Transcript
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PRESENTATION

Markus Georgi: Good afternoon, and thanks, everybody, for joining us today. I'd like to welcome all of you for our full year 2022 earnings call.

Our full year '22 presentation is being held in a virtual format in our headquarters here in Bad Homberg. With me on the call today are Michael Sen, our CEO, and Sara Hennicken, our CFO.

Please be informed that, for today's Q&A session, you should log in via the link we provided you and click on the yellow button indicating "I want to ask a question." This time, questions can only be raised via video stream. The telephone conference is arranged in a listen-only mode, and therefore, questions cannot be raised via phone.

Would like to start the call today by drawing your attention to the cautionary language that is included in our safe harbor statement as well as in all the materials that we have distributed.

And with that, Michael, I hand it over to you.

Michael Sen: Yes, Markus, thanks, and good day to all of you. We have made considerable progress over the last several months on Fresenius's mission to advance patient care around the world and on putting us on a value-generating path. This afternoon, Sara and I are going to bring you up to date on our efforts to basically revitalize Fresenius. This follows on our announcement last October and the news 2 weeks ago about our plans for Fresenius Medical Care.

Let me briefly give you some introductory observations. First, the numbers for 2022 came in about where we said they would in October. And again, these aren't where they need to be. We all know that. But looking a little deeper, both at Kabi and at Helios, we have made steady progress on performance. And I know, on Kabi, you have a lot of questions, but we're going to go there.

Second, we have also taken concrete action on simplifying the company and identifying those businesses and healthcare segments where we can generate more consistent value and, by the same token, identifying those where we are not the best owner.

Third, our strategic review has been completed. This was a deliberative, careful, and thoughtful process. We sought input across senior management, from across the organization, from our boards, and our shareholders. Their involvement has been really crucial to the outcome.

And as you may have read, we are strengthening in our management team. With Pierluigi Antonelli and Michael Moser, we are completing our Board and also complementing our Board with two very experienced colleagues. Both will, together with us, create #FutureFresenius.

The momentum for change is really in place now, and we are going to act carefully but rapidly. When I first came on as CEO, it was clear to me that Fresenius needed a shakeup, both in priorities and in performance. For too long, the group did not critically look enough and not act forcefully enough.

To be blunt, in a low interest rate environment, we invested heavily in new assets, while our returns have been fading. FMC's earnings outlook and the continued volatility in also Vamed in our market environment make it even more stark that rigorous action is required. Indeed, we need to move forward with more urgency.

And the necessary changes we will make will not happen overnight. 2023 will be tough, with impacts from higher interest rates and lower contribution, primarily from FMC and also Vamed. But it is also a year where we are moving and taking fundamental decisions, a year of structural progression. Beyond this year, the plans we have outlined will deliver, and we will get Fresenius growing and performing as it should.

Let me outline our thinking and actions to reset the company towards therapy-focused industry leadership. Three imperatives have led our thinking: simplification, focus, and performance. As a first step, we will deconsolidate Fresenius Medical Care. This step is crucial for both companies. Clearly, the decision to separate FMC while retaining a significant stake will simplify things for everyone. After a lot of detailed analytical work and thoughtful discussion, it is the smartest and most elegant solution from every angle to unlock what was really a confusing structure. I want to emphasize this that this is more than just rearranging some organizational chart. What was largely unthinkable just months ago is now reality, and we will keep this change momentum going.

With FMC deconsolidated, we will deepen our focus on what we will call Operating Companies, Fresenius Kabi and Fresenius Helios. Both are already active in highly attractive markets with an excellent position in those markets and a runway for value-accretive growth.

What we will do is to build towards world-class therapies through system-critical healthcare products and services. As this happens, we will act on the conclusion from our top-to-bottom portfolio review. We identified a handful of assets where we believe we are not the best owner and which we will consider for divestments to just sharpen the focus and also to support the balance sheet.

Throughout the company, we have established now clear financial targets, no avoiding these. We will measure ourselves against the best. Our new financial framework lays out our ambition and where we need to be by defining margin bands for each individual segment. And we've set out group targets on ROIC and cash, clear to everyone. This is a change in gearing the company really towards a performance culture. And we help ourselves by continuing to drive structural productivity. We've upped our savings target to around €1 billion by 2025, much of this coming from FMC, which should not come as a surprise.

