

Transcript Conference Call Q3 2017 results

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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

Thomas M. Jones, Berenberg
Elisabeth Bedell Clive, Sanford C. Bernstein
Gunnar Romer, Deutsche Bank
Julien Dormois, Exane BNP Paribas
Alex Gibson, Morgan Stanley

PRESENTATION

Markus Georgi: Thank you very much. Much appreciated. I would like to welcome all of you to the Fresenius SE earnings call for the third quarter and first nine months 2017. Also, warm welcome to the ones joining us on the Web today. We very much appreciate your interest. With me on the call today, Stephan and Rachel. Rachel Empey is our new Group CFO since August 1st. As always, I would like to start our call by mentioning the cautionary language that is in our safe harbor statement of our presentation and the material that we have provided and distributed this morning.

With no further ado, I would like to hand over to you, Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon and good morning, a warm welcome. As always, we appreciate your interest in Fresenius. Markus has pointed out the safe harbor language to you. So let's move right to Page 3, which summarizes the highlights of this quarter.

And we're very pleased to report a strong Q3. We continue to see very healthy top-line and earnings growth, despite the well-anticipated softer summer quarter for Quirónsalud. We are especially pleased by the consistency in our growth rates across the board. In the first three quarters, all of our four business segments contributed to the group's organic sales growth. On the back of these strong financial results and with bright prospects ahead, we feel very comfortable to confirm our group guidance. Also, we've generated strong cash flow, which

has led to deleveraging progress, only slightly held back by the first-time consolidation of the biosimilars business. So we're well on track. And whilst not mentioned on the slide, Rachel Empey joining Fresenius has clearly also been a highlight of this past quarter. She has proven to be a very fast learner and will give you more details on our financial performance in a minute.

The important takeaway from this first slide: Fresenius is stronger than ever. And from that position of strength, we're preparing ourselves proactively for the opportunities ahead. The third quarter saw Fresenius Medical Care announce the acquisition of NxStage in order to capture the potential in the growing home dialysis market. Fresenius Kabi closed the acquisition of Merck's biosimilars business. Now it's ours. And Vamed closed two acquisitions in their more stable services business, small in absolute terms, but important for their further development. And so including Helios's acquisition of Quirónsalud, we've now gone full circle in about a year, and all our businesses have strengthened their strategic position, based on solid operating progress, which brings me to Page 4 with an update on Akorn and the biosimilars business.

Let us the start of the Akorn acquisition process. With regard to the FTC-regulated divestiture of overlapping products, we have selected a buyer, signed an asset purchase agreement, and submitted that to the FTC for compliance review. Scope and terms of that agreement broadly in line with our original expectations. You know that getting management control of Akorn is clearly our priority. I am convinced that our management expertise and financial capabilities will be a huge support for our new colleagues. We are targeting to close this acquisition by year end and are cautiously optimistic that we will receive FTC clearance to be able to do so. We note that Dr. Kapoor has been indicted and, as a consequence, has stepped down from Akorn's board and relinquished his role as Akorn's chairman. To the best of our knowledge, the charges brought against him are completely unrelated to Akorn, and we therefore currently view this as a neutral event with regard to us closing the transaction. Coming to Akorn's Q3 results, which were filed last night, for sure not what we had hoped for, but at least a sequential stabilization. And year-to-date cash flow has more than doubled year-over-year. But yes, we had hoped for more. And the reasons for the disappointing financial performance are broadly unchanged from the second quarter.

A), more pronounced competition: Akorn continues to experience price pressure and market share losses on some of its key molecules. And while increased competition was generally anticipated, the impact has unfortunately been greater than expected. And whilst Akorn has seen some stabilization on ephedrine recently amongst other molecules, with regard to our expectations for 2018, we need to monitor closely where this all will bottom out.

B), supply disruptions: and while some supply issues from the second quarter were resolved, new constraints have occurred, leading again to higher-than-normal backorders and inability-to-supply charges. Frankly, we can't wait to assume management control, so we can help with our expertise and our financial power.

C), new product launches: and even though Akorn has launched a respectable 13 new products year-to-date, it had even higher expectations. So launch delays, including to some significant molecules, contributed to the shortfall versus projected revenues. We have reviewed these delays with Akorn's management, and we believe that the opportunities are essentially postponed rather than significantly diminished.

So what are the implications for 2018? I'm aware the capital market strongly doubts our expectations from back in April and is arguably looking for us to revise them. We're not doing that, at least not for now. And for those who don't know us that well, we're neither naïve nor stubborn. First, let me remind you that our 2018 expectations came, by our

standards, extremely early and were based on the comprehensive but still outside-in due diligence process. Couple that with injectable generics, arguably Fresenius's most volatile business, and so we called it very consciously an "expectation" rather than a "guidance". Now in light of Akorn's year-to-date performance, it appears likely the 2017 base will be lower than assumed. And as a consequence, the stretch required to reach our 2018 expectations is clearly larger. But as I just said, this is a highly volatile business with limited visibility, notoriously hard to predict, and where you just cannot extrapolate from a quarterly run rate, where individual drugs and launches can make and have made a major difference. So I'm not ready to revise those expectations for next year. Please bear with us until February. By then, we will be Akorn's controlling owner and will provide you with a guidance of a reliability level that you're used to. Thank you for your patience.

Bigger picture, very important: the strategic rationale for the transaction remains as valid as ever. Akorn will further diversify our product portfolio. Note their 24 product approvals year-to-date. Akorn will also enhance our market reach and thus strengthen our strategic position. As you know, we've seen a major change to our customer universe in the US. Ten years ago, we were dealing with a good dozen acute care GPOs. Today, there are basically only three left. To stay ahead of that development, we have to make decisive strategic steps. With the expansion of our already leading injectables franchise, as well as a broader and deeper product portfolio, we are becoming ever more relevant to the powerful purchasers on both the institutional and retail sides of our business.

