FRESENIUS

Transcript
Conference Call Q3 2020 results

October 30, 2020

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

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

PRESENTATION

Markus Georgi: Thank you, Stewart. Good afternoon, and thanks for joining us today for our third quarter 2020 earnings conference call. With me on the call today are our CEO Stephan Sturm and our CFO Rachel Empey. Stephan will begin today's call with an overview of the events in this quarter or financial performance and the performance of the divisions. Rachel will then present a deep dive into the financials and the outlook for the remainder of the year before we open up with our Q&A session.

As always, I would like to start by drawing your attention to the cautionary language that is included in our safe harbor statement as well as in all of the materials that we have distributed today.

With that, I hand it over to you, Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon and good morning, a warm welcome. Thank you for joining us. As always, your interest in Fresenius is much appreciated. Markus has pointed out the safe harbor language, and so let's move right to **Page 3** and our Q3 highlights.

To state the obvious, we are witnessing unprecedented challenges. But I am proud that we, the entire Fresenius organization, have lived up to our special responsibility and have helped to save thousands of lives with our products, technologies, and services.

Hence, my sincere gratitude goes to our more than 300,000 employees around the world. I am truly impressed by your dedication, your commitment, and your drive. You have really lived up to our purpose to offer better and affordable healthcare services to ever more people. Thank you.

We have not only made major contributions to society. We have also proven the resilience of our business model. We are without any doubt an integral part of truly critical infrastructure.

Testament is a reassuring 5% year-over-year sales growth in constant currency and a positive constant currency net income growth in Q3. Hence, and despite growing infection rates around the world, we remain convinced that we have passed the trough and face the challenges ahead with quite some confidence, a confidence that is underpinned by our consistently strong cash flow generation throughout this crisis year as well as by our solid balance sheet. Along with all the challenges, the pandemic has also afforded us the opportunity to further optimize our cost base and to drive efficiency across the group. Targeted cost-saving initiatives, amongst others also at our hospital businesses, they have contributed positively already in this past third quarter. And I would expect many of those savings to stay around.

That brings me to Kabi. And whilst we face headwinds in the US, we experience a recovery in Europe and in China, we're even back to growth, maybe a blueprint for the recovery in other markets in a post-COVID world. Frankly, I can't wait.

Over to Helios, where we saw strong growth in the third quarter, mainly driven by Helios Spain against the backdrop of some pent-up demand for elective treatments after the nationwide lockdown in spring. Thus, the normal holiday pattern with very low case numbers during the summer months, that was much less pronounced this year.

And at Vamed, we face significant COVID-19-related headwinds, and we unfortunately do not expect a reversal of that trend in the short term. Travel restrictions, postponements, and cancellations of projects, as well as increased COVID-19-related costs we believe are here to stay for at least some more quarters. However, Vamed's high-end technical services business, that has remained robust and should partially compensate the temporary weakness of the other business lines.

Coming back to the Fresenius Group, on the back of the -- given the circumstances -- solid development year-to-date, we confirm our sales and net income guidance ranges, although now, in recognition of a growing COVID impact, with a more conservative undertone. The key assumption for our guidance is that containment measures with a significant and direct impact on the healthcare sector can be avoided or will be appropriately compensated. We obviously recognize the increasing COVID-19 case numbers and the associated various containment measures enacted in many of our relevant markets. But given the learnings from spring this year, we observe and expect to see a more differentiated and targeted approach.

I believe the adverse consequences of crude all-comprehensive lockdowns, also and in particular on the health of non-COVID patients, have become increasingly transparent. And hence, I believe they do represent a meaningful and hopefully effective barrier against simply repeating the measures from spring. And that is also my interpretation of the measures recently enacted in Germany and Spain. The state of alarm that was approved in Spain last Sunday has different motivations and implications than the one in March. Consistent with our belief, it is meant to delegate authority and responsibility to the 17 Spanish regions to facilitate a more differentiated approach. And unlike the situation in March and April, there are no hard lockdowns. Likewise, elective and nonurgent medical procedures are not prohibited in any of the regions. And our hospitals continue to operate all their medical services within this "new normality."

As you would expect, we evaluate the regional measures constantly. But as of today, we expect no meaningful impact on our ability to run our hospital operations. Also, given statements from and discussions with responsible politicians in other relevant markets, it is my judgment that our key assumption remains a fair one. And even if it turned out to be wrong, then at least for Germany, we have reason to expect appropriate compensation.

Onto **Slide 4** and an update on Fresenius Kabi, where we have seen very different dynamics across the regions. Starting with North America, where in light of surging COVID cases in the US, we faced fewer elective procedures. And that more than outweighed the easing extra demand for COVID-related products.

That spike in demand late Q1 and early Q2, that included anticipatory buying by hospitals and wholesalers and led to increased safety stock levels. In the meantime, COVID treatment protocols have steadily improved, resulting in fewer patients requiring mechanical ventilation. And while this is excellent news for patients, it has also contributed to weaker tailwinds from COVID-related demand during Q3. On the other hand, although elective surgery recovered steadily during the quarter, census data shows that procedures were still well below prior year. As a company with a broad portfolio of products used in elective surgery, that impact was felt more acutely than for many of our competitors. The volume softness has knock-on effects on the utilization of production capacities in the US, resulting in a negative effect on Q3 EBIT.

A word on pricing, where we still see low single-digit price erosion for our base portfolio of injectable generics, very consistent with our experience over the years. Competition has continued to intensify due to accelerating generic approvals under the FDA's Drug Competition Act Plan. So some of our recently launched products face meaningfully higher price declines, but frankly that is a characteristic of the generic market. We also continue to see one of our large competitors reestablishing their market share after a period of supply constraints. But we remain convinced that our broad and growing portfolio, as well as our track record of outstanding customer service, will allow us to maintain strong market shares at attractive price levels.

So for instance, we were recently recognized by Vizient, the largest of the US GPOs, as their "Strategic Programs Pharmaceutical Supplier of the Year." This is the ninth major GPO service award we have received in the last 5 years.

At the same time, we faced supply constraints for certain products due to temporary manufacturing issues. We anticipate normal release levels resuming during this fourth quarter, but nevertheless, supply constraints will continue to be a drag on our Q4 financials. Having said that, we feel encouraged by our US manufacturing strategy. To sustain and extend our position in this highly attractive market, we have invested significantly in the expansion and the quality upgrade of our US manufacturing facilities, particularly in a higher level of automation. And given the bipartisan support in Washington for a more robust US drug supply chain, we believe we are very well positioned.

Over to Europe, where driven by a gradual ramp-up of elective procedures and hence a better capacity utilization, we have seen a recovery of our financial performance. Profitability improvement was additionally helped by propofol manufactured in our European plants and then shipped to the US.

Let's get to the emerging markets, where in China, we're back to growth after 2 quarters of organic sales declines. The recovery is mainly driven by a ramp-up of elective procedures. As of the end of September, elective surgeries have rebounded to up to 90% of pre-pandemic levels, also at the medical centers in Tier 1 cities, where Kabi is traditionally stronger than in the rural parts of the country. We expect this momentum to be maintained in Q4 and going into 2021.

