tailor our product more to the specific needs of the U.S. market. In a nutshell, you've heard that per my elaborated speech now. And this is going to be a little while. But take some comfort from the fact that: A), we have a meaningful growth guidance for this year and there's hardly anything for parenteral nutrition in it; and, B), in the most complicated slide ever, that I presented last week on our future product portfolio, there was very explicitly a spot for parenteral nutrition. So rest assured, by the time when we launch our biosimilars, we will also have a very solid parenteral nutrition offering. On the infusion solution business, steady as she goes. As we said before, it does not make a whole lot of sense to ship loads of sterilized mineral water over the Atlantic to sell it in the U.S. And therefore, what we need to come to terms with is a manufacturing site in the U.S. And that can either be acquired. It can be a brownfield, or it can be a greenfield operation. As you will appreciate, we had our hands full recently with other investment decisions. But rest assured that is something that we're going to turn to in short order. And also, the infusion solution was depicted on the mother of all slides, last Tuesday. And I very much expect that to be an integral part of our product offering by 2020.

Operator

Our next question comes from the line of Tom Jones of Berenberg.

Thomas M. Jones - *Berenberg - Analyst*

The first one, Stephan, I just wonder if you might help us reconcile the difference between your EBIT growth guidance and the group net income growth guidance. If I take the Kabi guidance, it implies, you expect roughly EUR 10 million, EUR 11 million, EUR 12 million of additional EBIT. But the net income guidance, 1% to 2% increase implies, somewhere between EUR 15 million and EUR 30 million in net income. So I was wondering if you could just help us reconcile those 2 numbers. Is it just that you're more optimistic that the other businesses will come in at the top end at the previous EBIT guidance? Or is it something else that I'm missing there? And then my second question...

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Thank you, Tom. Thank you, Tom. And we'll come onto your other 2 questions, but I'm just eager to say you just won me a bet against Marcus. I bet that somebody would ask that question. I even bet that it would be you. So yes, the increased EBIT growth guidance at Kabi stands for a bit less than a percentage point of growth. What the missing parts are, they are coming from across the entire range of our businesses where we, as you may appreciate in particular, with one major acquisition coming onstream. We were a bit more cautious earlier this year, when we provided guidance. And in the meantime, with the year passing on with us getting more comfort, I think it was appropriate to remove some of that uncertainty discount at the bottom end of those ranges. It was not sufficiently pronounced to lead to a formal revision of the respective ranges. But within those ranges arguably, we have at least gradually moved up. And therefore, as you've seen, we've chosen to raise the bottom end of the group earnings guidance by 2 points and the upper end by one.

Thomas M. Jones - *Berenberg - Analyst*

Okay. Perfect. That makes perfect sense. And let me try one that maybe you weren't expecting. I just wonder, specifically, with regards to Kabi, if the Trump administration is successful and I guess, that's a big if, in attempting to clear the backlog and accelerate the pace of ANDA approvals at the FDA. How would you see that falling out for Kabi? I guess, on one hand, it will help you get your products to market quicker, but then on the other hand it will help everybody else get their products quicker to markets. Just wondering what your thoughts might be on that particular dynamic.

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Tom, we discussed this before. A rising tide raises all the ships. But I -- and therefore, it's a double-edged sword. And whenever my colleagues complain about the slow pace of FDA, my standard answer is, look, it helps us with our existing products. And my general comment, and frankly, I know as little about our competitors pipelines as you, I would say it is substantially better to look at a pipeline that is record full. It is substantially better to look at a pipeline at Akorn, which is going to add 85 products to us, then looking at the prospect of, say lightened procedures at the FDA empty handed. And therefore, qualitatively and generally, I remain very optimistic. But as you said yourself, it is a bit of an if. We haven't seen that much in terms of progress recently. Our observation is that the FDA has more -- focused on solid dosage forms rather than on liquids.

Thomas M. Jones - *Berenberg - Analyst*

Perfect. And then perhaps, one quick question on Quironsalud. Now that you've owned that business for 3 months or so now, and perhaps had a chance to learn a little bit more about it. I'm just wondering, what your feelings towards the PPP structures that Quironsalud has? Initially, when you did this acquisition, you started those as one particular reason why the purchase multiple was a little bit lower than in comparable transactions. But you've had a bit of -- a chance to learn about those. Has your appetite increased around to actually more PPPs? Or do you see that perhaps as an area of risk for Quironsalud?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

We're now looking at 3 months of ownership, you're right. And I continue to be intrigued. What I said at the time in last September must have been that I was looking for a multiple discount, because it was the first step into uncharted territory. And then I needed a bit of a risk discount for moving abroad, rather the opposite is true for the PPPs. That was a key reason why I was increasingly intrigued by going about the Quironsalud acquisition. I just think, that this is a very, very smart solution to provide high-quality health care to a population, while at the same time having mitigants when it comes to containing the overall cost for the payers. And therefore, we'd welcome more PPP opportunities, absolutely. And this is much rather a question of supply than our demand.