At the same time, we will be addressing adjacent segments with strong growth prospects. Take ophthalmology as an example. Dry eye syndrome is one of the most frequently encountered ocular morbidities. It is estimated that, in the United States, 40 million people are affected by dry eye syndrome. And so, yes, I told you I'd clearly prefer Akorn to show a stronger financial performance. But I also wouldn't want to be sitting here trying to answer your questions about the implications of somebody else acquiring them.

Onto the pre-closing integration process: all well on track and plowing ahead. And while we are operating as separate companies, we are making excellent progress in our pre-acquisition planning. Assuming that the transaction closes at year end, we anticipate that, as early as mid-next year, we will be able to operate with one face to the customer, meaning one order, one delivery, one invoice for our combined portfolios. The atmosphere between the teams is good, and we're getting a broad-based feedback that people are looking forward to the integration.

So let's move on to the biosimilars transaction, which has already closed, and where we're consolidating the business since September 1st. We have not lost a single key executive on the back of the transaction announcement. Much rather, the entire team has stayed together. And as a result, we've already made good progress on integration. And with regard to the acquired pipeline, all clinical studies remain well on track, specifically adalimumab, where our EU filing is imminent. From our perspective, the regulatory environment for biosimilars continues to improve. The development and approval process appears to become substantially more reliable. And also, the settlement agreement between competitors allowing commercialization of a biosimilar for Humira is good for patients, and we believe it's also good for us.

Over to Page 5 and an update on the US injectable generics market. Over the last quarter, there has been persistent concern over increasing price pressure. And that debate has clearly weighed on the entire sector. Here today, I'd like to assure you that we are not seeing anything out of the ordinary, nothing that we haven't seen before. Much rather, price erosion for Fresenius Kabi in the US is very much in line with our experience from recent years.

Mind you, generics aren't necessarily generics. We have got to be careful to differentiate between injectables and oral solids. Sterile injectable drugs have much higher market entry barriers than oral solids due to their generally more complex manufacturing process. Evidence is inter alia the high number of injectable drugs on the FDA drug shortage list over the last years. So any statement from industry participants with regard to more pricing pressure should be read very carefully against that background. And I'd like to caution you of a straight read-across to Fresenius Kabi. Why? The drug portfolio and product mix of a competitor might be substantially different. And secondly, price declines of individual blockbuster generics are neither representative of a generics manufacturer's portfolio, let alone of the entire market. In general, larger drugs will attract more competition, causing a steeper price decline. But even though the price decline for specific bigger injectable drugs might be substantial, it still occurs less rapidly than in oral solids due to the higher barriers to entry and the fewer first-to-market competitors.

So for larger molecules, such as neostigmine or daptomycin, we have also experienced more competition and, accordingly, more price pressure. But do please judge that against the outsized positive surprise these drugs created for us and you earlier. Higher peaks, steeper declines, not representative for the general pricing trend in our large base business. That is very much in line with recent years. Over the last five years, the ASP across Fresenius Kabi's US portfolio decreased in low single-digit percentages per annum. And that is the magnitude that we expect also for this year. And our year-to-date data clearly supports that projection.

When we talk about price erosion, we also need to talk about our volume growth to be fair because that has more than offset the price effect. Key drivers here are, A), our strong and longstanding GPO relationships; based on their preference to deal with sustainable, reliable suppliers with a comprehensive product portfolio; B), new drug launches; and C), the dynamic ramp up of our Simplist pre-filled syringe business.

We believe volume growth in our injectables business will be an ongoing theme because the market is bound to grow and because we have the ingredients to participate well in that overall market growth. Why will the market grow? Despite the periodic political discussions on drug pricing, we continue to believe that generic medicines like ours will increasingly be seen as a solution to rising healthcare costs in the US and around the world. Generic drugs in America represent 89% of the prescriptions, but just 26% of the costs of pharmaceuticals. Generic prices go down each year, while branded drugs typically increase. That being said, the average price of a sterile injectable pharmaceutical sold by Fresenius Kabi is below \$5 a unit. We clearly believe that we are part of the solution to keep medicine affordable. We are deeply convinced of the long-term growth prospects of the generic injectables market in the US. That is why we are investing in the expansion and the further automation of our production facilities.

In September this year, Fresenius Kabi broke ground to significantly expand its presence in Melrose Park, Illinois, with a \$250 million investment to create a state-of-the-art operations campus. When complete, the new manufacturing campus will include the newest technologies and processes for the aseptic manufacturing of generic injectable medicines. And in addition to the investment in Melrose Park, we are evaluating significant investments at our other existing pharma manufacturing sites in the US, subject to final discussions. More information will be forthcoming in the coming weeks. Size matters in our industry. It will be increasingly tough for smaller companies to keep up with the growing capital intensity in our business. Capital constraints are bound to trigger capacity constraints as well as quality constraints. Given our size and diversification, we are generating reliable and strong cash flows, which allow us to implement investments and processes that anticipate and prevent such constraints.

In summary, we see nothing out of the ordinary in the US generic market right now, and we have prepared Kabi's US business with decisive strategic steps for the next decade.

Before I hand it over to Rachel, a word on Fresenius Medical Care. I am truly impressed that the company managed to achieve solid Q3 results, despite the natural disasters in North America. Fresenius Medical Care staff worked tirelessly to provide dialysis services to roughly 6,000 patients in Puerto Rico and to help the 1,000 colleagues based there. Dedicated corporate, regional, and local teams have been doing everything in their power to ensure continuity of care for our patients. That also applies to hurricane victims in Texas and in South Florida and those affected by the earthquake in Mexico. I would like to take this opportunity to profoundly thank all our employees and especially the disaster response teams for their great commitment.