The rest of the Asia-Pacific region is lagging behind the development in China, as pharma markets are still heavily marked by the pandemic via regional lockdowns and travel restrictions, as well as with significantly restricted sales activities.

So how should you think about Q4? We anticipate ongoing headwinds in the US, whilst Europe and China are to continue their recovery paths.

Onto **Slide 5**, with an overview of the recent developments in our biosimilars and medical devices businesses, biosimilars first. I'm glad to report that we're making good, steady progress month over month, quarter over quarter.

We continue to win tenders. Just recently, we were ranked number 1 in the Swedish national tender and that for the Lombardy region in Italy. We don't win everywhere, but where we don't win, we're close and work tirelessly on becoming even more efficient and on further optimizing our cost base to position us in undoubtedly competitive marketplaces. But the current COVID crisis has unfortunate knock-on effects also here. Administrative burdens cause delays in the implementation of tender results, causing delayed sales for us, but I do expect that to be fixed in the coming weeks or months. And as I alluded to in the second quarter, the immune system-suppressing effects of adalimumab lead to an overall slightly shrinking market during the current pandemic due to new patients hesitating to be treated with ada. However, if we strip out those, I hope, temporary COVID headwinds, we are truly making good progress.

As far as our marketing agreement with the pharmaceuticals company medac is concerned, we are pleased with the start of that cooperation in Germany. This partnership in the area of treatments for rheumatic illnesses is complementary to our service propositions. And it will be interesting to see if that cooperation could be a model to adapt in other markets.

Lastly, onto our medical devices business, you know we created the TCT division last year to better reflect the requirements of its very specific business environment. The divisionalization created a dedicated organization which serves our distinct and increasingly international customers end to end.

The more agile organization combined with a competitive product offering delivers very nice growth masked only by the impact of COVID due to a lack of plasma donors. But also, the rest of our medical devices business is plowing ahead. And we expect that pleasing financial performance to continue.

Onto **Slide 6**, covering Helios Germany, where the expected ramp-up of elective procedures actually materialized. With the small exception of the holiday month August, we have month-over-month closed the gap in case numbers versus prior year. At the end of the quarter, we were not fully there yet, but on a very good track.

Government interventions were not a meaningful bottleneck in the third quarter and are also not foreseen under the containment measures decided yesterday. Hospitals have been and continue to be permitted to treat elective patients as long as they command sufficient capacity for potential COVID patients. And whilst we observe growing hospitalizations on the back of significantly increasing infection rates, the number of COVID patients currently treated at our 86 acute care hospitals across Germany totals around 350, so 4 on average, less than 20% of them in ICUs, approximately 5% of our currently installed ICU bed capacity. So we clearly have reserves. But regardless, we are ready to increase our current ICU capacity by about 75% on short notice, obviously hoping that won't be necessary, but absolutely wanting to be prepared also for a significant acceleration of hospitalizations and keen to continue to treat also elective patients.

And in order to create more transparency, we have decided that, as from tomorrow, we will publish daily and per hospital the number of COVID patients being treated as well as our capacity utilization. We hope that a more rational debate will facilitate fact-based decisions, not only by local politicians, but also by GPs, patients, and their relatives.

Because for the time being, development of admissions is to quite some degree driven by patients' comfort level to seek elective procedures, we have established and communicated state-of-the-art hygiene concepts addressing the most meaningful concerns of patients. We get excellent feedback and see that it clearly supports the patients' willingness to proceed with elective procedures.

That brings me to an update on the regulatory framework in Germany. The law to ease the financial burden for hospitals that mitigated most, but certainly not all, negative sales and cost effects in the first 9 months, that ended on September 30. Its quasi-successor, the so-called Hospital Future Act, is expected to cover the fourth quarter. Among its key provisions is a compensation of potential shortfall of revenues due to COVID relative to 2019. The compensation will be determined on the basis of an individual hospital, and detailed parameters are still under discussion. Furthermore, an ongoing reimbursement of COVID-related increased costs for protective clothing and other supplies, that is foreseen. Not least, a digital healthcare fund of €4.3 billion is set up, primarily to cover investments in modern emergency capacities and in a better digital infrastructure of hospitals in cross-sector care. I'd expect that to serve as a further accelerator for our digital health company Curalie.

So how do we think about the fourth quarter? Well, we assume a continuation of the good elective activity, and as a safety floor, we expect to see a resumption of governmental compensation measures. On a separate note, closing of our hospital acquisitions from the Malteser Group is imminent and in any case will occur before the end of this year.

Onto **Slide 7**, which illustrates the recovery of elective activities at Quirónsalud in Spain. And to remind you, Helios Spain has a much higher share of outpatient treatments. And thus, we have picked MRIs and outpatient surgeries as illustrative indicators for elective activity. And what you see here is the year-over-year deviation of these procedures, this year versus last. On the left, you can see the strong start to 2020 that we were alluding to in our Q1 call. Then the COVID containment measures in March and April caused an unprecedented downturn but followed by steady recovery towards last year's levels from May onwards.

Especially in the large metropolitan areas, we have seen a solid recovery of elective activities, supported by safety initiatives and targeted hospital actions to catch up on patient treatments that had to be postponed. In July and August, we have hence seen significant year-over-year growth. So the typical Spanish summer trough was not so pronounced this year. And in September and October to date, we have seen by and large activity on last year's level. So I believe Q3 demonstrates both our ability to recover quickly and the more-than-ever need for our services. For good order, let me add that, whilst this is a good directional illustration, there are obviously other important parameters, such as case mix and price effects. Given travel restrictions, we saw hardly any tourism-related medical activity that is typical -- I'm sorry, that is relevant in a typical summer quarter.

On the other hand, we have seen a strong performance at our ORP business. That was driven by both a recovery of the ordinary medical checkup activity with corporates and by offering new COVID-related products and services, like safety protocols or consulting and testing services. And those are proving essential to keep our clients' operations running.

With that, let's turn to **Slide 8**, where I believe I have covered the top left already with my comments on the previous slide. But let me add that our hospitals in Peru and Colombia also had a robust and positive quarter, while continuing their significant and widely recognized efforts to fight the pandemic. Just like in Spain, they saw reduced elective treatments, especially in Q2, but with a healthy recovery in Q3. Thus overall, our LatAm hospitals are navigating the COVID crisis reasonably well and have contributed well to our Q3 growth.

So what's the latest on reimbursement in Spain? I'd like to confirm that we have reached new agreements with virtually all health insurance companies in Spain to receive fair reimbursement levels for treating both COVID and non-COVID private patients. Those levels reflect the higher costs for most medical procedures during this pandemic. And the effects of these new agreements were partially recognized already in our Q2 financials, the balance now in Q3. Our discussions with regional governments with regards to reimbursement for treating public patients, they continue to make progress, fully in line with earlier expectations. And our expectation with regards to the €9 billion COVID-19 fund, they remain unchanged. Part of that money will be used to reduce patient waiting lists, and those substantially increased during the COVID-19 crisis, and also to pay hospital bills a bit faster. Both initiatives would obviously be a welcome type of support.

