FRESENIUS

# Transcript
# Conference Call Q3 2022 results

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

Berenberg, **Thomas M. Jones**
Citi, **Veronika Dubajova**
Deutsche Bank, **Falko Friedrichs**
Jefferies**, James Vane-Tempest**
J.P. Morgan Cazenove, **David Adlington**
Morgan Stanley, **Robert Davies**
Redburn, **Ed Ridley-Day**

## PRESENTATION

Markus Georgi: Thank you, Stuart. Good morning, good afternoon, depending on your time zone. Thanks, everybody, for joining us today on our Q3 earnings call. With me on the call today are Michael Sen, Chief Executive Officer of Fresenius Group, and Sara Hennicken, Chief Financial Officer of Fresenius Group.

Yesterday, late afternoon, we have published our Q3 figures and have adjusted our forecast for fiscal ’22. Before kicking off, I would like to start this call by drawing your attention to the cautionary language that is included in our safe harbor statement on **Page 2** of today’s presentation. And without any further ado, I hand it over to you, Michael. The floor is yours.

Michael Sen: Yes, thank you, Markus. Good afternoon, everyone. This is Michael Sen. There has been a lot happening, and there is a lot to do. I thank you for joining us today on the call. Sara and I will review the third quarter and take questions, but I want to start by going over recent news.

By now, you have all seen the announcement from Fresenius Medical Care of their lowered forecasts for 2022. And obviously, FMC’s news impacts the Fresenius Group’s performance and expectations.

In addition to the FMC effect, we, too, are operating in very uncertain markets, where patient and customer decision making has been disrupted. As a result, Fresenius Group forecasts have to be adjusted.

While we expect revenues for 2022 to grow, tough markets will continue. Year-to-date, our net income has declined by 8% against prior year. We now expect net income for 2022 to be down around 10% year on year. This is very disappointing, a disappointing announcement, particularly as it is not the first time we have lowered our guidance. I took the CEO position because I know, with our people and with our products, we can do better. And currently, we are far from realizing our potential.

This news only highlights what I've been saying. We need to hit reset. We are reviewing every business top to bottom and at fast pace. This will result in more rigor. And while this happens, we have to reduce costs to deal with a tough environment.

With that, let's discuss the third quarter, after which I will come back with my thoughts and priorities after 30 days in the job and our path to create #FutureFresenius.

Let's get right to the point. Two things stick out from the quarter. As is clear, the intensified macro headwinds impacted our businesses. But beyond this and more important is the need for what I have said a reset is needed also in terms of operating performance.

Top line came in at €10.5 billion, i.e., revenue was growing reasonably well with 5% year over year organically. But earnings, EBIT was €949 million, meaning our margin contracted by 210 basis points. Going all the way to the bottom line, the lack of earnings conversion also dropped through, with net income off by 19% versus Q3 last year.

And yes, material cost inflation, wage inflation, labor shortages, and supply chain disruptions all weighed on our profitability. FMC and Vamed were particularly affected. Increased corporate costs, primarily by lower absorption in our services, higher interest expenses, and a higher tax rate, hurt us.

So as a prelude, going into next year, we will have to intensify actions on driving out costs and increasing structural productivity in all of our segments with increased rigor. This is the self-help I see.

Considering the current economic environment, interest rate moves, and geopolitical developments, these will impact our individual markets. We can't expect much short-term improvement to patients behavior or customer decision making. We expect more volatility and that companies along the entire value chain as well as individuals will have to deal with more uncertainty.

Onto Kabi, all in all, Kabi had a decent quarter. Revenues exceeded €2 billion for the first time. Year on year, we were up 3%. And that is against some tough comps in 2021. Happy to see that all three growth vectors laid out in our Vision 2026 are contributing with incremental growth. So transforming Kabi strategically and in terms of operational rigor according to Vision 2026 is moving into the right direction.

Going forward, our job is to help the market understand better the makeup and dynamics of our Kabi businesses. Geographically, top-line growth is driven by Europe and rest of world, outweighing ongoing pressures in North America. The EBIT margin, excluding mAbxience and Ivenix, sequentially held up well despite the headwinds from cost increases we see in our industrial value chain. In a nutshell, I'd call it a decent quarter with healthy revenue growth and stable margin.

That brings me to **Slide 7**. Let me shed some more light on Kabi. This is important as we move forward. As a reminder, we launched Vision 2026 in October last year to enhance

our presence, sustain relevance in the coming decade, and to spur growth, both in terms of top line and ultimately margin expansion. Our 3 + 1 strategy identifies clear growth vectors which are underpinned by structural growth drivers within the healthcare industry.

Let's go to some of the highlights. Biopharma: With mAbxience, we significantly strengthened our franchise but also changed the business makeup. This is a real business now. We're moving rapidly, launching Peg in the first European market, delighted to have received US approval, can tell you the team is energized to capture the growing opportunities.