And even though Fresenius Kabi was also affected by the hurricanes in Puerto Rico, the impact on financials is only minor. I'm very happy that all our roughly 1,000 colleagues are safe, though some have experienced flooding and other significant damage to their homes. The two Fresenius Kabi plants in Puerto Rico have restarted operations, and we are continuously working on providing our customers and our staff with the best support possible. Also here, I would like to thank all employees on the ground and all employees involved in the relief activities for their great support and commitment.

Last, not least, a word on the potential influences on Quirónsalud from Catalonia's independence efforts. In Spain, as you know, the healthcare system is organized in a decentralized way by the autonomous regions. And so health political decisions, including reimbursement and hospital organization, are independent from central political decisions. We are in contractual relationships with the regional health authority in Catalonia. And the validity of these contracts will not change, even if Catalonia became independent. Furthermore, our exposure here is very limited. We have just one public-private partnership hospital in Barcelona, which accounts for a low single-digit percentage of overall Quirónsalud sales.

With that, let me hand it over to Rachel for her to go through the financial section. Thank you for now.

Rachel Empey: Thank you, Stephan. And good afternoon or good morning or good evening, depending on your time zone. Also, a very warm welcome to everybody from my side. As you heard from Stephan, we are very pleased with the third quarter. So let's go straight to Page 7 and our Q3 key financials.

I'd like to start by setting the scene around our guidance and how I will explain the results throughout my presentation to ensure clarity. Firstly, a guidance is a commitment from us, and we won't easily revise it. Secondly, it is important to us that we are measured on a like-for-like basis, meaning guidance-relevant KPI's should be comparable and consistent with the scope of our original guidance. The figures on this slide and also how I will focus throughout my presentation are adjusted for acquisition-related expenses and expenditures for the further development of Fresenius Kabi's biosimilars business. And the growth rates are, as usual, on a constant currency basis.

So let's turn to the numbers themselves. We delivered sales growth of 15% in Q3, at the lower end of our guidance range, mainly due to the well-anticipated softer summer quarter at Quirónsalud. EBIT growth was 11%, so well below sales growth. But the light top line of Quirónsalud impacted the EBIT line even more significantly, mainly due to operating leverage. I will explain that in more detail in the Helios section. Furthermore, some

nonrecurring costs at FMC, mainly due to those natural disaster costs in the US that Stephan mentioned, and some transaction FX headwinds did not help either. More details here from Rice and Mike later on. So, net income growth at 14% in Q3. As anticipated, Quirónsalud's soft summer quarter is evident here, and we see some nonrecurring costs at Fresenius Medical Care. Year-to-date, we're at 20% growth, so right in the middle of our guidance range. So we are very confident in expecting a solid fourth quarter. Why is that? Quirónsalud is expected to return to a normalized quarterly run rate around the level of the first half of this year, and Kabi had a soft fourth quarter in 2016 due to the plant shutdowns we did at that time. I will, of course, elaborate on the segment outlook and the group guidance in more detail later.

So, let's move now to take a look at the group's P&L. And you see that on Slide number 8. As before, in addition to the reported figures, we are showing EBIT and net income on an adjusted basis to be consistent with the scope of our original guidance. Growth rates, again, are shown at constant currency for ease of comparison to that guidance.

So, sales growth, as I said, 15% in Q3 and 16% in the first nine months, again, right in the middle of that guidance range. EBIT growth was 15% year-to-date. And excluding the R&D expenses for Kabi's biosimilars business, we're looking at a strong 16%, despite that soft Q3 from Quirónsalud and only the eight months of consolidation that we have there.

Net interest was €158 million in the third quarter. That's up €16 million year-on-year. That's primarily due to the Quirónsalud financing. Sequentially for the quarter, it was down by €11 million, mainly because of the continued euro strength and repayment of a Fresenius Medical Care bond which we made with available liquidity. Q3 here should be a pretty good proxy for Q4. So based on current exchange rates, we now aim for the lower end of our guidance range, which was €650 million to €670 million. However, the effect on the group's net income at constant currency will be minor for the full year.

The group tax rate was at 27.4% in Q3. This sequentially lower tax rate is mainly due to a reevaluation of estimates of future tax payments at Fresenius Medical Care. For the full year, we are now aiming for the lower half of our guidance range of 28% to 29%.

So adjusted earnings growth was 14% in Q3. That took us to 20% in the first three quarters, again, exactly the midpoint of our guidance range.

If we move to Page 9, we can see the momentum of our four business segments. Again, for ease of comparison to our individual outlook ranges, sales growth rates on the left are organic, and EBIT growth on the right is at constant currency and, again, before those acquisition-related expenses and expenditures for the further development of Kabi's biosimilars business.

So let's start with Kabi, 7% top-line growth, in line with the first half and a meaningful step up to 11% EBIT growth, even more impressive given a rather tough prior-year comp. Helios was at 4% sales growth, in line with our expectations. EBIT growth of a massive 33% obviously reflects the first-time consolidation of Quirónsalud. Excluding this acquisition, EBIT growth in the first nine months was still a solid 8%. As usual, we see fluctuations in Vamed's quarterly sales and EBIT growth, triggered by its lumpy project business and somewhat smaller absolute numbers. The record order book and the backend-loaded nature of the business gives us a lot of confidence for the fourth quarter.

Before taking a detailed look at Kabi, Helios, and Vamed, a brief word on Fresenius Medical Care. As already mentioned, the natural disaster costs in the US weighed on the Q3 financial

results. Some adverse currency transaction effects were not helpful either. Underlying, however, FMC is on track, and more details will come later in their call.