Operator

Our next question comes from the line of Michael Jungling of Morgan Stanley.

Michael Jungling - *Morgan Stanley - Analyst*

I have 3. Firstly, on Quironsalud, can you please disclose the EBITDA for Q1 of 2017? And also, separately, the depreciation and separately, the amortization? Question number two, is also on Quiron. Can you comment on the revenue and the earnings seasonality by quarter because if I look at Helios, it's fairly evenly distributed throughout the year. That seems to be quite different here with Quiron, so some color on this would be useful between the quarters. And question number three is on Helios. The occupancy rate is now at 80%. What is the natural peak before organic growth becomes more challenging with what you've got today?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Michael, thank you. I had to look up those numbers. But I will have gladly provide them. Quironsalud for the 2 months of February and March was EBITDA of EUR 104 million, depreciation of EUR 16 million, and amortization of EUR 14 million. And that should get you to the EBIT that we were showing of EUR 74 million. Seasonality, you may recall that in the old days, we were pointing for Helios in Germany to a roughly 45-55 split between the first and the second half. But that was rather driven by the timing of budget agreements then by patient admissions. In Spain, we are looking at a -- yes. Let's call a spade-a-spade, a weak third quarter. And in the summer months, we're also in our hospitals, not all the hospital rooms are air-conditioned. And when, in particular, elective surgery, when it is not a must, is rather be a -- is rather delayed into the cooler months. We will be looking at a modest capacity utilization number of patients and also sales and EBIT. But over the rest of the year that -- so quarters 1, 2, and 4 that should not be anything out of the ordinary. As far as Helios is concerned, and the capacity utilization, look that capacity utilization is fairly stable over the last years. It moves up and down by a point or 2 from time to time, but nothing dramatic. And what that should tell you is that we're doing a reasonable job in managing the additional cases that we get in that -- everything else being equal, should lead to increased capacity utilization by reducing the average lengths of stay. And that then structurally has led and is expected to lead to a fairly flat capacity utilization. Finally, you will recall from our September announcement of Quironsalud that the substantially shorter average length of stay in Spain, is something that we were particularly intrigued by. One of the integration projects that I was referring to, is just focusing on that area. And I would, well, expect at this point in time, I've said too much, but I would hope that over time that there is something that we can learn from our colleagues, and that will bring down the average length of stay even more and that should lead to some more relief on the capacity utilization.

Michael Jungling - *Morgan Stanley - Analyst*

Just a follow-up on the seasonality of Quiron. Can you give some guidance then for the third quarter. Is it normally 20% of revenues for the year? Or is it even lower than that?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Michael, sorry. Bear with us.

Operator

The next question comes from the line of Chris Cooper of Jefferies.

Chris Cooper - *Jefferies - Analyst*

So just got 2 left. Actually, both on Kabi. Firstly, just on your European business. Organic growth of 7% is far stronger than we've seen in recent times, yet the margins actually declined 30 bps. I understand a good chunk of the top line was contract manufacturing. Can you just confirm that? Is margin dilutive? And are there any other factors you'd call out there?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Generally, yes, Chris. That is a determining factor here.

Chris Cooper - *Jefferies - Analyst*

And can you give us a sense then, about how big the contract businesses be today? And how do you expect that to trend going forward?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

It is not overly large. It does play a role, as you can see from the margin effect here. Over time, I would expect it to play a decreasing role, given that the historical growth rate is also substantially below what we experienced in our core businesses. It is a very nice additive to make use of spare capacity, in particular, in our European manufacturing plans. But frankly, if we have capacities to fill with our own products, we'd rather do that. And that is what we intend to do going forward.