Turning now to FMC, FMC is at the center of dialysis care. They have a strong business with world-class market access and technologies, but the business is different than the one Fresenius has overall. And as you all well know, this discussion has been ongoing for quite a while. But now is the time for us to create a framework, conditions, and most options and strategic flexibility for both FSE and FMC.

FMC needs an operational turnaround. It must improve its performance and also focus on its core business. FSE needs to simplify its complex corporate structure and focus on its Operating Companies and on optimal value creation for the investments we have.

The best way to support these objectives will be a change of FMC legal form into an AG and hence subsequently deconsolidation from FSE. However, we will remain a supportive, active, and demanding shareholder with our 32% stake, which gives us a significant value upside as FMC advances its turnaround.

Clear benefits for FSE and FMC from the new structure: For FSE, next to reduced complexity and an increased transparency, we can sharpen our management focus and target capital allocation towards our growth platforms, which is Kabi and Helios. At the same time, FMC has significant advantages: a simpler more entrepreneurial governance resolving the complexity of the KGaA structure and its bylaws and hence focused and faster decision making. This structural change is a complex process, yes, but we have agreement to go forward.

I am pleased that our anchor shareholder the Else Kröner-Fresenius Foundation has expressed their support for our plans, and I would like to thank them for their trust. We expect all of this -- that the change will occur in Q3 or Q4 of this calendar.

I've made it clear to the new management team at FMC how quickly we want improvement to happen to maximize the value of our significant stake. With FMC deconsolidated, we now intensify, deepen our #FutureFresenius strategy largely on our Operating Companies. Fresenius Kabi and Fresenius Helios are at the center of our group's ambitions under #FutureFresenius.

We will be focusing on growth and profitability in these units that operate exactly towards three target platforms: (Bio)Pharma, MedTech, and Care Provision. Through these platforms, addressing core healthcare needs of the future, we aim to provide world-class therapies and thus advance patient care. They're both geared for significant value creation and catering to system-critical areas of healthcare, with a good balance across resilient earnings, accretive businesses, and growth.

For our investment companies, Fresenius Medical Care and Fresenius Vamed, our focus will be on financial value management and active oversight.

On to **Slide 10**, we take a closer look at Fresenius Kabi. Fresenius Kabi provides a pretty comprehensive portfolio of highly specialized healthcare products with a balanced market reach. We developed our 3+1 strategy here last year and are executing it rigorously, the three growth vectors in Clinical Nutrition, Biopharma, and MedTech on the foundation of a resilient volume business.

Let me share a few highlights where the businesses are headed. Firstly, Nutrition, really love the business, a margin-accretive business north of €2 billion in sales and growing steadily as we roll out parental and enteral nutrition portfolios. We roll it out globally, and lots of product innovation yet to come.

Secondly, Biopharma, we are running a real end-to-end business here now together with mAbxience. We are, of course, very excited about our entry into the US biosimilars market this year and looking ahead as we expand the portfolio.

Thirdly, Medtech, a global organization across transfusion system, transfusion, and cell technologies. Ivenix, early innings yet, it is picking up with several hospitals adopting our innovative system, and we're getting great feedback, as you may have seen in the class report, which was just recently published.

Last but not least, IV drugs and solution are a fundament, a highly cash-accretive business that brings tremendous value to patients and healthcare systems. We are, of course, gearing further for resilience with a strong focus on quality and cost.

In talking with many of you in the market, I really think that Kabi has not gotten the understanding and appreciation it deserves. So going forward, we have to provide the capital market with more transparency and targeted segmentation. In addition, in the second quarter of this year, we will have a deep dive for Kabi, where you can learn more about our leading positions and strategies in the respective markets.

Over to Helios on **Slide 11**, as you know, Helios Germany and Quirónsalud are the leading private hospital providers in Germany and Spain, delivering value for more than 24 million patients each year and progressing steadily.

Helios Germany continues to pool expertise in regional competence centers to achieve the best treatment results for our patients. Helios Spain is crucial in satisfying the rising demand for care in Spain. And of course, given our relevant scale, we want to be leading the way when it comes to digitizing the patient journey and providing a holistic physical and digital care offering.