So let's go now to Page number 10 and a review of Fresenius Kabi's organic sales growth by region. In a nutshell, organic growth for Europe and the emerging markets was broadly in line with our expectations, whilst North America performed a notch better. We've seen 7% organic growth in North America in Q3, which is particularly pleasing given a tough comparison quarter in the third quarter of last year. The previous-year result was boosted by the daptomycin launch and our wholesale partners stocking their initial inventory levels.

So a brief update here on the IV drug shortages: at the end of Q3, 20 Kabi IV drugs were designated in shortage, up from 17 at the end of Q2, so slightly increasing, mainly triggered by quality issues at some competitors. Since our model and outlook assumed a gradual easing of drug shortages, this was a small tailwind for us. We are, however, well aware of the new FDA Commissioner's focus on ensuring strong generic competition. Accordingly, our model still assumes a further gradual easing of drug shortages going forward.

With regard to product filings, our pipeline is fuller than ever. 57 applications are pending at the FDA. We've seen five ANDA or NDA approvals in 2017 so far. And Q3 was an active quarter when it comes to drug launches. We entered the market with two new products, bringing us to six so far this year. Relative to our unchanged 10-plus guidance for the full year, we have indicated that this year's pipeline is rather backend loaded, which bodes well for the rest of this year and, of course, 2018.

So given the 6% organic growth year-to-date and considering our expectations on shortages and product launches, we feel comfortable to confirm our outlook of mid-single-digit organic sales growth for the full year. One word with regards to Q4: the planned shutdowns at our Grand Island and Melrose Park facilities in Q4 of last year had mostly a bottom-line impact, so a smaller year-on-year effect on sales here.

Moving to Europe, we've seen healthy organic growth of 4% with a broad-based positive development in almost all of our product segments. With 5% organic growth year-to-date, we feel comfortable to confirm our low- to mid-single-digit outlook. Indeed, we are still aiming towards the upper end of that range.

If we now look at Slide 11 and the emerging markets, here, we are pleased to report yet again a strong performance in China and in Asia-Pacific excluding China. China grew 12% organically. Progress on the introduction of the new tender rules does remain slow. 21 out of 31 provinces have concluded a tender process so far. We now expect a fairly comprehensive implementation by early next year. However, and that's the key takeaway here, our expectation with regard to price and volume effects has not changed. We still expect price erosion in the low- to mid-single digits as a full-year effect for 2017. At the same time, we continue to expect double-digit volume growth, which translates into sustainable sales growth in this key market.

Asia-Pacific excluding China shows accelerated organic growth also at 12%. We continue to see an overall good business sentiment, albeit with continued pricing pressure, especially through a further introduction of procurement tender processes.

And also, yet another strong quarter in Latin America and Africa, with 8% organic sales growth.

So, for the emerging markets as a whole, 10% organic growth in Q3 and for the first nine months gives us comfort to confirm our outlook of at least 10% organic sales growth for the full year.

Let's turn to Slide 12 and look at Kabi's EBIT. So total adjusted EBIT, at the bottom of the page, came in at €297 million, an excellent increase of 11% at constant currency, as I mentioned before. And that is despite the natural disasters in North America that we saw in the third quarter. I can only reiterate what Stephan just said, an excellent job by Kabi, and thanks to all of their employees for the great commitment and dedication.

Let's take a more detailed look now at the regions. So starting at the top, North America, in Q3, we had a solid 3% year-on-year growth, pleasing given a strong prior-year comparison. As I already said, the prior-year quarter was positively influenced by the daptomycin launch. As mentioned in the Q2 earnings call, we do expect a stronger Q4, given our backend loaded product launch schedule this year and last year's shutdowns at our Grand Island and Melrose Park facilities. So on the back of these factors and assumptions and the 4% growth year-to-date, we confirm our low to mid-single-digit EBIT growth expectations for Kabi North America, and we now aim to get more towards the upper end of that range.

5% growth in Europe in Q3. The sequential acceleration was mainly triggered by product mix effects. Despite the 3% growth in the first three quarters, we still feel comfortable to confirm our mid to high single-digit growth expectation for the full year, albeit still rather mid than high single-digits.

The emerging markets, with solid 11% EBIT growth in Q3, nice contributions here not only from China, but also from LatAm and Africa.

With regards to the remainder of the year, as Stephan explained on our Q2 call, that we chose to invest into an expansion of our sales force in Asia excluding China and that that will impact the fourth quarter. Overall, we are pleased by the robustness of Kabi's emerging markets business, though. Given 13% EBIT growth year-to-date, we're confident we'll also be in the double digits for the full year.

With €100 million corporate and R&D costs that are 4% higher than in the prior-year quarter, here, if we adjust for the biosimilars expenses, we are in line with our unchanged expectation to be broadly flat year-on-year.

So let's turn to Fresenius Helios on Slide 13. Bottom left, 4% organic sales growth at Helios Kliniken in Germany in Q3 is in line with our expectations. The focus of Helios management is and remains on top-line growth. This is nicely reflected in the 4% organic sales growth in the first nine months of 2017.

Top left, the 2.97% price increase for hospital services in 2018 underpins the favorable reimbursement environment in Germany. As a reminder regarding the DRG increase, the final price increase trickling through to us will be lower, as it's subject to negotiations at the state level and surplus treatments continue to be reimbursed at a discount.

In September, Helios launched its new brand image. The company has grown quickly and strongly over the past two decades. It added new sites, new offers, and entered new markets. This is now also reflected in the modern and more emotional brand appearance, two facing hands forming an H. We are convinced that this will strengthen the Helios brand, foster cross-selling opportunities, and help us to attract even more patients.