Toci is on a good path. Excited to announce that we reached a settlement with Roche and its affiliates Genentech and Chugai. On top, local commercialization of IDACIO in Brazil has started, which will drive this year's topline.

mAbxience, great to have them since August. They are progressing nicely. mAbxience significantly enhances our profile in biosimilars. It's delivering benefits of scale, portfolio, and pipeline diversification as well as vertical integration. Execution so far is on track.

Onto MedTech: Ivenix. Remember this is really at what I call early innings. The logic was about industrializing a tech-focused IV infusion system offering, proven technology with clear customer benefits. Integration has started, especially on the backend in terms of manufacturing and taking over procurement to then have the right leverage on the cost position going forward. They're gaining traction in the market, with high visibility and growing mindshare.

A highlight on nutrition, Fresenius Kabi has become the leading provider of clinical nutrition lipids in the United States with a market share north of 60%.

Onto **Slide 8**, Vision 2026 also sets a clear focus on delivering structural cost savings. That includes a rigorous assessment of Kabi's operations. Based on our assessment, we did decide to divest noncore assets. Where we see businesses that are not contributing to our performance, we will exit. We call it cutting the tail. This is a continuing effort, no let up. You'll hear more in due course.

In terms of cost out, we're ahead of schedule. Year to date, we already delivered 50% beyond the pro rata savings target in fiscal '22. This is what I mean by moving fast and tapping into self-help.

Quarter 3 for Helios: I'd say yet another solid quarter. Revenues came in for the segment at €2.8 billion with strong organic sales growth of 6%. Earnings as in EBIT at €222 million, resulting in a margin of 8%, slight contraction yet probably peer leading in the current environment, and in line with the seasonality effects. As you all know, Q3 is traditionally a softer quarter due to the pronounced summer slowdown in Spain.

At Helios Germany, admissions are gradually improving, even though they are still below pre-COVID levels. Sales growth is further supported by a favorable case mix, growing by 5%. EBIT grew even with COVID-driven higher absenteeism rate and subsequently a higher proportion of temp workers. And all in all, this is a clear result of management taking actions decisively, also focusing on cost and on cost drivers.

At Quirónsalud, we see ongoing healthy activity levels translating into solid organic growth year over year with 8% and a good EBIT development. Margin basically flattish against the backdrop of higher energy costs, and also here, a clear reflection of decisive and active management actions to drive both clinical quality and financial results.

The lower volumes at the fertility business were partially driven by a delay of treatments due to the uncertainty triggered by the macroeconomic environment. And the prior-year quarter was a tough comp, inflated by a positive special item.

Over to Vamed, as much as we appreciate the strong revenue number coming in at €570 million, i.e., growing by 10% organically year over year, in essence solely driven by the project business, the drop through to operating earnings is clearly below expectations.

The consequences of macro and COVID headwinds have taken their toll on operating earnings. Number of effects here, delayed customer decision making, hence projects slippage and higher input cost with then the respective ramification on operating earnings and accounting. And even though we traditionally expect a strong Q4, the impacts on the cost side and the expected uncertainty on the customer decision making will remain in Q4. And taking this into account and given the weak year-to-date earnings performance, we've adjusted our EBIT expectations for the remainder of the year.

With that I'll hand it over to Sara.

Sara Hennicken: Thank you, Michael. A warm welcome also from my side. This is the first time I'm communicating with most of you, and I appreciate your interest in Fresenius. I'm looking forward to meeting many of you personally over the coming months.

I'm excited to drive the transformation to a #FutureFresenius together with Michael. The current macroeconomic backdrop and related uncertainties will provide some extra challenges but will also provide opportunities to drive change. I'm a firm believer in the fundamental strength of Fresenius, its relevance for our patients and the societies we work for globally.

Over to Q3 on **Slide 12**, in a nutshell, we delivered a weaker-than-anticipated quarter against the backdrop of a more challenging macroeconomic environment. Our Q3/22 results are shown in our usual fashion, so before special items. As always, a comprehensive overview of all special items is provided at the back of our Investor News and in the Results Center on our Website.

Michael already summarized the quarter. So I will focus on selected P&L items that might be most relevant to understand the Q3 developments. Interest expenses increased by 4% in constant currency to a reported €141 million, mainly driven by overall higher interest rates.

Q3 was the first quarter where we saw the higher interest rate environment to start materializing in our results. For 2022, we now expect reported net interest expenses to be above the level of 2021. In constant currency, we expect interest expenses for the year 2022 to be slightly above the level of 2021.

Group tax rate before special items in Q3 stood at 25%. The higher-than-usual tax rate is due to an increase in the proportionate share of nontax-deductible expenses relative to taxable income at Fresenius Medical Care. For 2022, we now expect a tax rate between 24% to 25%, a 1 percentage point increase, mainly driven by adjusted tax rate expectations at Fresenius Medical Care.

Moving onto net income, where we have seen a decrease of 19% in the third quarter driven by the tough market environment, as a reminder, inflation significantly accelerated in Q3, leading to material increases in input costs across our businesses, including material prices, logistics, and energy costs. Labor shortages and wage inflation continue to persist, especially at FMC in the US.

In addition, supply chain disruptions led to supply shortages and higher demand for inventory at Kabi and Vamed. COVID impacted our businesses, in particular at Vamed and Fresenius Medical Care.