Clearly, our care provision platform here is highly attractive, providing continuous organic growth at really stable margins. A big part of our reset work was an intensive review of more than 25 business cells. We need to focus on businesses where we can really excel. Where we can't excel, we have to find an exit, which then improves, on the one hand, our focus and reduces the debt.

This is obviously a representational chart which you see but gives you a little bit of flavor of our thinking. For some businesses, we have a clear organic growth path. On the other side, we've identified a handful of activities, each with triple-digit million-euro sales where FSE lacks best ownership. Of course, this process will be conducted carefully to get the most out of them for us. But we have momentum now. And over the past -- over the next 12 to 18 months, there will be steady progress here as decisions mature.

For the first time also, we have set up a clear financial framework, both for our Operating Companies and for Fresenius as a whole. With F^3, we will, as a result, carefully manage for capital returns and cash as well as capital structure. Sara will provide more detail on this one later on. But important for me to stress that we have set ambitious EBIT margin bands for the segments. They serve as a yardstick when reviewing our businesses, measuring performance, and planning for the future. We will hold ourselves honest to these so everyone inside the company and outside the company can benchmark our performance.

For now, that's it from my side. So I'll hand it over to Sara now, and then I'll come back for a recap.

Sara Hennicken: Thank you, Michael, and a warm welcome from my side. Before I provide you with details on how the finance agenda will support and drive that momentum that Michael just described, let me walk you through the most important numbers for ’22.

We delivered on our revised guidance for fiscal ’22. A solid Q4 took us to 4% revenue growth in constant currency and a 10% net income decline for the full year, excluding the acquisitions of Ivenix and mAbxience.

Focusing on Q4, we saw a continuation of the solid 4% revenue growth driven by strong demand for our products and services. Currency translation provided a tailwind of 3%. The EBIT decline in the fourth quarter was mainly driven by persistent inflationary pressures, especially in the US for labor as well as material prices. In addition, we had negative one-offs at Vamed and Kabi.

Interest expense increased about 30% year-over-year because of financing activities, rising interest rates, and currency translation. The tax rate before special items stood at 24.4%, 100 basis points higher than prior year, bringing the full year tax rate to 23.7%, slightly better than our expectation of 24% to 25%.

Now let us take a closer look at the business segment performances in Q4. Kabi had a decent quarter with revenue above €2 billion and strong 7% organic revenue growth. All three growth vectors, and in particular biopharma, laid out in our Vision 2026 are contributing to that momentum.

EBIT with a softer development in Q4, however masked by one-time write-offs primarily related to a capitalized in-process R&D project in North America. Underlying, we see broadly stable EBIT development.

Going forward, we want to provide a more transparent perspective on the makeup and dynamics of our Kabi businesses. Hence, we will change Kabi’s financial disclosure with Q1 ’23, switching from a regional to a segment perspective.

Helios had a strong close to the year. Revenue came in for the segment at €3 billion with a healthy 5% organic growth, EBIT at €354 million with a strong margin of 11.7% and thus above the structural margin band of 9% to 11% Michael just talked about.

Spain was a major contributor to this development, demonstrating the business’s ability to compensate cost headwinds and showing the operational strength of care provision as we move to a post-COVID environment. Also in Germany, admissions continued to come back to a pre-COVID patient structure towards the end of the year.

Fertility, however, experienced a weaker performance, with lower volumes driven by changed customer behavior triggered by the macroeconomic uncertainty.

Moving on to Vamed, a difficult Q4, the macroeconomic backdrop led to lower-than-expected revenue development, in particular in the project business and thus to weaker earnings development. In addition, we saw significant negative one-timers in both the project and the services business.

We had an exceptional operating cash flow development in Q4 with €1.8 billion and a very strong margin of 17.1%, driven by better cash collection and an improved working capital management at Helios.

However, the strong fourth quarter could not compensate the softer start to the year, resulting in an operating cash flow margin of more than 10% but below prior year.

Financial priorities and ambitions levels: As you have heard from Michael, #FutureFresenius is also built on a new financial framework, setting transparent, peer-leading ambition levels for our Operating Companies as well as our investment companies and focusing on stringent capital allocation on group level, a clear and measurable set of goals to accelerate performance and to strength our return focus.