How do we think about the fourth quarter? As I said, the recently announced state of alarm essentially contains mobility restrictions and delegates more authority to the regions. Hospital operations continue unchanged, and there are currently no restrictions on elective treatments. Also, given the learnings from spring, we are well prepared to keep our hospitals operational and to treat both elective cases and COVID patients.

Obviously, Quirónsalud is fully committed to supporting the national effort to combat COVID-19 with all available resources. As of yesterday, we are treating approximately 700 COVID inpatients at our 43 Spanish hospitals, with an ICU ratio below 20%, so comparable to our experience at Helios Germany. That compares with a current ICU capacity of 400 beds, which, however, we are fully prepared to double on short notice, just as we did in March.

Over to **Slide 9** with an update on Fresenius Vamed, where COVID continues to weigh on nearly each stage of the company's value chain. The project business continues to be marked by delays, postponements, as well as by cancellations. These are accompanied by general execution delays, not at least due to COVID-related travel and quarantine restrictions, as well as by supply chain restraints.

The service business is also significantly impacted. We had to observe health authority-induced capacity constraints coupled with less demand for rehabilitation services. Vamed's technical services business, though, that remains robust, and we expect that business line even to grow in the upcoming quarters. Overall, however, we expect Vamed's Q4 also to be heavily marked by the pandemic.

Onto **Slide 10**, where we take a look beyond COVID, and an analysis of the implications of COVID on our company clearly shows that we should emerge even stronger out of this crisis, unleashing accelerated growth. In fact, COVID accelerates quite a few trends where our healthcare franchise has already its core competencies or where we have already started to work on.

The crisis has clearly shown that we are part of the critical infrastructure. And without any doubt, developing and providing affordable, high-quality healthcare products and services will play an even more important role in the future. Levering our expertise and competitive strength will make us an even stronger player in the future.

We have followed a glocal production approach all along, and to manufacture where we sell has allowed us to ensure business continuity. We have delivered critically needed

drugs and devices, even in the darkest days of the crisis. And we are of the firm opinion that what we have proven for decades, being a good citizen and neighbor, is an essential prerequisite for financial success, also and all the more so in a post-COVID world.

That healthcare austerity measures will become even fiercer after the crisis, but we are the obvious solution. Over the past years, we saved billions of dollars for the worldwide healthcare systems with our high-quality injectable generics. Generic drugs in the US represent about 90% of the prescriptions, but only about a quarter of the costs of pharmaceuticals. Thus, we are convinced that the generic market, including biosimilars, is about to grow even more dynamically in a post-COVID world.

Not least, COVID serves as a catalyst for digitalization in healthcare. We have various initiatives across our group to foster digitized healthcare offerings. And in our hospital business, our digital company Curalie offers a full digital feature set to treat chronically ill patients in various indications, for instance, cardiology, diabetes, or heart insufficiency. It offers integration of devices, video call, video chat, link to hospital information system, treatment plans, real-time data analysis, and more to come for sure. We will gain even more traction and scale. Bear with us.

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

Rachel Empey: Thank you, Stephan. A warm welcome to everyone. I am happy that we delivered a good quarter amid the unprecedented challenges of COVID-19. As expected, the trough is behind us, and we look with confidence into the future.

I am pleased by our latest successful bond transaction. We have again proved the group's ability to tap the markets for very attractive financing in this highly volatile environment. With that, let's have a closer look at our Q3 2020 results. You'll find them on **Page 12**.

They're 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. As I said at our Q2 results, it is very difficult to accurately estimate the impact of the pandemic, in particular the more indirect effects and in particular 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 backup of the presentation.

So let's go to the numbers. Growth rates on the slide are, as usual, on a constant currency basis. We delivered sales growth of 5% in Q3 and year-to-date. COVID-19 had a relatively small negative effect on our sales growth in Q3. So we could have been more at the top end or even slightly above the top end of our original guidance range of 4% to 7% growth, excluding COVID-19 effects, for both the third quarter and year-to-date.

EBIT increased by 1% in the third quarter 2020, and it was flat year-to-date. At Kabi, we have seen an EBIT decline, driven by headwinds in the US. Moreover, COVID-related project delays at Vamed as well as groupwide COVID-related expenses took their toll. Overall, however, these EBIT challenges were compensated by an outstanding EBIT growth at Helios Spain and healthy growth at FMC.

Interest decreased year-on-year by 6% in constant currency to €154 million, mainly driven by successful refinancing activities and lower interest rates. Currency translation effects reduced interest by 4%. Given that improved interest rate environment, but also considering the ongoing market volatility, we now project our interest expenses for the full year 2020 to be below €680 million. With much of the reduced rates affecting FMC instruments, we do not expect much of an impact on our group net income from this reduction in interest versus our previous expectations.

The group tax rate before special items reached 22% in the third quarter and 22.7% year-to-date. That is slightly below our expectations due to various small one-time items. For the full year, we now expect a tax rate of around 23%.

So let's move to net income. In the third quarter, we saw -- we have seen sequentially a nice acceleration and a positive 1% growth. Year-to-date, that's a decline of 4%. Excluding our estimated negative COVID-19 effects, we could even have been nicely within or even more towards the top end of the original guidance range in the quarter and year-to-date.

So let's move to **Page 13**, which illustrates the Q3 2020 momentum at our 4 business segments. Let's start with Kabi. The company showed 2% organic sales growth with significant differences in the development across the regions. In the US, fewer elective treatments, ongoing price pressure, and some temporary manufacturing issues outweighed extra demand for COVID-related products. This led to an organic sales decline of 5% in the third quarter, and year-to-date, we're showing 1% growth. In Europe, we've seen a nice sequential acceleration to 5% organic sales growth. In line with a recovery of elective treatments, we have seen increased demand across our well-diversified portfolio. In the emerging markets, we saw accelerated growth rates in Q3. Especially pleasing is China, where we've seen 4% organic sales growth over a tough prior-year comp. Whilst we are not where we would have been without COVID, that is definitely light at the end of the tunnel. In the other APAC markets, however, we are lagging behind. Latin America continued to show very strong growth. Inflation-driven price increases contributed to a certain extent to these top-line growth rates. Overall, COVID-19 had a slight negative effect on Kabi's sales growth in Q3, primarily stemming from the emerging markets.

So let's move to Kabi's EBIT, where we've seen a decline of 4% in Q3, as expected in our Q2 call. Overall, we had a moderate positive COVID effect on EBIT, primarily due to lower share-based remuneration costs, but also lower corporate costs due to travel restrictions and phasing of projects. But let's have a look at the regions. Let's start with North America, where we've seen an EBIT decline of 20% in Q3. Here, the abovementioned volume and price headwinds and planned higher SG&A spending ahead of the launch of our first US biosimilar, but we also saw increased COVID-related costs and a write-down of a receivable from a customer that declared Chapter 11, all of this weighing on our profitability. And we do assume that the headwinds will continue in Q4. Europe had strong 15% growth in Q3 over a weak prior-year quarter. The growth in Q3 was accelerated by the improved top-line performance and better capacity utilization driven by a recovery of elective procedures. With 12% growth, the emerging markets showed a nice sequential acceleration. And the main drivers of that momentum were in China and in Latin America.