So over to Quirónsalud, which showed the well-anticipated light summer quarter. As flagged by Stephan on the Q2 call, the typical summer break in Spain is clearly visible in our Q3 sales and earnings and also at the group level. Let me remind you that most of the Spanish patients as well as doctors and nurses are on holiday and visiting their families during the summer months. As the vast majority of medical interventions are elective or planned, it is rather emergency cases that are treated in hospitals during those hot summer months.

However, and that is the important message on the right side of this slide, the year-on-year growth rates remain solid, 10% sales growth year-to-date, roughly split half-half between organic and inorganic growth. Driven by general operating leverage as well as by synergies from the merger between IDCsalud and Quirón, EBIT growth still nicely exceeds sales growth.

Onto Slide 14 and an overview of the EBIT development at Fresenius Helios. Total Q3 EBIT came in at €232 million, up 33% year-over-year. Margin was down to 10.7%, obviously impacted by that summer slowdown at Quirónsalud. Q3 EBIT growth for Helios Germany was strong with 9% and 8% for the first three quarters, bringing the total EBIT in line with our outlook. We saw €42 million contribution from Quirónsalud in Q3, obviously, as discussed, a result of the pronounced summer slowdown. Since emergency cases are, of course, still treated and hospitals are not completely shut down, the fix costs are more or less unchanged during the summer months. Accordingly, driven by these operating leverage effects, the top-line dip impacts the EBIT line relatively more significantly. And with Quirónsalud returning in Q4 to the normalized quarterly run rate of the first half of this year, we expect to be towards the upper end of Quirónsalud's EBIT outlook range of €300 million to €320 million.

So over to Fresenius Vamed on Slide 15, here, we see the flattish Q3 sales growth is a reflection of the typical fluctuations of Vamed's rather lumpy project business. The service business, however, continues to perform well with 9% organic growth.

We are looking with considerable optimism at the rest of the year. Firstly, the consistently strong and regionally diverse order intake that we've seen in Q3, for example, in Germany, Zambia, and Equatorial Guinea, this has brought the order book to a new record level, a good indicator for future growth of the project business, of course. And secondly, of course, Q4 is traditionally the strongest quarter for Vamed.

Vamed has a unique value chain, integrating its projects with its service business. So it's all about managing integrated project lifecycles and being an attractive partner for our customers. The best way to do that is to strengthen the existing value proposition by adding high-end services. In that respect, Vamed has recently completed attractive acquisitions, a company offering sterilization services to strengthen the services business here in Germany, and the acquisition of a rehab clinic in Grisons, making Vamed the number two provider of rehabilitation services in Switzerland.

And onto Slide 16 and yet again a very solid cash flow quarter, with a massive year-on-year growth rate of 21% and group operating cash flow of €1.138 billion, bottom left, we had a last 12 months cash flow margin of 12.5%. As usual, however, there is some seasonality in our cash flow development. So please don't use Q3 as a proxy for Q4.

We've seen sequential improvements for Kabi, Helios, and for Vamed. Kabi posted a Q3 cash flow of €245 million, top left. A strong Q3 margin of 15.7% took the last 12 months cash flow margin to 15.6%, very strong considering that the Q3 figure includes a cash prepayment of €45 million for the biosimilars business. Excluding this effect, the Q3

operating cash flow margin is a very pleasing with 18.6%. Helios saw a sequential increase of €136 million and a Q3 margin of 11.8%, taking the last 12 months margin to 9.5%.

If you deduct the group CapEx of 5%, which you see in the middle column, you'll arrive at a free cash flow last 12 months margin, bottom right, of 7.5%. That's close to a Fresenius all-time high.

With that, let's turn to Slide 17 for the 2017 outlook of the business segments. So firstly, Kabi's organic growth. On the back of a good first three quarters, we confirm our outlook range of 5% to 7% and are now even targeting the upper end of that range. That's the blend of the regional contributions I mentioned, low to mid-single digits for Europe, more towards upper half of that range, at least 10% growth for emerging markets, coupled with the mid-single-digit growth for North America.

On to EBIT, where we also confirm our outlook range of 6% to 8%. Indeed, also here, we are aiming towards the upper end of the range. Given firstly a slightly improved outlook for North America, where we are now aiming rather mid than the low single-digit EBIT growth; secondly, mid to high single-digit growth in Europe, albeit more towards the lower end of that range; and finally, the emerging markets, where we clearly expect double-digit growth; and finally, of course, our expectation of broadly flat corporate and R&D costs.

For Helios, in terms of organic sales growth, 4% growth year-to-date, right in the middle of the 3% to 5% outlook range. Here, we feel confident to confirm that range for the full year. For EBIT, we are confident in our outlook range of €1.02 billion to €1.07 billion for the full year. For Helios Germany, we are also confident to confirm the outlook range of €720 million to €750 million, while we expect to get towards the upper end of Quirónsalud's outlook range of €300 million to €320 million.

And then Vamed. Vamed's large and well-diversified order book gives us confidence for the traditional strong fourth quarter. And therefore, we confirm the outlook range of 5% to 10% for both sales and EBIT growth.

So then, if we look at all of that together for the group on Slide number 18, we see, with 16% sales growth year-to-date, we confirm our guidance range of 15% to 17% at constant currency. As to the currency translation effect here, if current exchange rates prevailed until the end of the year, we would see a headwind of 1 to 2 percentage points, mainly from the US dollar.

Then at net income level, with 20% net income growth in the first nine months, we fully confirm our guidance range of 19% to 21% in constant currency. Also here, as of today, we expect a 1 to 2 percentage point currency headwind at current prevailing currency rates.

So with that, many thanks for your attention today. And Stephan and I are now very happy to take your questions.

Q&A

Operator: And the first question is from Tom Jones of Berenberg. Please go ahead.