Net income was further impacted by increased corporate costs due to one-time costs related to management changes as well as lower demand for internal services, in particular for IT. Additionally, it was affected by slightly higher interest expenses and an increased tax rate. Year-to-date net income decreased by 8% on a guidance-relevant basis.

Continuing with cash flow on **Slide 13**. A solid Q3 took the group operating cash flow to €1.3 billion, which brings us to a cash flow margin of 10.3% over the last 12 months. This is 2.5 percentage points lower compared to last year. It is mainly driven by softer EBIT developments across the group as well as working capital buildup, for example, at Kabi or Vamed, to mitigate supply chain disruptions. In addition, we saw an increase in receivables relating to delays in nursing budget negotiations at Helios Germany.

Capex for the last 12 months is, with 4.6% of sales, below the 5% level. This brings us to a group free cash flow margin, bottom right, of 5.7%. You will not be surprised that we will further reinforce our focus on cash flow with a clear aim to improve our cash conversion over the next quarters.

That brings me to our well-balanced financing structure on **Slide 14.** We ended the quarter with 3.74x net debt to EBITDA. Excluding Ivenix and mAbxience, we are at 3.64x. The leverage ratio is impacted by the overall muted EBITDA development in the third quarter, usual seasonality effects, as well as our M&A activities at Kabi. Given the ongoing headwinds, we now anticipate the leverage ratio to remain roughly at the same level at the end of 2022.

To spare you the question at the Q&A part of the call, I'd like to emphasize that we remain fully committed to our self-imposed leverage target range of 3x to 3.5x times. We also monitor our rating closely, as it is dear to us, and we are committed to our investment-grade rating. As we drive #FutureFresenius, its stringent capital allocation and a clear focus on balance sheet will be key components. Our short-term refinancing needs are limited. And as usual, we target to refinance upcoming maturities conservatively and well ahead of time. The debt structure is characterized by a defensive financing mix, with roughly 80% of our debt being fixed-rate instruments, helping us to protect against the rise in interest rates.

With that, let's turn to the 2022 outlook assumptions on **Slide 16.** Like most companies in our sector, we are facing a challenging macroeconomic environment with high uncertainties. As you will have heard from many other companies, it is outstandingly difficult to predict how cost inflation, supply chain disruption, labor shortages, and COVID will develop.

The war on Ukraine further adds volatility and muted visibility. We do not expect these headwinds to ease anytime soon. We are closely monitoring the overall development and potential future consequences, including balance sheet valuations.

For COVID, we assume a continuing impact on our operations in the fourth quarter. An unlikely but possible significant deterioration of the situation that could trigger containment measures with a significant and direct impact on the healthcare sector without any appropriate compensation is not reflected in the guidance.

For Fresenius Medical Care's contribution to Fresenius's numbers, the guidance assumptions of Fresenius Medical Care apply. Furthermore, special items, the acquisitions of Ivenix and the majority stake in mAbxience, as well as any future potential acquisitions are excluded from guidance.

Having said that, let's turn to the 2022 outlook by business segment on **Slide 17**. As always, we will not comment on Fresenius Medical Care's guidance, as you will probably listen to the call with Carla and Helen later today.

Based on the 2% organic sales growth in the first nine months at Kabi, we confirm our 2022 outlook for sales growth of low single-digit percentage. While we assume ongoing competitive pressure in the US, we also expect ongoing broad-based healthy sales development in Europe and in emerging markets. With an EBIT decline of 9% in the first nine months, we confirm the outlook of a high single to low double-digit EBIT decline for 2022. We are expecting increasing inflation as well as supply chain disruptions to continue to put pressure on the margin.

For Helios, we confirm the outlook range of low to mid-single-digit percentage organic growth for the full year based on the 6% organic growth achieved in the first nine months. We expect an ongoing solid admission development as well as healthy activity levels in Germany and Spain for the rest of the year. As far as EBIT is concerned, with the healthy EBIT growth of 5% in the first nine months, we confirm our 2022 guidance range of mid-single-digit growth. We expect that activity levels will continue to grow in Germany and Spain. However, our fertility business will likely be impacted by patients delaying their wish to get children in light of the current uncertainties.

Onto Vamed, with an organic sales increase of 6% in the first nine months, we adjusted the outlook range to mid-single-digit growth. While the fourth quarter's always the strongest quarter for Vamed, we believe that the current volatile market environment with knock-on effects on customer decisions will remain. EBIT, with €29 million in the first nine months, it looks less likely to reach the originally anticipated pre-COVID EBIT level. We still expect the fourth quarter to be the strongest quarter for Vamed. However, given the weak EBIT development in the first nine months, the persisting challenging macroeconomic environment, including the impacts of the war on the Ukraine, we need to carefully anticipate further project delays and cost increases for Vamed's project and service business. In addition, we expect COVID to negatively impact in particular our post-acute business. Hence, we now expect EBIT to be around €100 million in 2022.