So let's move onto Helios, which showed very healthy 6% organic sales growth in Q3, mainly driven by the return of our patients to hospitals in Spain. We've seen outstanding 10% organic sales growth in Spain, where the usual softer summer months were less visible this year due to some pent-up demand after the lockdown. Our Latin American business, although also affected by the COVID-19 pandemic, 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 Q3. Based on the very strong first two months this year as well as positive price effects, the year-to-date organic sales growth remained strong with 5%.

Moving onto EBIT, an outstanding increase of 20% in Q3, mainly driven by Helios Spain. In Germany, we've seen an EBIT increase of 2%. Higher costs to protect our employees and patients were partially mitigated by the law to ease the negative financial effects for hospitals, whilst we've seen a positive contribution from our cost-savings initiatives. Year-to-date, we've seen an increase of 3% in EBIT.

Helios Spain delivered exceptionally strong growth of 63% in Q3 in constant currency. As described for the top line, we have seen good growth of elective treatments over the typical low activity basis of the summer months of 2019. On top of that, we saw positive effects of cost-saving initiatives, as well as a nice contribution from our Latin American hospitals.

Over to Vamed, where we've seen an organic sales decline of 10%. The decline was driven by the project business, where postponements of projects due to COVID led to an organic sales decline of 34%. The service business saw less demand for postacute care treatments, whilst high-end technical services remain robust. Overall, the service business delivered organic sales growth of 5% in Q3. EBIT was very significantly marked by COVID-19-related costs, especially for the protection of our employees and patients, as well as incremental costs due to project delays. We also saw a sharp decrease in order intake from international projects year-to-date over the prior year, which is a clear signal that we should continue to expect a challenging environment for Vamed in Q4 and into 2021.

So let's move onto cash flow, which we find on **Slide 14**. A solid Q3 took the group operating cash flow to €1.2 billion.

Fresenius Medical Care, with a solid Q3 after an outstanding Q2, which was marked by the US federal advance payments under the CARES Act. Due to COVID-19, FMC has fewer seasonality effects in 2020. Thus, the usual catch-up effects in H2 are expected not to be pronounced as in last year.

Kabi posted a Q3 cash flow of €225 million, with a margin of 13.3% and a last-12-months margin of 16.3%. That is, as expected, a sequential slowdown, as Q2 saw some early cash receipts and tax payment holidays, which were partially reversed in Q3.

Helios saw a strong year-on-year growth of 40% in Q3. A strong margin of 11.5% took the last-12-months margin to a healthy 9.9%. The growth 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 is negative, mainly due to delays in its international project business as well as some working capital buildups.

So for the group, the Q3 performance took the group last-12-months margin to 17.8%. If you deduct group CapEx of 6.7% in the middle column, you'll arrive at a very strong free cash flow margin, bottom right, of 11.1%. As you can see, we continue to invest into our future, whilst we are still generating an impressive free cash flow.

We ended the quarter with a robust 3.45x net debt to EBITDA as a ratio, despite the dividend payments in Q3. We confirm our expectation for 2020 to be around the top end of the self-imposed target corridor of 3.0x to 3.5x net debt to EBITDA by the end of 2020, including estimated COVID-19 effects. Hence, we are anticipating a somewhat lateral development in Q4.

Let's move to **Page 15**, which illustrates the outlook for the business segments. So our guidance includes the effects of COVID-19 and, as usual, excludes the effects of special items. And just because it is so important, I want to echo what Stephan said. We recognize the increasing COVID-19 case numbers and the associated various containment measures being enacted in many of our relevant markets. And as we now see many variations of lockdowns and containment measures, we wanted to be very clear. The group's full year 2020 guidance assumes no containment measures that have a significant and direct impact on the healthcare sector that are not appropriately compensated.

So starting with Kabi, with 3% organic sales growth year-to-date for Kabi, we confirm our outlook range of 2% to 5% organic sales growth for the full year. In Q2, we said that we were assuming a gradual recovery of elective procedures in the second half. However, given rising COVID cases, particularly, for example, in the US, we anticipate an ongoing volume softness in Q4. Thus, we believe the top end of that range is now unlikely. With an EBIT decline of 5% year-to-date, we leave the guidance range for the full year for Kabi unchanged at minus 6% to minus 3%. However, as I said for the top line, given that we now cannot expect the volume challenges to improve in particular with increasing COVID cases, we feel that the bottom end of our guidance range is now more likely.

For Helios, in terms of organic sales growth, with 3% growth year-to-date, we confirm the outlook range of 1% to 4% growth for the full year. We expect to see a solid Q4, in Germany, in all likelihood, underpinned by the 2019 floor, given the Hospitals Future Act, and in Spain, backed up by an expected continuation of good elective treatments and ongoing strength in the ORP business. As far as EBIT for Helios is concerned, we have seen an EBIT decline of 5% year-to-date, driven by the comprehensive lockdowns of Q2, but with the momentum of 20% EBIT growth in Q3. Taking into account our expectations of strong elective treatment volumes in Spain, good performance of our Latin American acquisitions, as well as the contributions from our cost-saving initiatives, both in Germany and Spain, we confirm our expectation of a broadly stable development for the full year, also finally underpinned by the Hospital Future Act in Germany.

Moving to Vamed, with minus 1% year-to-date performance and considering ongoing significant headwinds, especially in the international project business in the fourth quarter, we confirm the outlook of an organic sales decline of around 10% for the full year. Hence, the usual spike that we have also seen in 2019 from the international project business is not expected this year in the fourth quarter. With an EBIT of minus €10 million year-to-date, we now expect a positive absolute EBIT in constant currency for the full year. Incremental COVID-related expenses combined with negative operating leverage effects in the rehab business are expected to continue to take their toll, whilst we assume the high-end technical services business to continue to be very resilient, thus continuing to show year-on-year growth.

So let's take all of that together for the group, and we'll find that on **Slide number 16** and start with sales. With 5% growth year-to-date, we confirm our guidance of 3% to 6% constant currency growth for the full year. Although, with some challenges in North America and at Vamed's project business, as well as COVID-driven uncertainty, we do now believe that the top end of that range is not likely.

If we move to net income, we confirm our guidance of minus 4% to plus 1% growth in constant currency. However, on the back of ongoing headwinds at Vamed and Kabi, and as well as that COVID-driven uncertainty in Q4, we now expect that the bottom end of that range is now more likely.

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 for the US dollar and for both sales and net income.

My comments from Q2 around our continual active monitoring of any potential broader knock-on effects, financial impacts of the pandemic on our business and financial positions continue to apply.

With that, I'd like to thank you for your attention, and Stephan and I are happy to take your questions.

Question & Answer Session

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

Veronika Dubajova: Good afternoon, and thank you for taking my questions. I will keep it to two, please. First is I want to follow up on the supply constraint issues in Kabi North America. It's my understanding that you have received a Form 483 for one of the sites, Melrose Park. And so it'd be really helpful, Stephan, if you can, one, remind us how important Melrose Park, both from a manufacturing footprint perspective, but also when it comes to filed ANDAs to the extent that you end up with a warning letter, and what are you doing to resolve those observations from the Form 483? If you could talk to that, I think that would be great.