Tom Jones: Good afternoon and thank you for taking my questions. Perhaps, surprisingly, I don't have anything to ask you about Akorn. But what I did want to ask was about two other parts of Kabi. The first was the product business. I know it's a small bit of Kabi, but it seems -- the revenue growth rates in the products business seem to be increasingly volatile of late. So some guidance on how we should think about that business going forward would be helpful.

And then the second question was just around the margins in the European part of the Kabi business. If I look broadly across Kabi, the North American margin has been stable since you bought APP in the high 30s. The Asia-Pac margin has increased a little bit. But the European margin has been steadily drifting downwards.

I know you got wound down from the compounding operations you used to do. But is there anything else going on within Kabi with regards to the European business that should give us any cause for concern? And perhaps, where, very broadly, should we think about margins in the European business from here onwards, stable, or is there scope for some improvement there?

Stephan Sturm: Tom, it's Stephan. And thank you for your questions. For the avoidance of doubt, when you're talking about the products business, then you mean the medical devices in contrast to the liquids.

Tom Jones: Indeed. Sorry, my mistake.

Stephan Sturm: Not a problem. And look, this is the smallest of the four businesses, and I will agree with you that we continue to encounter some volatility there. This is to a very large degree a business that is driven by tenders and the timing of these. And you may recall that, as part of the Q2 call, I was already alluding to the fact that a large tender that we had believed we had won is at least partially slipping into 2018 and that that is somewhat weighing on our performance this year.

You will also recall that, as far as the blood bag business is concerned, that this is already a highly consolidated area of the overall market where, again, very few remaining suppliers meet typically on the one -- only one customer, one major customer at least, in any market. So there is the scope of some pretty substantial fluctuations.

All in all, I would like to assure you that there is nothing untoward going on. And all in all, I would also like to assure you that the medical devices will remain a very key contributor to the overall Kabi portfolio.

Do remember, and now it's me proactively making a reference to Akorn. Do remember that slide that we presented to you at the time when we announced the Akorn acquisition, when we were saying that we will try our utmost to further complement, maybe even complete our product offering and that that also includes medical devices. So the infusion pump is just one example where we're trying to increase medical device sales in particular in North America. Hope that's helpful.

Tom Jones: It is very much. Thank you.

Stephan Sturm: To your second question, now most of you will know that I am not the greatest fan of margins because, in contrast to a business where you have a stable business mix, product mix, here, with changing and I have to say hopefully changing the business mix in most of our regions, it really doesn't tell you anything about your competitive position and how you're really getting on.

Margin fluctuations, as far as Kabi are concerned, are by and large driven by ongoing changes in our product mix, where most of the time, we're trying to make headway in those product areas that come at an EBIT margin that is below the average. Most notably, you know that we had that discussion in North America where we're trying to diversify away from injectable generics, which obviously have the highest EBIT margin in the group as a whole.

As far as Europe is concerned specifically, also here, I'd like to assure you that nothing untoward is going on relative to some time ago. I want to point you to two effects. One is that you -- one you mentioned yourself with the compounding activity, but secondly, also that we very consciously reduced our business on the European fringes because we tended to be unhappy with the cash flow development, and therefore, we chose rather to forgo a bit of extra EBIT, but to be paid. And therefore, with a relatively higher weight of inner core European business, i.e. old Europe, that also had a bit of an effect on the margin.

Again, I'd much rather you focus on the absolute EBIT development. That is why we're also providing our guidance in EBIT growth. But as far as the margin is concerned, by and large in particular in Europe, where we're already humming on all cylinders as far as Kabi's product lines are concerned, I would not expect any material EBIT margin change going forward.

Tom Jones: Okay. So maybe I could just kind of follow that up and ask it the way you asked then. If I look at Kabi's European EBIT performance, I know currency's been a factor, but it's basically been stuck at 350, give or take, since 2013. Are we kind of at the end of that flat period now, and we should expect some more meaningful growth out of Kabi's European EBIT, or do we have to continue through this process for a little bit longer?

Stephan Sturm: You heard us today, in particular Rachel, talk about that mid to high single-digit growth, albeit this year also because of that medical devices tender, it'll be rather the mid-single digits, but I have to say a mid-single-digit EBIT growth from my perspective is nothing to sneeze at.

Tom Jones: Perfect. That's very clear.

Stephan Sturm: Thank you.

Operator: The next question comes from the line of Lisa Clive of Bernstein. Please go ahead.

Lisa Clive: Hi. I do have a question about Akorn. If we think about the disappointment in last quarter and this quarter and you've attributed it to obviously competition for their top products, supply disruptions, slower FDA approvals. When you do close the deal, do you have a fairly firm timeline of how quickly you can turn these issues around? Obviously, it's hard to tell until you fully owned the asset. But particularly on the supply disruptions, this seems to be one of the things that you seem to be able to get at, given your size and scale. And just trying to understand sort of how quickly we could see a recovery in this business as 2018 rolls out.

Stephan Sturm: Thank you, Lisa. And look, you've given the answer yourself. From the outside in, it is difficult to give you a precise answer. But when you look back to what I said as part of my prepared remarks, first and foremost, this is strategically about expanding our product offering vis-à-vis the GPOs. So most importantly, what we're trying to do is to show them one face and to have Fresenius Kabi and Akorn work very closely together.

There, we already mentioned our progress in the pre-closing integration is already quite considerable. And I would expect that, say, come Q3 next year, we will have accomplished that. And that will already go quite some way vis-à-vis those large customers that know us, value us, really want to do business with us. You -- I have talked about the awards that we have received over the years. And therefore, I'm just taking comfort that we have a very close trusted relationship with these customers.