Bringing it all together for the group on **Slide 18**, starting with sales, with 4% growth in the first nine months, we confirm our guidance of low to mid-single-digit growth for 2022.

Over to net income, as you have heard, Fresenius Medical Care and Vamed adjusted their respective earnings guidances. All other business segments of the group are also affected by a challenging macroeconomic environment, which we expect to persist.

As a consequence, the Management Board has changed its risk assessment and consequently adjusted the net income group guidance for 2022. At constant currency, we now expect group net income to decline around 10%. Taking into account that, on a nine-month basis, our net income declined by 8%, we think it is prudent to assume a 2% corridor on both sides of the 10%.

The current US dollar rates are significantly supporting our reported growth rates. If current exchange rates prevail until the end of the year with a particularly strong dollar versus a weak euro, we could see a tailwind of 5 to 6 percentage points for sales and 4 to 5 percentage points for net income.

With that, I hand back to Michael.

Michael Sen: Thank you, Sara. Since I became CEO, I've used the words "hitting reset" both outside and inside Fresenius. What it means is that we need to take a hard look at what is a great company with great assets and great people. So what are the immediate priorities I see after 30 days in the job?

In essence, I want us to address the tasks ahead on our front foot. We all know that these are challenging times. This is exactly the time to focus on matters in our own control, also called self-help. In order to thrive in this environment, we will drive structural productivity, i.e., increase our rigor on cost out. And this needs to be more than low-hanging fruits.

This is also the time to change our mindset. And this has already started as I have met with the leaders of the company. One key element here is to instill and drive a clear focus on return within Fresenius. Going forward, return on invested capital will also be making its way into the Board's compensation. Hence, it will be a crucial yardstick in decision making. Added to that will be a focus on margin strength.

All of this will be boosted by the passion we all have about patient care. With our work, we truly make a difference. The Management Board and our global top leaders have already started to rally around the need for necessary change. We can build on their commitment as we pick up pace of change and improvement. I want to capture this momentum in creating #FutureFresenius.

So let's take a closer look on our pathway to #FutureFresenius on **Slide 21**. Throughout Fresenius, we are looking at every business. We are looking at our entire corporate portfolio from all ends and examining the opportunities and challenges in our markets. This is a top-to-bottom review of every business line.

We are aimed at attractive opportunities and performance. Part of this process is also setting performance expectations, both operational and financial, looking at best-in-class peers. And this is what will put Fresenius to a new place of strength and creates value also for our shareholders. This will go along with new ways of governing and steering our company across the group and its segments.

So there is a lot to do. We have finite resources, and hence, we will carefully strategize and prioritize and exactly in that order, strategize, then prioritize. It will take focus and hard work. We will have to move quickly on this process, yet there are no shortcuts. As our plans take shape, we will share this information openly and timely.

All of this will take place as we continue to improve our day-to-day, year-on-year operational performance management. This is crucial given the volatile business environment we currently face. So all in all, it will be tremendously rewarding to build what we call #FutureFresenius. Markus.

## Q&A

Markus Georgi: Thank you, both. And with that, Michael and Sara are happy to take your questions. Stuart.

Operator: Thank you, Markus. We are now starting the question-and-answer session.

James Vane-Tempest: Yes, hi. Thanks for taking my questions. I've got two, if I can, please. Firstly, just on (inaudible) understand how it excludes Ivenix and mAbxience to see how the business underlying is performing year to date, but how should we think about bolting on these assets in general and, secondly, around that current trading? And if leverage was 3.74x but 3.64x adjusted for deals, what leverage on a pro forma basis would it be for those transactions?

Secondly, Fresenius Medical's guidance, high teens to mid-20s decline, even with Vamed, the decrease to minus 10% seems to factor in more headwinds. And I was wondering if you could call any of those out, where directionally worse but not enough to change

segment guidance, especially if you 50% overdelivered on your savings target, or is the 2% corridor from 8% to 10% reflect more conservativism? Thank you.

Michael Sen: Okay, James. Let me -- I'm not sure. You broke up a little with your first question on mAbxience and Ivenix. I think, on the chart, you saw the underlying performance. And for the remainder of the year, this is what we will also cast out. But going forward, as we go into next year, obviously, they will be key parts. This is now only 2 months, yes, twoish, threeish months that we consolidated them. But I said mAbxience is progressing nicely, especially on the biosimilar side with their franchise on Beva making very, very good progress. We like what we see here.

Let me take your last question on the guidance. And this is the correct observation if you would do the math, what Sara said, and take that the segments other than Vamed are in their range. Let me explain a little bit the logic what we did here.

What we did is that we wanted our businesses, each segment to really focus on the business, to focus on operations, to focus on the factories, on the logistics, on the supply chains, on catering to customers, or in the hospitals, obviously, of delivering care, especially when you go now into the Christmas season because every procedure growth will materialize in incremental revenue.

So the incremental risk we see out of uncertainty in the environment, which is mainly not only material price increase or salary increase but coming more from the revenue end, if patients take a decision not to go to a clinic or a customer decides not to place an order, that risk we basically want to manage on a group level, having if you so wish a risk bucket so that the business is solely focused on their operations. And if and when these things materialize, then they materialize. If not, then I think Sara gave you the range jumping off of the 8% decline we saw year to date.