My second question is just around your confidence in the volume, ongoing procedural volumes in both Spain and Germany. Very much understand the government's now put restrictions on you guys, but just curious if you're seeing on the margin any changes in consumer behavior. So as we see cases increase, is there maybe some avoidance of hospitals? We've seen this to some extent in the US, and I'm just curious to what extent there is, an echo of that as you think about Helios Germany and Helios Spain, and how you're thinking about that as a risk to the fourth quarter. Thanks, guys.

Stephan Sturm: Thanks, Veronika. On your Kabi question, as a matter of fact, those temporary supply constraints relate to our Melrose Park facility. You are right. We have received an inspection from the FDA. And yes, it ended with a 483. But frankly, Veronika, I can hardly recall an FDA inspection where there was no observation at the end of it. And that has still kept us in good stead. So the temporary issue that I'm talking about is not related to that FDA inspection which actually ended on a good tone. We observed ourselves that a couple of our former employees have not abided by some standard operating procedures. Whoever did that is no longer part of Fresenius Kabi. As a precautionary measure, we have undergone an intensive examination of batches of drugs that were already manufactured. None of these examinations yielded any negative result. But still, we have a reputation to lose vis-à-vis the FDA, maybe even more importantly vis-à-vis our customers and our patients. And therefore, we've done the right thing.

Over and above making those who didn't abide by the rules redundant, and over and above more training and education, we have held back on these batches of product. Yet again, no negative results. Anything that we have found was well, well, well below the threshold levels. And therefore, we're working away diligently to get us in a position to release those batches that we're currently looking at and, with that, to reduce the backorder level that in the meantime has built. Mind you, we have a very meaningful backorder situation, and therefore, we are absolutely keen to work on that and to continue to supply our customers.

I think that is about as much as I can say. As you would expect, we are -- we have communicated with the FDA. They are fully in the loop as far as our remediation efforts. I would very much work on the assumption that, as I said in my prepared remarks, we can continue to release product back to a normal level over the course of this fourth quarter, but given that we're coming from behind, we will also see an impact on our Q4 financials.

As far as new product launches are concerned, Melrose Park, Grand Island, and Wilson, North Carolina, all play a certain role. And frankly, I do not want to speculate about our ability to launch new products out of the Melrose Park facility next year, but it is, as I just said, 1 of 3, and there is most certainly also a certain ability to broaden existing ANDAs to comprise more than just one manufacturing facility that, also as a precautionary measure, we are working on.

I know that you would like to know more about this topic, but again, that is about as far as I'm going to be drawn.

To your hospital question, I quite consciously made the remark about the adverse effects of the complete lockdown with a quasi-prohibition of elective surgeries earlier this year. And it is my understanding that there's a broad consensus amongst doctors and politicians and obviously also us that something like this must not be repeated. Now is such a general albeit soft lockdown helpful? Obviously not. At the same time, as we have seen in our Q3 performance, there is pent-up demand, and there is only so long that also an elective surgery can wait.

We have done quite a lot of homework, as I also alluded to in my prepared remarks, as far as hygiene concepts are concerned and making it very clear that the few COVID patients in our hospitals are duly separated and that there is a very, very remote risk of an infection and that, therefore, a hospital is a safe place to go, in any case safer than to delay an elective surgery for too long.

Look, to some degree, this is speculation, which is why, on top of my underlying optimism that we can repeat a good performance in Q3, also in Q4, on top of that, I was referring to compensation measures that I do expect probably not only, but in particular in Germany, where the new law that I was referring to is making it very clear that a safety floor does exist.

All in all, I hence, without any naivety, truly believe in what Rachel and I had to say about our Helios guidance for Q4 and full year '20.

Veronika Dubajova: Understood. Thank you, Stephan. That's helpful. And if I can sneak in a quick follow up, just trying to reconcile your comments on softness in Kabi North America in the fourth quarter with the plans to release some of these batches that you held back, are you just being conservative, or is your ability to manufacture still impacted? So even though you're releasing batches from the third quarter, the production levels in the fourth quarter are not where they normally would be.

Stephan Sturm: Our ability to manufacture is not impacted.

Veronika Dubajova: Okay. Okay. Thanks very much.

Stephan Sturm: Thanks, Veronika.

Tom Jones: Good afternoon and thank you for taking my questions. I had two. First, on the comment you made on **Slide 3** about expanding or your groupwide cost optimization program, I was just wondering if you could maybe give us a bit more detail about which kind of areas and which businesses you might expect to make those sustained savings. So that would be my first question.

And then the second one is really sort of a bigger picture question on Kabi really. Sort of stepping back from all the COVID-related noise and short-term issues, if I look at that business in its entirety, by the end of this year, you would've probably put I'm guessing close to €1.5 billion of CapEx into that business and perhaps €1 billion of R&D over that 2-year period. So let's average it out and say €1,200 million, €1,300 million of investment into that business in each year. That's a huge amount of investment for a business with a 7% top line that most of us only expect to grow kind of mid-single digits. So I guess my question is, should we expect to see change in Kabi's growth profile at some point, or is all that spending really almost in a way a little bit defensive in that you need to continue to invest in that business to maintain the current growth profile?
So I think it'd be useful if you could just share some big picture thoughts about how you're thinking about the return on investment in Kabi.

Stephan Sturm: Thank you, Tom. Rachel will get you started, and I will cover the Kabi question.

Rachel Empey: Hi, Tom. Thanks for the question on our cost optimization activities. And maybe I can make a few comments and give you a couple of examples. I think, like all of us, we as a management team, both in the corporate center, but also across each of the segments, have had an opportunity to look and think about our businesses somewhat differently over the last 8 months or so. And clearly, we have been conducting our business quite differently than in the past. And so I would say, at a very basic level, right across all of our corporate activities, we have made quite some significant savings in terms of how we conduct our meetings, manage our businesses, the digitalization quotas of how we manage and how we conduct our business. And that is something that we think is sustainable and obviously has knock-on impacts in terms of our infrastructure, our office footprints, and all of those kind of overheads.

More operationally, we've also, of course, taken the opportunity to think somewhat differently in the more operational parts of the business. Let me take Spain and Quirónsalud as an example. They have made some very effective cost-saving initiatives, have looked again at their procurement processes, some of the relationships with their suppliers, and that has led to some quite significant savings that have also helped underpin the performance that you've seen in our Helios business in the third quarter.

So I would say a mixture of step-back COVID-driven activities have drawn us to see how we could do business differently going forward, and we have looked, let's say, more deeply in terms of some operational opportunities, particularly within our hospitals business. I hope that's helpful to give you some feeling of some of the things we've been up to. And with that, I'll hand to Stephan.

Tom Jones: Thanks very much.