We're taking an honest look where we stand in '22 against those ambitions. Executing on the priorities on the right-hand side will be key to deliver on our ambitions, so first, further increase focus and transparency; second, drive structural productivity; and third, focused and stringent capital allocation and cash focus to improve capital efficiency and returns.

Coming to focus and transparency, it is important for us to provide you with a clear roadmap on the journey towards #FutureFresenius. Thus, we will be conducting Capital Market Days for FMC, Kabi, and Helios to provide clarity on the structure and the performance drivers of each of the segments to lay out a clearer and well-defined equity story of Fresenius.

As we move through the timeline of the envisaged deconsolidation of FMC, we will also provide you with updates on how an at-equity accounting of FMC would look like, what it means for FSE's key KPIs and financial framework, as well as accounting implications.

In order to enhance value, we have to increase structural productivity, and we already started to deliver on this. With €152 million savings on net income level in full year '22, we are roughly 50% above our target for '22 and almost 1 year ahead of the announced plan. To improve transparency and to emphasize the focus on the group's operating performance, we are moving away from the net income-focused reporting to an EBIT-centric view, and we are raising our ambition level. We are now targeting around €1 billion cost savings by 2025, not surprisingly predominantly at FMC. To achieve those sustainable cost savings, we expect one-off costs of around €700 million to €750 million between '23 and '25, with two-thirds expected to occur in '23.

Michael and I already spoke about focus on return and capital efficiency. And if you look at our ROIC development, you know why. We need to bring Fresenius back into a ROIC corridor of 6% to 8%. We will not acquire growth at the cost of capital returns. We will deploy our capital rigorously along our strategic pillars and with a clear priority on return KPIs. And that goes in many directions: M&A, investment, capex.

This is a paradigm shift for Fresenius. It will help us to regain strategic headroom. And it will take time. In '23, ROIC will be about 1 percentage point below the level of last year, but it will be the inflection point.

The new cash conversion rate increases the focus and traction on cash flow generation and cash conversion throughout the company. We, of course, remain committed to our IG rating and to our prudent financial policy, including our leverage target of 3x to 3.5x net debt to EBITDA. Also here, we expect '23 to be above our target range. However, as mentioned, we have a clear view on potential divestments, and those would, of course, help to create headroom.

Looking at the headwinds for '23 but also to our structural progression, this year will be one of transition and renewed focus for us. For '23, we don't assume increasing geopolitical tensions, and we assume further easing of COVID headwinds. While we continue to see good demand for our products and services, we also see inflationary pressures to weigh on our profitability. The main reason for more pronounced headwinds is the annualization effect in '23, having seen price increases in particular in the second half of the year.

Compared to ’22, we expect the relative weight of personnel and material costs to further increase with that annualization effect hitting. We also anticipate rising energy costs but with some compensation in particular at Helios Germany.

Overall, we expect additional headwinds from cost inflation of broadly around €800 million compared to ’22. At the same time, we are facing significantly reduced government support, in particular at FMC. In addition, with rising interest rates and around €3 billion of refinancing requirements, we expect significantly higher interest expenses year-over-year impacting our net income. As we are operating in many markets with limited ability to pass on cost increases, the rigor on what we are putting behind our structural progression with all the initiatives that Michael and I have outlined are even more important.

We have changed our guidance metrics this year to reflect the RESET of our group. We steer the group according to organic revenue growth because it shows the development in our businesses excluding currency and portfolio effects.

Within our financial framework, we have set ambitious structural margin bands and are steering group segments according to these bands. Consequently, we are guiding the segments on EBIT margins.

For FMC, we reflect FMC’s own capital market guidance. On Fresenius Group level, we are guiding EBIT growth to reflect the focus on operating performance and tie the Fresenius Group guidance to the individual segment guidances.

So let’s have a look at the segments, starting with Kabi. We expect low to mid-single-digit percentage organic revenue growth. We assume all our growth vectors to contribute to that. On EBIT, we expect Kabi to be around 1 percentage point below its structural EBIT margin band of 14% to 17%, as we are seeing ongoing inflationary pressure.

On Helios, we expect mid-single-digit percentage organic revenue growth driven by a solid development in Germany and good organic sales growth in Spain. Helios is the only segment which closed the year ’22 within its structural margin band of 9% to 11%. For ’23, we’re also expecting Helios to be within that structural margin band.