As far as supply disruptions are concerned, I want to point you back to the announcement call in April and also to my commentary in Q2. Yes, right out of our due diligence, we had established that there's probably going to be a need to debottleneck Akorn and that we have set aside in our own plans a bit of capital to do that. I would say that is probably going to take a bit longer, end '18 or come approach '19. But with the larger portfolio, I think we also have a larger scope to go about these inabilities. And therefore, I'm hopeful that we can manage them something that is quite separate for more CapEx already over the course of 2018.

And now finally, as far as the delayed launches are concerned, we're not magicians, but between Akorn's and our own R&D groups, I do believe that we will just put together more knowledge, more expertise, and also more feet on the ground to work with the FDA to accelerate matters. But don't expect something right in the first one or two quarters after closing, but from then, I'd be cautiously optimistic that we can improve matters.

Lisa Clive: Okay. And one follow-up question. You'd mentioned very specifically in your presentation not to make a read-across on the sort of pressure across generics more broadly. And I fully understand in terms of IV generics the very large barriers to entry and the amount of capital that is required to manufacture these products at a high standard.

But what about ophthalmics and topicals that, clearly, those are new portfolio areas that you'll be acquiring with Akorn? There has been some pricing pressure in segments of those. Should we think of those products as sort of as well defended as IV generics, or do they perhaps have some more in common with pill-based generics? And thus, is that something that you may deemphasize in your product -- in the pipeline just given what may be tougher longer-term outlook for those segments?

Stephan Sturm: Lisa, I agree, obviously, this is a new area that we aren't present in as yet. And as the common denominator why we felt -- why were so intrigued by it was that this is just not oral solids, but that these are ointments, and in particular, the eye drops are also sterile liquids and, i.e., from our perspective, much more difficult to manufacture. That is something that we continue to be interested in. Don't expect us to get into the solids space.

Now given that these are not injectables, they may be a bit more vulnerable than the injectable drugs that we're currently active in. But I'd rather see them as far as price pressure is concerned in closer proximity to our injectables than to the oral solids. That is also what our own mid to long-term business plan foresees.

Lisa Clive: Okay. Thanks very much.

Stephan Sturm: Thanks, Lisa.

Operator: The next question comes from the line of Gunnar Romer of Deutsche Bank. Please go ahead.

Gunnar Romer: Good afternoon, everyone. Gunnar Romer, Deutsche Bank. Thanks for taking my questions. The first two, again, on Akorn, if you can quickly remind us regarding your current 2018 expectation what you have included of the 100 million in synergies that you're targeting medium term, and also, if you can give us a rough sense of what you've included in terms of contribution from new product launches.

And in case you're not willing to comment on this, could you provide us an update on the current Akorn pipeline, where it stands relative to the 85 number that you mentioned in April and following the launches since then? I have one follow up, but I let you answer those questions first. Thank you.

Stephan Sturm: Thank you, Gunnar, but you're putting me in a difficult position, and you know that. And as far as reminding you is concerned, I'm sorry, I cannot remind you of anything because we never talked about that. And you said it yourself. It is a medium-term synergy potential. So and you also just heard me answering Lisa's question. So I would work on the assumption that the synergies that went into the 2018 expectation are of a more limited potential.

You have assumed it. I will not break down what the new product launches are meant to deliver. On the other hand, you should draw it from our commentary around the announcement of the transaction where we were just highlighting the pipeline that Akorn is looking at and where we're also saying that we do expect price pressure on some of the legacy compounds that are on the market, ephedrine amongst others, that yes, our assumption would be that there is going to be a meaningful contribution from new product launches also going forward.

You just heard in my commentary, my prepared remarks, that I was saying that individual drug approvals, launches in this part of the industry can make a major difference and that that is one of the reasons why I'm not ready to revise guidance, at least not for now.

Gunnar, the company is making progress as far as approvals and launches are concerned. You will have heard as part of my prepared remarks that, year-to-date, Akorn is looking at 24 ANDA approvals. Not all of these drugs have been launched. But this is about a full-service, a full-range offering. And as we discussed before, I would like to see to it that Fresenius Kabi, if they are not actively marketing all drugs, then at least they have approvals for it, and they can market to it in case something unforeseen happens in the marketplace. Sorry that I can't be more elaborate on this, but this is as far as I can go.

Gunnar Romer: Appreciate that. And then my follow up would be on IV generics pricing again. You're commenting that you're seeing low single-digit price erosion in the US, and you don't expect a change for the fourth quarter. Just curious whether that statement also holds true beyond '17 or whether you see anything coming down the line in your models that is more than the low single digits. Thanks.

Stephan Sturm: Gunnar, we've had price erosion from the very, very low single digits to say the mid-single digits over the past years, ever since we got into that business. And that is my best assumption also for now. We're seeing a consolidation rather among the suppliers. I believe we have seen the end stage of consolidation among the customers, among the GPOs. This situation where we are facing three very powerful GPOs has been around now for

a while. I would -- I can't think of any catalyst for an all-of-a-sudden game changer coming out of this constellation.

And therefore, from my perspective, yes, that is a very valid assumption for the medium -- at least for the medium term. Bear with us, as usual, until February next year. By then, we will have gathered additional information, and also, on this point, do expect some more accurate and more reliable information for fiscal '18.

Gunnar Romer: Appreciate that. Thank you.

Stephan Sturm: Thanks.

Operator: The next question comes from the line of Julien Dormois of Exane. Please go ahead.

Julien Dormois: Hello, good afternoon, everyone. Thanks for taking my questions. I have two. One is actually to give you a break on commenting on Kabi. It's actually related to Helios. I'm interested in your comments regarding the margin trajectory that you have for the Helios business in Germany because, once again, you have posted a pretty nice margin improvement. And I can remember of the old days of when you had a long-term guidance of bringing that portfolio of hospitals to an EBIT margin of between 12% and 15%. So we are now at something like 12% year-to-date for 2017. How do you see that target going forward? Are you now looking for the upper end of that 12% to 15% maybe?