Stephan Sturm: Tom, I appreciate your question, and I can -- am I absolutely happy with Kabi's organic growth rates? Of course, I'm not. And there's always a little more that I would like to get to. Let us differentiate between R&D on the one hand and CapEx on the other. And R&D in my mind primarily falls into two buckets, and the larger of the two is biosimilars. And we have talked about that bucket for quite a while now, and I know that there is skepticism out there that we don't share. The onus is on us to prove the skeptics wrong. I -- you heard me -- believe that we're making steady progress towards market launches, and also, in the market, we're doing reasonably well. And this is going to be our answer to what many of you out there have held against us in terms of a patent cliff for small-molecule generics. And therefore, yes, in a sense, it is both an offensive and a defensive R&D investment because, yes, we need to work on the assumption that, later this decade, extra growth from small-molecule generics, from new launches there, may be not as pronounced as it used to be.

Second smaller bucket is us actually working on new launches. And you have seen us at least replenish our pipeline of drugs to be launched. I continue to believe that the annual contribution from these new launches in our US business is going to be in the low single digits, so an important contributor to growth in a high-margin business line of Kabi, and hence very important to us, the group, overall.

Let me talk about CapEx. And there, the old rule continues to apply, and that is that about a third of our CapEx is maintenance, and about two-thirds is growth CapEx. And what you see there in terms of the CapEx numbers is then primarily planned expansions because we're seeing higher-volume demand, typically growing market shares in growing markets. And yes, a characteristic of our markets has been all along a price erosion, a mild one. But the recipe there, and hence yet again, we're talking about both offense and defense. The recipe for success here is to actually drive volumes so that, with economies of scale, we can bring down our cost of production at least as fast as that price erosion.

And therefore, I really do like those CapEx investments because they are not even bolt on. They are at the inner core of what we have done all along and, therefore, represent a fairly high return, lower, lowish risk proposition.

At the same time, within that, we are also looking at true growth CapEx. I have referred to the expansion of our -- the growth at our TCT business. So we keep on winning over customers, and as a result, we need to place our equipment with them so that we can capitalize on the disposables business. The other example is us taking enteral nutrition in China outside of the hospital and us, hence, preparing ourselves with a manufacturing plant there. So I am not under the impression at all that these are investments of a defensive nature. Much rather, I would very much expect them to contribute to higher growth levels at Kabi going forward.

Tom Jones: Perfect. That's very, very clear. And just maybe a quick follow up. If we look at kind of '19, '20, and I assume probably '21 as well, they're relatively high levels of investment in Kabi. Is that the new norm that we should be thinking about in terms of investment for Kabi, or would you expect it maybe to moderate a little bit from kind of 2022 onwards?

Stephan Sturm: It should moderate, Tom. The old normal was 4% to 6%. We were looking at 7% plus recently, and I would not expect us to go back to the bottom end of that historic range, but at least we should be touching around the upper end.

Look, some of that investment that created that spike last year and, to some degree, also this relates ironically to Melrose Park, where we have talked about volume expansion but also a higher level of automation. I'm saying ironic because what we've experienced recently to some degree is just a confirmation that we should be doing more of this. So if you wanted to think about it as a defensive measure, fine. Then you could as well say this investment is a driver's license, is a permission to operate going forward because I am utterly convinced that what we're doing now is just anticipating what the regulatory framework is going to foresee stringently.

Tom Jones: Okay. That's perfect. I'll get back in the queue. That was all very helpful. So thanks very much.

Stephan Sturm: Thanks, Tom.

Michael Jüngling: Thank you. I have three questions, please. Firstly, on the Kabi USA Melrose Park facility, can you just be a bit more precise about how many quality observations there were in the 483? And was it you making the decision not to ship products from that facility, or did the FDA ask you not to ship?

Question number 2 is also on Kabi USA. If I look at the IQVIA data, we can sort of see, since October of 2018, your ability to raise, in my view, quite surprisingly price on a continuous basis. And if I believe the data, we're talking about a 10% type increase in price. Do you agree with that, and if so, is that -- are you able to sustain a 10% price increase into 2021?

And then question 3 is in relation to biosimilars. Can you please give me the expense that you've incurred in the third quarter? Thank you.

Stephan Sturm: Michael, on the first one, I don't have the exact number with me. There were a few 483 observations. I want to positively confirm what I answered to Veronika's question. It was us taking that decision. We were informing the FDA, rather than the other way around. It was truly voluntary because we believe we have a reputation to lose.

To your pricing question, as I alluded to in my prepared remarks, in the base portfolio, and we choose that because it has those well-established products in there that are not subject or not so much subject to competitive entries, we continue to see that low single-digit price erosion. And as so often, we have benefited from being a second or third entrant, but from time to time, we are also the victim of something like this. And therefore, for recently introduced products, the price decay curve is typically steeper. I can't see a 10% price increase. I can only say IQVIA gives you from time -- most of the time some directional guidance, but is also prone to some inaccuracies.

On the biosimilars question, it's Rachel.

Rachel Empey: Hi, Michael. So I can confirm we had around €34 million of biosimilars R&D expenses in the third quarter and then obviously various sales and marketing expenses across our different geographies, direct sales expenses in the various European countries, and as we referred to, some small, let's say, starting expenses in the US as we start to build our capabilities there. Thanks, Michael.

Michael Jüngling: Great. And, Stephan, can I just briefly follow up on Kabi USA? If I look at some of your key products, for instance -- I know you don't like doing this, but I think it's kind of important. If you look at some of the key products like heparin, I'm surprised how sharp they're in decline, so 30% per month now for an extended period. What is going on in heparin?

Stephan Sturm: Nothing specific comes to mind. There is a volume downturn after some anticipatory buying, and there is also a somewhat changed competitive environment, nothing particularly wrong. But, Michael, forgive me, on the back of the hysteria surrounding propofol -- I'm sorry, heparin about a decade ago, this in the meantime is a fairly small molecule that, from our perspective, hardly moves the needle. And therefore, I would not look at this as something that is exemplary for a broader trend in the market that you should be worried about.

Michael Jüngling: Okay. Thank you.

Stephan Sturm: Thanks, Michael.

Patrick Wood: Perfect. Thank you very much for taking my questions, one on Helios, please, and then one biosimilars. On the Helios side, just curious how you guys feel about the backlog of cases, how much there still is. We get a lot of mixed feedback from other corporates as to how much the backlog has been sort of worked through and what's there. So just kind of curious on that.

And then on the biosimilar side, appreciate that it's early days. Do you still feel good about the triple-digit million target? And I was interested in your comments on the cost base optimization there. Is that a change on your agreement with Merck, or is it that you're swapping some of the bioprocessing to single use, or what's going on, on the cost-saving side? Thanks.

Stephan Sturm: Thank you, Patrick. Very undoubtedly, there were delayed elective surgeries, and it remains to be seen with even more clarity to which degree that has led to excess mortality. From the data that we have seen and where we will be trying to put out analysis, excess mortality ex-COVID is a pronounced factor. And therefore, whilst we appreciate all the efforts containing COVID, as I was saying a bit earlier, we need to find an optimum across the entire space and must not neglect other very severe cases.

And hence, I do get the sense that this is increasingly understood by politicians, but also by the referring general practitioners and that, therefore, in contrast to what we've seen in spring, there is reason to believe that we will continue to see elective activity.