On the back of ’22, we expect low to mid-single-digit percentage organic revenue growth for Vamed and an EBIT margin which is clearly below the structural EBIT margin band of 4% to 6% but still positive.

Back to the group, where we expect a low to mid-single-digit percentage organic revenue growth in ’23. Reflecting the individual segment guidance, including Fresenius Medical Care, we expect EBIT growth in the range of broadly flat to high single-digit percentage decline.

Please note that, in line with FMC, this growth range is adjusted for PRF funding received by Fresenius Medical Care in 2022. Excluding Fresenius Medical Care, we expect a tighter growth range of broadly flat to mid-single-digit percentage decline.

On **Slide 26**, we have summarized our expectations for other financial KPIs, most of which I already touched upon.

With the caveat of ’23 being a year of structural progression, we as a management team are convinced about the fundamental strength of our businesses and that setting the right priorities will unlock value for our shareholders. This leads to our dividend proposal for ’22. We are leaving the dividend stable at €0.92 per share despite the net income decline in ’22. Taking into consideration our leverage ratio, which is above our self-imposed target corridor, we are however not proposing to increase the dividend either.

With our new financial framework, we have also outlined our new dividend policy, which is in line with our proposal, providing clarity that we want to grow dividend in line with EPS but at least keeping it on prior-year level.

Now let me close by summarizing our financial priorities as we move towards #FutureFresenius. It is a comprehensive set of financial and operational targets which will reinforce themselves. We still have a lot of work ahead of us, and it will not happen overnight. But with the structural announcements today and these priorities, we laid out a strong foundation for future growth and creating value. It's now about execution and moving forward.

With that, happy to hand back, Michael, to you.

Michael Sen: Thank you, Sara. Before we take your questions, I would like to put all of us and all what we've laid out in context in a much larger context on what #FutureFresenius is all about, not only for this year but also beyond.

As mentioned already, we have a lot to move through in 2023, outlook not where I wanted it to be, but -- and this is important -- our work this year sets Fresenius up for a better place for 2024 and beyond.

Pretty clear that FMC must improve its performance as we deconsolidate it, new leadership with a clear focus and high expectations from us as an anchor shareholder. As we bring costs down, the renewed focus at Kabi and Helios the value they create will gather pace. Both businesses continue to grow consistently in their top line, Helios with peer-leading margins, and Kabi will deliver on their plans to move within the margin range and work their way up. At the same time, you will see steady and continued activity on our portfolio reforming, with Fresenius getting out of businesses where we believe we're not the best owner.

The effect of the debt, the refinancing costs that Sara mentioned will be felt in 2023. It should lighten up in 2024. So delivering 2023 and upgrading our performance in 2024 is clearly at the center of our agenda.

And we will keep you updated on the details quarter by quarter also as we turn to tackle our kind of broader change agenda around people, operating model, and ESG.

No surprise here, but let me take a step back and reflect on the foundations outlined here today. It's Fresenius Kabi and Fresenius Helios which will be the engine of growth and performance going forward, Kabi focused on Clinical Nutrition, Biopharma, and MedTech; Helios on end-to-end care provision across hospitals and outpatient facilities; the entire group geared for significant value creation.

Pulling back even further, we want to bring even more focus on our larger mission, increasing our patient impact and being a trusted partner for world-class therapies, and coming back to our fundamental strength, driving high-quality value-generating innovation and providing system-critical products and services. We have a strong base in each of these platforms throughout the company today. And yet, there is more to be done when it comes to linking these platforms to the best of patients and seeking the full potential that they offer.

But it all starts now as we pick up pace in Kabi and Helios. We are looking at some really busy and exciting 2023 ahead, at Kabi having our first ever US biosimilar launches this year, rolling out Ivenix as we bring our innovation system here and into more and more hospitals, expecting to launch more than 10 I.V. generics in the US to further strengthen our leadership position here, and some really exciting product innovations supporting our global nutrition rollout with advanced emulsions and other products in the pipeline. Helios continuing well on track, building out our superior care provision platform, and of course, doing our part to help save energy and keeping our eyes on evolving legislation.