And the second question might be very short. But it's just that there was a press release from the FDA a couple of days ago highlighting that they are now recognizing I think eight European drug regulatory authorities as capable of conducting inspections of manufacturing facilities in Europe. So I was just wondering whether that could translate into opportunities for you in order maybe to simplify the export of drugs from Europe or maybe just to decrease the cost of regulatory cost basically.

Stephan Sturm: Thank you, Julien. As far as your Helios question is concerned, yes, you're right. We were saying, for any Helios hospital on a standalone basis, we would be looking at a target EBIT margin somewhere between 12% and 15%.

And I was also clear over the years that there was quite some fluctuation across the Helios portfolio and that we already, at that time and also now, have individual hospitals that are above that, but that we also have some hospitals that are, at least for now, below that.

I'm very happy with Helios as a whole, so including the overhead cost that Helios has, to have arrived in that range. And I would try our utmost to keep it there. I want to caution your optimism that, for Helios as a whole, we can get towards the upper end. At the very least, this is going to be a little while.

What I've said over the last 12 months or so is that, yes, there is a bit of operating leverage in our German hospital business. And therefore, when we continue to enjoy some pretty solid price increases leading to top-line growth in combination with a bit of patient growth, then we should expect a bit of EBIT growth above that organic revenue growth. But that differential that we've seen in the past that was -- that is going to narrow. The outsized EBIT growth rates in the past, they were largely due to restructurings and, in particular, the integration of the Rhön hospitals, which on average arrived in our portfolio at an EBIT margin of 8% and which we have improved.

I don't want to pour too much water into the wine. So yes, by all means, my expectation would be that we can drive EBIT a bit faster than the top line, i.e. leading to gradual margin increases. But from here on, the increments will be harder to accomplish and therefore will also be smaller.

And, Julien, I'm sorry. Over my elaborate speech, I forgot your second question.

Julien Dormois: It actually relates to a press release that was put out by the FDA on Tuesday about giving the possibility to eight European authorities to conduct inspections of manufacturing facilities.

Stephan Sturm: And look, we -- it is something that we have also picked up that, for now, we are not paying that much attention to because, frankly, as you heard, we're much rather trying to expand our US manufacturing footprint. You know, we talked about that, that from our perspective, the best strategy to capture the US market potential is to manufacture in the US for the US. Has nothing to do with protectionism, but just with flexibility, proximity to the regulator, and also a very friendly, automation-friendly environment.

And in case of unforeseen drug shortages, take the propofol crisis a few years ago, then we can also rely on the FDA being flexible for the benefit of the US patient and allowing us to ship product from our European manufacturing sites. But the default from our perspective really should be that we manufacture out of Melrose Park, out of Grand Island, out of our [Rosen] facility for the US market.

Julien Dormois: Okay. Makes sense. Thank you very much.

Stephan Sturm: Thank you, Julien.

Operator: And the last question comes from the line of Alex Gibson of Morgan Stanley. Please go ahead.

Alex Gibson: Hi. Thank you for taking the questions. Mine were targeted more at Akorn again. So I just wanted to dig deeper into the ANDA approvals that have happened year-to-date and the impact you see that they're going to have in Q4 and next year. They seem to, as you kindly mentioned, have 26 year-to-date. I believe, in one of their initial press releases, they were anticipating maybe upwards of 30 to 40 over the next couple of years. Do you still anticipate those coming through next year? And I'll ask my second one after that.

Stephan Sturm: Thank you for your question. Year-to-date, it's 24. That's our understanding. In any case, it's a meaningful number. But I also mentioned that not all of these products have been launched, whilst they have been approved. And that is to some degree also driven by the fact that the approvals were delayed, which is why we're missing some revenue potential.

Do we see further scope for approvals and launches? Yes, absolutely. You also heard me as part of my prepared remarks saying that we have reviewed these and that we rather believe that the potential, by and large, is delayed rather than diminished. And you also heard me answering Lisa's question that, yes, we do believe -- or we also -- we do believe that new -- no, that was Gunnar's question actually -- that we do believe that new -- the revenues from new drug approvals and launches will play a meaningful role in revenue generation next year.

Alex Gibson: Okay. Sure. And because the performance year-to-date is down, even excluding ephedrine is down in the likes of around 20%, is this the magnitude that you expected from the delay of approvals for the drugs that have come through, or is it just a materially worse market because, otherwise, you say next year's challenging, but is it possible to make up another 20% of lost revenues this year by those new products?

Stephan Sturm: I think it is a combination. And as I said in connection with the -- with our commentary on Q2, in a sense, the -- what's happening to Akorn in Q2 and Q3 and the financial performance can even be viewed as a confirmation of our strategic rationale, our strategic hypothesis of what is going to happen to smaller players in that part of the business and that, therefore, consolidation and us becoming more -- becoming broader and more powerful ourselves is the right strategy there. And therefore, I would expect, as I said in response to one of the questions, that us joining forces will mitigate some of the headwinds that Akorn is facing right now.

Alex Gibson: Okay. Thank you.

Stephan Sturm: Ladies and gentlemen, thank you, all, for participating in our earnings call today. Your interest and your support of Fresenius is much appreciated. Before we actually come to a close, I wanted to give you a quick housekeeping item at the end. We're going to host a Capital Markets Day. And that's going to be focused on our hospital business. And it's going to take place next summer. We'll cover both Helios and Quirónsalud.

But before you get carried away, it'll be in Germany, not in Mallorca. We'll circulate more details and a save-the-date note in the next weeks. But Rachel, Markus, and I, we're very much looking forward to meeting many of you there in person and, obviously, until then, at conferences or on the road.

All the best, and bye, bye.

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