Now is that current circumstance prone to make you visit a hospital ahead of time? Obviously not. So we're looking at this in a pretty sober fashion.

You were asking about the backlog. In my mind, it does exist. It has been unfortunately decimated by excess mortality. We are not relying on it to materialize. So part of our planning is most certainly not a meaningful catch-up. We'd be okay with a return to normality.

As far as biosimilars is concerned, Rachel can help you out.

Rachel Empey: Hi, Patrick. So a few comments on my side on biosim. So I think, firstly, Stephan already addressed in his speech that we have seen a few delays in here that are COVID driven. Firstly and specifically, the immunosuppressant effect of the drugs has slowed down the pipeline somewhat for new patients, and obviously, particularly during the harsh lockdowns earlier in the year, we had restricted sales and marketing activities. Nevertheless, as we also said in our prepared remarks, the underlying business case for us remains absolutely intact, just with some delays. And hence, I have no reason to deviate from the triple-digit million euro revenue number that you are referring to and the comments we've previously made in terms of the future growth opportunities that we see coming from the biosimilars market in Europe, in the US, and beyond.

Specifically, the comments in terms of cost savings, obviously, we are still relative newcomers to the biosimilars market. And you're right. We have an underlying long-term relationship with Merck in terms of supporting us through that manufacturing process. And as you would anticipate, specifically with Idacio, the adalimumab that we have, but also looking to the future molecules, we are taking an end-to-end view in terms of the overall processes that we have all the way through from the very beginning R&D and specifically through the development, testing, and final manufacturing processes to look at how we can optimize, how we can ramp up the volumes that are going to be required in the most effective and efficient way to really truly drive the highest quality and most efficient processes throughout that full supply chain. Clearly, that is going to be an ongoing set of activities for us. We have definitely seen some first wins from those processes that have further optimized our cost of production and our overheads, and we expect to continue to be able to drive that, both for Idacio and also for the future molecules that we'll bring to market. Thanks, Patrick.

Patrick Wood: Sure. Thanks for the answers, guys.

Hassan Al-Wakeel: Thank you for taking my questions. I have a couple, please. So firstly, when it comes to elective procedures, could you please comment on whether precautionary measures with regards to COVID at your hospitals are driving any meaningful reduction in theater capacity or indeed the number of procedures carried out in a given day versus pre-COVID levels and whether -- and if so, whether this could be with us for some time?

Secondly, on Kabi North America, could you quantify the margin impact from the receivable write-down and manufacturing issues in Q3? And particularly with regards to the latter, how should we think about the margin for Q4? Thank you.

Stephan Sturm: Thank you, Hassan. I'll take the Helios one, and Rachel's going to help you with Kabi. Yes, given social distancing rules, as we alluded to already in prior quarters, we are looking at a somewhat smaller totally available capacity than before.

In Germany, from the fairly few 3 bedrooms left, we can only occupy them with 2 patients at a time. But frankly, 3 bedrooms are no longer and aren't going to be acceptable in the not-too-distant future anyway. So we had plans to convert them into 2 bedrooms anyway.

When you look at Helios' capacity utilization, and here, I'm not referring to Germany because it is -- it has a higher inpatient business. If you look at that capacity utilization, then it typically tracks in the mid-70s, and where we're getting towards our capacity limits, really only on a few individual days, maybe a week or 2 over the course over the year.

And please do bear in mind what we have been talking about in particular since the acquisition of Quirónsalud in 2016, and that is that the reduction of the average length of stay is a key success factor. And we have continued our efforts in this regard, have continued to make progress in this.

So even with a mildly and temporarily constrained capacity base, I don't see any reason whatsoever not to treat the very same number of patients, and maybe even more. Rachel?

Rachel Empey: Thanks, Stephan. Hassan, you had a question in terms of the moving parts in Kabi North America and the impact on profitability. Maybe I can try to give you some color there. Clearly, at a time like this with the volatility that we've seen in the marketplace and all of the different moving parts, I wouldn't say that any of the effects that we have seen are really truly independent of one another. And thus, you can clearly identify that exactly this particular cause had this particular knock-on effect.

But to give you some kind of idea, I think there's two or three things I can say. I would say that the largest effect that we have seen in the quarter is coming from the market effect, i.e. here, the lower volumes that Stephan was referring to and the ongoing price pressure that we see and, of course, the knock-on effect of those volumes into our manufacturing plants, particularly in terms of efficiency and overhead recovery. And those are the larger effects that have impacted Q3. Yes, there is some impact coming from the manufacturing issue that Stephan referred to, but I would say lesser than the knock-on effect of those volume and price impacts that are sourced from the marketplace and are clearly a combination of the competitive environment and the COVID environment. The manufacturing issues have some impact in terms of process efficiency in the plant and, as Stephan said, some backorders. And I would anticipate that, although we are expecting to return to normal levels during Q4 that we will still have some continued effect of those manufacturing issues as well as the volume and price issues that we referred to. The write-down that we referred to of a customer going into Chapter 11 had some negative effect in Q3, but I would say, in terms of the overall size of the decline year-on-year and the evolution of the margin, was not a meaningful impact.

So overall, if I take a step back, I mentioned in my speech I do anticipate pretty much most of the headwinds that we experienced in Q3 to continue in Q4. So I don't expect a significantly dissimilar performance from Kabi North America in Q4 versus what we have seen in Q3.

Hassan Al-Wakeel: That's very helpful. Thank you, both.

James Vane-Tempest: Yes, hi. Thanks for taking my questions. A few on Kabi, and then a quick follow up on Helios, if I can. In Kabi, can you just confirm what proportion of volumes Melrose Park supplies for your US business? And you mentioned a few observations in the Form 483. Just curious, was this just related to dexmedetomidine, or were other products in practice if it's more broadly across the site? And to help us to understand the materiality, how confident are you this won't result in a warning letter? And I've just got one quick follow up on Helios, please. Thank you.

Stephan Sturm: James, it was -- the inspection was related to one product. I am comfortable with the observations that we have seen. Just because you were mentioning the word warning letter as a quasiforegone conclusion, I don't see it that way. At least, I don't want to speculate about that. Melrose Park post the investment that we are -- well, not in the middle of or near completion, is going to be the most meaningful of our 3 plants in the US, but it certainly has -- commands less than 50% of what we manufacture. Also, do bear in mind, notwithstanding our stated policy to, if at all possible, manufacture for the US in the US, we were also mentioning that, for instance, propofol for the US market is also manufactured out of Europe.

James Vane-Tempest: That's great. Thanks. That's helpful. And then just one on Helios. Helios Spain grew 10% organically I think, of which Colombia contributed around 7%. So I'm just curious if the outpatient activity which you had highlighted in the presentation in July to September returned to normal. Should we be thinking 3% organic growth in Spain is the level we should think about going forward? And then I guess a quick follow up is, how much of the 63% EBIT growth was Latin America? Thank you.