And let me give you maybe with Kabi an example, when you see where Kabi is year to date also in terms of their growth profile. We obviously in Q4 want to grow in dynamics, as in growth rate, more than what we have been seeing in the first three quarters.

That is all baked in, in their tick mark on their guidance. That growth uptick, obviously, could be jeopardized by maybe people not going in to donating plasma, or last quarter, we had a hurricane in Puerto Rico, where on the medtech side, the factory was down for a couple of days. They couldn't ship. And if that growth which is baked in would not materialize, it is obviously covered in the bucket. So I gave you one example on the Kabi side.

In terms of the overdelivery on Kabi, in essence, what I'm trying to say is this is an example of what step up or more rigor means. Even though Kabi is overdelivering on the cost side, the headwinds you have from input cost inflation is outweighing even the extra proportion on the cost side, which means we have to focus on what is in our control. Sara, the leverage question?

Sara Hennicken: Sure. Thank you. I'm happy to take the leverage question. So what we said is 3.74x net debt to EBITDA, that includes Ivenix and mAbxience. Both of these acquisitions have closed, with mAbxience closing in the third quarter. So going forward, that will be the relevant basis. If you exclude both of these transactions, we would have been at 3.64x, taking both Ivenix and mAbxience out. I think what you can appreciate, obviously, both transactions led to higher debt based on the acquisition cost. And then you see that there is an EBIT impact of both transactions going down.

James Vane-Tempest: Thank you. Just to clarify the first question then, are you able to tell us what the pro forma leverage would've been, assuming you had owned both those assets for 12 months? I guess, we're going to get that going forward, which would be useful to know.

Sara Hennicken: If we had it for 12 months, you know what? Thank you very much for your question on that. Let Markus and myself get back to you on this. We haven't the number at hand right now.

James Vane-Tempest: Thanks so much.

Tom Jones: Good afternoon. Thank you for taking my questions, and nice to meet you both. I had a couple of sort of big picture strategic ones and then just one on Kabi's performance in particular.

So the big strategic ones, Michael, you talked an awful lot about taking cost out of the business, which is a laudable aim. But if I look at what the previous management team did, they too focused a great deal on taking cost out. And one would think that most of the low-hanging fruit has gone. So I wondered if you could just add a little bit more color in broad terms about how you intend to address cost basis.

Is it about driving revenues with proportionally less cost growth? Are there areas of the business where they're frankly unprofitable or not profitable enough, and you're just looking to take both cost out and in effect revenue out of the business, or there's some other strategy you're looking to deploy to reduce cost, which to be honest has been a focus of the company for some time now?

And the second sort of strategic question allied to that is there's been a lot of talk about the structure of Fresenius SE and what may or may not happen in that regard. I know it's very early days. And I'm not expecting you to commit to anything now.

But I just wondered, based on your preliminary assessments, is there anything you might like to say at this point that is definitely off the table? I would assume a lot of things are still on the table, but it might be helpful if there were some things that you've perhaps rolled out.

And then maybe I'll follow up on the Kabi question.

Michael Sen: Okay. Let me -- thank you, Tom. Also nice meeting you. Look, on the cost out, that's why we deliberately put in the Kabi slides as a proxy on what we intend to do. This is about structural cost savings. Cost savings can be a topic for many companies, and it has been a topic also in our company. And we have been delivering so far. But the rigor and the context of how we are going to address this now is that we talk about structure. It's not about holding your breath. It's not about austerity. It's really going into the structure. That's why, on Kabi, the cutting the tail, the noncore assets, you can do that even on a very segment-subsegment level.

We -- I gave you the example of three factories. I said more is to come in the next 1.5 days. And that will all add up. This is not about revenue growth and profit growth. This is about, if you have a return focus, you obviously eliminate elements in the portfolio which do not cater. This is the cutting the tail exercise.

The structural cost savings is that you -- you know what I also said publicly. We do debate how many lines, production lines we need in order to adjust capacity. And that obviously then has impacts.

And at Kabi, we did it. I did it in the past and delivered on that one. And I can tell you -- you will hear obviously the colleagues from FMC later on -- when I talk about the entire company, I obviously also encompass FMC. And Carla and her Management Team with what they will lay out, I won't want to steal their thunder, but it needs to have structural cost savings.

On the revenue side, yes, going also into next year, what I do foresee -- that's the good news -- we're growing. We're even growing now year to date. It's a decent growth. It's 5% in this environment and for Kabi, for example, on tough comps if I look at Q3 last year. So yes, we have businesses which are growing. But what about the drop through, the earnings conversion? There, we have to work. It's structural productivity.

If we have an environment where, when you grow in volume, the volume is -- the volume growth is not able to basically make up for price increases, and in this case now extraordinary cost inflation, then beyond base productivity, which usually in companies is between 2% and 4%, you need to cut deeper into the structure. And this is the self-help I see.