Chris Cooper - *Jefferies - Analyst*

Got it. Okay. And secondly, can you just please provide a quick update on the manufacturing side. You voluntarily shut down in the U.S. Are you back up to 100% yet? And then, just generally, an update on progress there would be helpful?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Look, to remind everyone what we did in the fourth quarter of last year was that we voluntarily shutdown our 2 large manufacturing sites. We -- that is against the backdrop of major CapEx plans, where we wanted to upgrade these facilities. But also, wanted to and -- and quality wise, but that's where we also want to expand that capacities. This would have been necessary anyway. And so against the backdrop of a very strong 2016, we chose to accelerate those measures. The plant shutdown itself and the planned initiatives that all went very nicely according to plan. Also, the FDA is happy with what we've done in that respect. And therefore, that bodes well for the completion of this expansion and upgrade project. And we would very much expect that this helps to strengthen our manufacturing position, our market position in the U.S. overall. I want to remind you that a long time ago, I think it dates back to 2013, we took the decision that as a rule, and certainly, there are always going to be a few exceptions, but as a general rule, we'd like to manufacture in the U.S. for the U.S. And that is what these expansion and upgrade plans are about.

Chris Cooper - *Jefferies - Analyst*

And then -- so sorry if I missed it, but could you just confirm, when do you expect the programs to be complete? And when you're back up to fully operational in those 2 sites?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

That is not going to be before the end of next year.

Operator

Our next question is a follow-up question from the line of Veronika Dubajova of Goldman Sachs.

Veronika Dubajova - *Goldman Sachs - Analyst*

I think most of them have been answered. I just have a couple of them. Stephan, can you give us an update, or can you give us the figure for what the organic growth rate within Quironsalud was for the 2 months that you consolidated it? That would be quite helpful. And so whether your expectations for the full year are still around this 6% mark? That would be great. And then my second question was just on CapEx guidance for the full year. That seems to be -- that was quite low in Q1.

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Veronica, I don't have that number for you. I'm sorry. Expect a blended -- at least a blended organic growth rate from next year onwards. But I want to wholeheartedly confirm that Quironsalud has in fact, very nicely, relative to our expectations. As to CapEx, Veronica, don't read too much into that Q1. If you look at historical patterns there's always a bit of a year-end frenzy. Q4 is always the largest, Q1 the weakest. And for the year as a whole, I would continue to expect CapEx for the group as a whole somewhere in the 5% to 6% range of sales.

Operator

Our next question comes from the line of Ian Douglas-Pennant of UBS.

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Ian?

Operator

(Operator Instructions) And our next question comes from the line of Hans Bostrom of Credit Suisse.

Hans Bostrom - *Credit Suisse - Analyst*

Just one question on your exciting investment in proton beam therapy in Madrid. Do you have any contract with payers already? Or is this sort of a green venture? Or do you expect to have quite a lot of health care tourists coming into this to get treatment? Or how are you thinking about the development of that?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Extensive market research. And as I've said, a proven technology in the meantime, well penetrated in markets like Germany by now. We have historically shied away from it, but against the backdrop of these 2 patterns, we felt increasingly comfortable about it. So after a very quick investigation, decided to go for it, when our friends at Quironsalud proposed it to us. As I said in my prepared remarks, first and so far only, known project like this in Spain. I believe, there is something in Portugal, but we would expect a bit of medical tourism from within Spain for those who are a bit more familiar with that therapy. It lends itself, in particular, to pediatric applications because of the lower side effects. And therefore, as I said earlier, we feel good about it, both from a medical perspective as well as from a return on investment perspective.

Hans Bostrom - *Credit Suisse - Analyst*

Okay. And a follow-up on health care tourism, in general, I understand the market is about EUR 0.5 billion in Spain. How big part of your revenue base in Spain, is from tourists coming from abroad?

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Hans, so far not measurable. It is on our list. If you go back to our September announcement, the German permanent residents in Spain as well as many of the tourists are a specific target group. It is one work stream in our overall integration project that we are focused on. You will recall that we hadn't put anything in terms of revenue synergies into our model, into our assumptions that we shared with you. So that would be cream on top. Give us a bit of time to work on that, but I'm certain, we're going to give you a -- also, a qualitative update of the course of next year.

Operator

Okay. There are no further questions.

Markus Georgi - *Fresenius SE & Co. KGaA - Head of IR*

Well, thanks for joining us today. We will be back in summer with our Q2 figures. In between we are participating in several conferences, and if you are interested to meet us in one of these, shoot us an e-mail, and we try to make it happen.

Stephan Sturm - *Fresenius SE & Co. KGaA - CEO*

Thank you all.

Editor

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