Rachel Empey: James, just to correct the thinking there on the organic growth for Helios Spain, because those acquisitions, the most meaningful of which we have done this year, the growth rate is excluded from the organic growth. So our calculation of organic growth only includes the businesses that we had at the same time last year. So the meaningful acquisitions in Colombia, particularly in Imbanaco, which has been consolidated since the 1st of March this year, is excluded from that 10% organic growth rate. So the vast, vast majority of that organic growth is driven in Spain, and the percentage contribution that you mentioned comes on top of that in the reported revenue growth rate.

Specifically to your comment on the contribution to EBIT growth, here, you are right that the 63% EBIT growth is a constant currency growth and not an organic growth. So the growth from Latin America is included. And of the 63%, a low double-digit number of percentage points is contributed from those Latin American hospitals, so a very healthy contribution, but still a very meaningful growth rate in Spain.

Stephan Sturm: And hence, I thought it was appropriate to make a special mention of that group of hospitals navigating COVID pretty nicely.

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

Stephan Sturm: Thanks, James.

Christoph Gretler: Thank you, operator. Good afternoon, Stephan, Rachel. Two questions. Now first, can you help me understand kind of the dynamics in the German hospital business? So essentially, it was 4% underlying growth Q2 and Q3. And yet when, I guess, interpreting your comments, kind of volume increased substantially sequentially.

So does this mean case mix dropped sequentially, or -- and related to kind of your German hospital business, actually, could you clarify how you actually account for these government subsidies that you get? Is this a revenue, an income account --

Stephan Sturm: Chris, Rachel's going to help you with both.

Rachel Empey: Thank you, Stephan. So, Christoph, I think you started to answer your own question essentially. This year is obviously, year-to-date, really quite special when you're looking at the moving parts within the Helios Germany business because, since the beginning of the crisis, we have obviously had the special, let's say, reimbursement process under the so-called Rettungsschirm here in Germany.

And hence, the volume of cases is not the key driver, let's say, in terms of how the compensation has worked for us for most of the year up until the end of September because, as you remember, that Rettungsschirm also gives us payments, for example, for the empty bed capacity that we have had against the volume of patients we were treating in 2019 as well as giving us incremental payments, for example, for extra PPE for COVID patients and also for the incremental ICU beds that we made available. So the overall calculation, which we would normally do in terms of the number of patients times the case mix times the price inflation, doesn't quite work for this year, let's say. But nevertheless, you should -- and you are quite right -- always remember that the price inflation and the case mix that we see does have a significant impact in terms of the revenue that you can expect. Hence, the revenue growth that we have seen this year is a combination of the patients we've treated with the mix and the price effects as well as all of those compensatory measures that I mentioned.

Christoph Gretler: Okay. Yes.

Rachel Empey: You had a question in terms of revenue recognition and accounting I believe also. Clearly, there are many different aspects to the payments that we receive here in Germany. But to simplify very significantly, we essentially have recognized all of those payments as revenue, I would say nearly all of those payments as revenue. That is the accepted accounting treatment and, of course, in line with our auditors and how we would anticipate that other competitive hospital groups here in Germany are also accounting for those payments.

Christoph Gretler: Okay. Clear. And then I have a second question on the Kabi business. On the new launches in the US, is there an update there? Are we now still on track with this, 10, 12, despite kind of the issues in Melrose Park?

Stephan Sturm: Chris, we're looking at 6 launches year-to-date. And at the moment, I have no reason to withdraw the guidance that we have given. Yet again, we have some issues at Melrose Park, but this is by no means the only plant where we're looking at new launches.

Christoph Gretler: Okay. Thank you.

Stephan Sturm: Thanks, Chris.

Oliver, you may be on mute.

Oliver Metzger: Do you hear me now?

Stephan Sturm: Yes.

Oliver Metzger: Sorry, sorry, sorry. Okay. Two questions on Helios Germany. The first one is on the pricing dynamics for '21. So the DRG inflator is set at 2.5%, which is significantly below the current rate. In the past, you commented that around two-third of the increase would come through. Do you have already some visibility on other regulatory changes, like catalog effects, which might impact pricing for next year? That's the first question.

The second question is on the German market, hospital market in total. So the current pandemic seems to trigger a more dynamic market consolidation. We saw recently some acquisitions of you. And if you look on your table, so the amount of hospitals which are offered to you, do you see there increasing amount, and are you become more bullish for further deals, short to midterm?

Stephan Sturm: Thank you, Oliver. On your first question, yes, this has been -- the 2.5% DRG inflator is back to the old norm, yes, where we were looking over an extended

period of time at the inflators between 2% and 3%, and really only for a brief interim period, we were going above.

And I would also like you to bear in mind that a major cost item -- and that is staffing of -- for nurses' salaries are being carved out anyway. And therefore, you need to bear that in mind when you take a judgment on that 2.5%. I can only tell you they tally very nicely with our expectations. And we believe we can get by on that level, even though you are right. At least for the time being, I would continue to work on the assumption that only about two-thirds of that headline DRG inflator is actually going to end up in our revenue line.

Secondly, yes, we're seeing more consolidation activity. And -- but we will stick to what we have said I think for a year now. And that is that, in most of the cases, there is a good reason why these hospitals are being offered, and that is that they are simply not needed. And therefore, in the vast majority of these instances, we will not participate in any process. We are ready to take something on if that particular hospital fits nicely into an already existing regional presence, ideally to complete a cluster, where we have near immediate synergies, both on the revenue and on the cost side. That was the case in our acquisitions from the Order of Malta. And therefore, I would not rule out more activity also over the course of next year, but at the same time, Oliver, I wouldn't rely on it.

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

Stephan Sturm: Thank you.

Falko Friedrichs: Thank you very much. One and a half questions. Firstly, could you help us put this Hospital Future Act into perspective in Germany in terms of how much reimbursement that would provide you if things start to worsen in the fourth quarter and how that would compare to the reimbursement you have seen up until the end of September? And then the second part is also on Helios. Can you just quickly confirm again that there's still no strings attached to any of the plenty of government reimbursements you have received so far?

Stephan Sturm: Strings attached in terms of our ability to pay a dividend?

Falko Friedrichs: No, in terms of your ability to potentially having to pay some of it back.

Stephan Sturm: I can positively confirm that there is no such string attached. And that is actually a nice lead into your first question. This is, as I said in my prepared remarks, calculated on a per-hospital basis. So wherever we are ahead of last year's revenues, there is no need to hand anything back. And where we are at a particular hospital below last year's revenues, we're going to get a compensation, not to 100%, which is why I'm talking about a safety floor, but some of this -- or this has been factored with quite some reasonable assumptions into our guidance and therefore with a very cold-blooded sober look. That is what I feel particularly good about.

Falko Friedrichs: Okay. Thanks very much.

Stephan Sturm: Thank you, Falko. I believe that concludes today's session. Thank you for your interest. Thank you for bearing with us. We're living, as I said in my first statement, through with unprecedented challenges. I can assure you that we're absolutely well prepared and that we will continue to work away living up to the expectations that we have now raised as far as full-year '20 guidance is concerned, but that, at the same time, we're working hard to capitalize on the opportunities that undoubtedly do present themselves for '21 and beyond.

Also on behalf of Rachel, thank you very much. Take care. Stay safe and sane.

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.