On your bigger picture, you gave the answer yourself. It is way too early. I'm 30 days in the job with Sara and the entire team. What we want to do is give you a really transparent picture on how we're moving ahead on the process as such. I can tell you there's an entire team charged only looking at the portfolio. They're already working as we speak. And when we have the results, when we have the first patterns, then we will obviously share.

But I thank you for one opportunity taking off the table. Off the table is any rumors I read in the papers that individual assets, may they be in Spain or somewhere else, are being used to maybe reduce our gearing. We do the exercise first, and then we'll come back. Thank you, Tom.

Tom Jones: That makes sense. Perfect. That's all very clear. And then the sort of operational question on Kabi, just forgive me for playing sudoku a little bit here, but if I look at Europe, it grew fairly nicely at 6%. But the biosimilar business was up more than 100%. And infusion solutions, which from memory is fairly heavily weighted towards Europe as well, was also up 15%.

If I reconcile those three numbers, it suggests something else in Europe was sharply negative in the quarter. I just wondered if you might be able to shed a bit of light on that for me -- for us, sorry.

Michael Sen: Yes, on the growth or EBIT growth?

Tom Jones: This is revenue growth we're talking about here.

Michael Sen: Okay. Let me check. Europe was very strong, obviously, with the biosimilars, as you said, and also the solutions, the IV generics. So let me get back to you on that one, Tom.

Tom Jones: Okay. No problem. I can follow up with Markus afterwards. So I'll get back in the queue.

David Adlington: Hey, guys. Thanks for the questions. So two please, firstly, just in terms of when we think about the group structure, are there any tax considerations we should be aware of, for example, any asset sales versus carve-outs with tax implications there?

And then secondly, when you think about your ability to pass on the cost inflation to customers, just wondered what you're seeing in terms of pricing ability now and into next year and just high-level views in terms of direction maybe of margins next year, given the cost inflation that you're seeing there.

Michael Sen: Yes, before Sara talks on the tax, there's probably not much to say. Let me take your question on the ability on pricing. And maybe, Tom, also that answers a little bit the Europe question.

I said in my speech that Kabi, we need to help the market to understand Kabi better. That whole setup and disclosure of Europe, NAM, and the like we will change going forward, go into the verticals we have. And then we have a full P&L from top to bottom, and then the performance discussion makes much more sense.

Now on the ability to pass on prices, also there, this is a question of the business model as such. I come from different industries, the capital goods industries, where people were happy when they had inflation because this was called pricing power. They could pass it on.

This is the healthcare business. We have care delivery businesses. So the care delivery businesses, they have limited to no ability because these are fixed reimbursement rates. The mechanism you use is that you manage patient flows and case mix, given that you also have a more normalized, let's say, economic environment. That's the first thing.

The second also on Kabi, remember what also protects us usually on the downside, having a stable business, especially on the IV generics and the U.S., these are all GPO contracts. These are fixed contracts, where the prices are basically set, especially on the generic side, that there is also no innovation. As of one point in time, the prices actually go down. And you always have to come up with new launches. So there is no room for pricing power.

Do we have no room for pricing power? No, we don't. We have that in nutrition, in other areas of the business. And this is where we are also taking active actions. There is actions. And there is trainings with the salesforce. But overall, that is -- that will also move into next year. The business model as such will not change. And hence, my statement with the volume growth versus price and inflation, if that one doesn't equal, you need to go into structural cost.

And the question on the tax implication on any group structure is a little too premature because the logic is -- the clear logic is we first look at the portfolio and look at the industry dynamics. What we want to do going forward, we will not focus on any transaction or the panacea transaction which will make the way. We look at the individual portfolios underneath the segment level, and then we will decide what the structure is. And if and when there is any transaction, we will let you know.

And, Tom, on the Europe question, the IV drugs, excluding the biosimilars, were pretty weak.

Operator: Mr. Adlington, are you finished with your questions?

David Adlington: Maybe I'll just come back. Directionally, are you able to make any comment in terms of the direction of margins or growth next year?

Michael Sen: This is a Q3 earnings call. We're 30 days in the job. And we told you how this year's going to pan out. The direction which we can tell you is that our businesses will grow. Since we know they are growing, we will focus on what matters to ultimately -- it needs time, though -- but to ultimately get to a drop through or a margin conversion.

Next to all the strategic exercise we're doing next year -- next week, we will start our annual planning cycle. And with that annual planning cycle, we will go into much more depth. So it's too premature now, other than giving you headlines, which we did and you can read in the paper.

So the material price increase will not go away. The labor shortage will not go away. Hence, we will see how our actions we take, the growth the businesses cater, and the rest will pan out as we go now into a very interesting budget cycle starting next week for the next 2 weeks, 3 weeks, something like that.

David Adlington: Thank you.

Veronika Dubajova: Thank you, guys, for taking my questions. And welcome to your first Fresenius call as CEO, Michael. Good to have you back. Two questions from me. One, just a technical one on the ACTEMRA Toci patent and if you can help us understand what the settlement with Chugai looks like and how we should be thinking about that 2023 launch in the US in terms of subcutaneous formulation, that would be helpful. Appreciate the detailed one, but it'd be helpful just to get our expectations in the right place on that one.

And then my second question is, Michael, I think -- I believe you were quoted in the press saying you no longer believe that the historical leverage target that the company might have had is appropriate for the new rate environment.

And I'd just love to get some of your high-level thoughts on what you think is the right leverage target for the business. And as you think about organic and inorganic growth, how is your thinking evolving on that versus what we might have seen from the company in the past? Thank you.

Michael Sen: Hi, Veronika. Also hello from my side. Good to see you hear you, both on -- in different institutions now. Look, Veronika, on your Toci, I'll share what I'm able to share. Obviously, we're very happy that we were able to conclude the IP settlement with Roche. Everything else is, out of particular reasons, not for disclosure. But we're happy. And with that one, by and large, I confirm the timeline we have alluded to with the markets, which is -- you said '23. We said late '23 and then steps we'll take on.

We still believe we are in a very good place with the molecule as such and also in preparing the market as we start next year with the first biosimilars, we have the preapproval as you have read it. Next step on that one would be that the manufacturing sites need to be approved from the FDA, which will happen in the next couple of weeks. And then we'll take it from there.

Veronika, then on the leverage, and look, I think -- I don't know which newspaper this was or who translated this. I didn't say it's not appropriate anymore in this environment. What I said actually is, echoing Sara, that the leverage ratio is important for us. And we do not intend to have any slippage into noninvestment grade or jeopardize this.

And this being said and my focus on return on the portfolio and on self-help already gives you a direction on what we're going to do in terms of, can we expect any large or even midscale M&A and whatsoever. The focus now for the entire company needs to be on the returns when we talk portfolio, needs to be on the margin and the cost side, and then that's it.

And obviously, when the CEO echoes the CFO on the leverage, that's a good one because I think that is good in this case for all investors on both ends, the debt and the equity end.

Veronika Dubajova: That's very clear. Thank you so much.

Ed Ridley-Day: Good afternoon. Thank you. I thank you for your (inaudible) plans for Fresenius (inaudible) question and then follow with a more technical question. As you've highlighted (inaudible).

Operator: Excuse me, Mr. Day, your line is breaking up.

Ed Ridley-Day: You focused on the leverage. Could we think of -- you've also focused on the opportunities. And one of the opportunities that Fresenius certain has is in biopharma, mAbxience and Ivenix deals obviously a good start. But to fund further

investment and keep a strong balance sheet, it would make sense for some fairly material shifts in the portfolio. I don't know if you would like to speak to that and indeed your interest in investing further in the -- into your biopharma, biosimilar businesses.

Michael Sen: Yes, hi. As much as I could hear from you breaking up, but I think I got the point. Look, again, the sequence is we look at the entire portfolio, going really 1, 2 levels below. With Kabi, we already did that. I went even very, very deep. And biopharma -- not only biosimilars -- biopharma is one of the growth factors.

We need to do the exercise for the entire portfolio and need to see how the portfolio stacks up vis-à-vis market dynamics. Is there a lot of market growth? What is the profit pool? Is the market consolidated? What kind of market position do we have? And then we also need to detail for every element, what does it take to be market leading? How much resources does it take? How much money does it take? How much talent does it take? And then we prioritize. That is what I mean strategize, and then prioritize.

When it comes to the biopharmaceutical business, I think we have enough on our plate currently. Look, I said deliberately in the call that we now have a real business. With mAbxience, we are and we have some homework to do for the coming years. We have a business where it encompasses many important elements of the value chain which makes us competitive, especially also on the portfolio side but also on the cost side.

What we had before were development molecules or molecules in development. And therefore, we were pretty much dependent on third parties going every step of the way in the value chain further. This is what we changed. So the team has enough on their plate. And Sara and I will be very happy if they deliver according to the plan we currently have.

Markus Georgi: Next question, Stuart.

Robert Davies: Yes, thank you for taking my question. My first one was just around the sort of magnitude of wage inflation you're seeing across the portfolio. Maybe if you could just kind of put it into context versus history and then just in terms of renegotiations of wages or when those discussions are happening, is that an ongoing process? Is that an annual one that's going to happen in the new year? That was my first question.

Sara Hennicken: Sure. Hi, happy to take your question. So I think, in terms of wage inflation, there is not a single kind of point in the year. It's ongoing discussions. We have seen -- this year, I think there are two elements to it, right? One is shortage of staff and absenteeism due to COVID, and then you talk about higher cost for temp workers. So that's impacting the whole cost around that topic. And then you have the wage inflation and wage increase. And we have seen wage increases across the businesses partially. However, we do expect to see higher wage increases in 2023 as the year goes on and as we have those wage negotiations with our respective counterparties.

Michael Sen: Yes, and let me add to that. That is exactly the logic -- again, I'm coming back to that equation volume versus price and inflation. Under normal circumstances, we would probably assume a threeish, 3% wage inflation on the basis of our personnel costs by and large, on average. It can vary geographies and obviously business. And then you get to your base productivity and your volume growth.

But what Sara alluded to is, next year, in the environment we are, it may -- it will probably be higher, also that we always need to think that whole thing about staff shortages, we also think about that that actually this is opportunity costs. That whole staff shortage is not only in the clinics. I have it also within Kabi, in factories, and so on, so forth. We'd rather pay the extra dime but secure the revenue which will cater incremental margin.

Robert Davies: Thank you. And then maybe just one follow up. Michael, you mentioned in your opening remarks that you were looking to push up the return on capital employed of the business. Just be interested if you could give us a little more color.

When you look across the different parts of the portfolio, how much opportunity do you see from sort of low-hanging fruit in terms of disposing underperforming assets and moving the denominator in that business versus pushing margins up, just if you could give us a sense of where the improvement in ROCE is really going to come from?

Michael Sen: I could tell you once I did the portfolio exercise because the return on capital employed or the improvements are nothing else than the translation of market fundamentals. If you have a strong market position, the market is healthy, has a high -- can cater high growth and has a high profitability, then obviously, I would say the potential for return on capital employed, even if you have maybe a higher proportion of capital employed, is higher for a payback than the other way around.

So therefore, there is no short cut. We need to go to the business fundamentals. But by and large, from a financial point of view, the yardstick is now the return on capital employed or return on investment capital.

Robert Davies: Thank you. Thanks.

Falko Friedrichs: Hey, hello. Thanks for taking my questions. So the first one is, can you give us a very rough idea sort of on how much longer your portfolio review is likely going to take? The reason I'm asking is sort of if it might be realistic to hear some kind of announcement from you before your full-year results early next year or if you can already rule that out because that is definitely too early.

And then my second question is, thinking about all those macro headwinds that you're facing at the moment, can you give us a flavor which ones of those will most definitely still be a big problem next year and which ones might dissipate rather sooner than later? Thank you.

Michael Sen: Okay. I'll start with the portfolio, give a prelude on the macro, and then Sara will go into the macro. Look, the first question I think you can answer yourself. Thirty days in the job, starting a thorough comprehensive top-to-bottom review. Concurrently, we need to make sure that all our businesses are laser focused on their operations. And we're going into a planning cycle for the budget next year.

So you can't change the direction of a supertanker overnight. So it will take what we said in the last chart. So you can rule out that, in the next couple of days or weeks, you will hear any announcement on that one.

And on the macro in general, what we're trying to say is it will continue. These things are not in our hands. And cost inflation, I think in order to get a picture on an industrial value chain is not only that our energy costs go up and down, also for those who supply us.

When we talk about components, whether it be at Fresenius Medical Care, Medical Technology at Kabi, or hospital procuring stock, so everyone in the supply chain will have the topics and may or may not raise prices.

On Kabi, for example, if you think about glass vials on IV generics, glass is a highly energy-intense product. So therefore, as long as the energy prices are up, probably our suppliers will demand the respective prices for that one.

So what we're saying is that these items will remain, but we will focus on what we can do. And it's not only that we in general say it's just a macro and inflation. We deliberately

tried to convey it is about customer decision making or patient behavior also decision making.

Just as we say we may be hardnosed on capex, why wouldn't the customer do the same or on opex? And therefore, this is as long as the environment is as it is. So we don't see those clouds going away, but we're going to focus on what we can do. And maybe Sara?

Sara Hennicken: Yes, thank you, Michael. And maybe happy to break it down a little further. So I think, when I look at Q1 to Q3, what we have seen is a significant increase in particular in material cost. I think that increase is expected to continue, and the slope is expected to be similarly steep when I look towards the end of the year and probably also well into 2023.

I think another bucket we obviously monitor very closely in particular on the Fresenius Medical Care side is labor cost. In particular, in the US, I think we see staff shortages and related wage increases in particular for patient-facing jobs. So here, we have elevated levers, and we're expected -- we expect that they will continue for a while.

I think then, if you look at freight costs, they're on a high level. They have increased relatively, in particular now in the first half of the year. Since then, they seem to be a little bit more stable. However, I think one thing to note, it's not only about the absolute price, as Michael said. It's also about the supply disruptions and the kind of knock-on effect that has on the businesses. And here, I'm thinking in particular on Kabi.

And then obviously, energy costs, I think it's fair to say, so far, we have been relatively shielded from increases in energy costs because we have contracts which run until 2022 and partially also well into 2023. However, that's a cost bucket we obviously monitor quite closely as well. We expect that cost bucket to go up. And in particular, I think, as we're now approaching the winter months in the northern hemisphere, it's fair to say that some of these cost buckets may even increase further.

Falko Friedrichs: Okay. Helpful. Thank you.

Operator: In the interest of time, we have to end the Q&A. And I would like to turn back to Markus Georgi for closing comments. Please go ahead.

Markus Georgi: Thanks, Stuart. Thanks, Michael and Sara. Thanks, all participants. Hopefully, it was instructive for you. If there's some more questions, please contact the IR team. We're happy to support you. And until then, thank you, again, for participating, and stay safe. Talk to you soon.

Michael Sen: Thanks, folks.

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