You now have a good overview of how we intend to lead the way towards #FutureFresenius. By our RESET, we have taken the first step in our journey. We're now entering the phase of revitalizing the company by taking very concrete steps to simplify our group structure and the governance and the operating model. We focus on portfolio, on returns, on structural productivity, and on performance management.

Deleveraging will also be a key here to really give us the room to maneuver going forward. Then we rejuvenate Fresenius. This will be about continued organic growth as well as further targeted expansion into attractive business fields that are close to our core and expertise.

Further out, we shall reimagine our company, shaping world-class therapies for the future and accelerating into leading health tech and applications while remaining a reliable partner for the benefit of our patients.

All of this revolves about our mission: Advancing Patient Care. Now Sara and I will be ready to take your questions.

Q&A

First question comes from James Vane-Tempest from Jefferies. Please go ahead.

James Vane-Tempest: Hi, thanks very much for taking my questions. Firstly, just to start off with a big picture question if I may, why is the strategic move you announced today so important for your path to #FutureFresenius?

Michael Sen: Okay. Thank you, James. The move today actually is the first step into a much bigger picture, but it is the first and most critical move. Throughout the last couple of months, I have been listening to what investors have been telling me. And it was all about the complexity, which is kind of like holding back both companies to really perform.

And then on top of it, it was all about, what are you going to do on the leverage and how to allocate capital? And therefore, it was this very move to reduce the complexity to drive the structural simplification which has benefits for both sides.

By the way, it even creates a real option space for Fresenius because, once the deconsolidation is done, not that we're targeting -- we said we're going to retain our stake -- but theoretically, all options are open. This is more or less kind of a cash and cash equivalent, if you so wish, which before the announcement was not possible. It was just not possible to move.

Then on top of it, we didn't want to go by transaction, but we dissected the whole company into 28 business cells and then comparing and contrasting them on the map as to where they stand, and where do we have our strongholds? What do they need to develop, to be developed, how much capital, how much resources? How big are they?

And are they paying into what we have for the first time, are they paying into a strategy, which is this overriding theme of therapy-focused industry leadership? All words are important: Therapy focus, why therapy focus? Because this is the largest profit pool in the whole healthcare arena. And within that, how are our businesses contributing to some key trends we see here, which are on Biopharma, on MedTech, and on Care Delivery?

And then the outcome of the overall exercise is that there are a few businesses which need to go somewhere else. And this again then increases the focus and helps on deleveraging.

On the whole performance management, and I've been here now like almost 2 years, with F^3, this financial framework, we really are gearing the company towards performance because all of them are somehow interlinked.

And the margin bands is so important, and I have past experience with that one because it helps gear the entire organization. When you hear it every quarter transparently, are you in the margin band or are you not in the margin band, that helps leadership and the organization to really concentrate all the efforts, all the decision making to get into that margin band, or in the case of Helios, if you are at the top of the margin band or, let's say, in the mid of the margin band that you want to keep it but keep on growing your top line because that creates earnings, and then of course, that goes to ROIC.

And therefore -- and then it goes even further that we also have personnel changes, which I think is also important. This is a completely -- almost completely new revamped team. We didn't change anything where we didn't need to change anything because we have the best management for one of the greatest assets. But CEO, CFO, new Kabi leadership. and also on personnel and ESG, which is really highly important.

And then we're focusing, not getting our eyes off the ball on the structural productivity. All of that gives us the confidence that, '24 and beyond, we're going to see the performance improve as the plan unfolds.

Markus Georgi: Thank you, James. The next question comes from David Adlington, JP Morgan.

David Adlington: Hey, guys, thanks for taking the questions. Sort of following on from James's question, at least in my eyes, there's a little bit of ambiguity in terms of -- about what you're -- whether this medium- or longer-term plan is for FMC stake. The deconsolidation looks to be like a step to disposing, but then you've clearly stated that you plan to remain a 32% holder, so seems to be some ambiguity in that. Maybe you could sort of clarify what you're actually planning to do with the stake.

And sort of following on from that, maybe you could just clarify what you mean by financial value management. It's not a term that I'm necessarily that clear with.

Michael Sen: Yes, thank you. Look, you may call it ambiguity. We call it optionality. The first and foremost important thing is that we are doing this step. You guys have been following this company for quite a while, and you tell me whether this step would've been feasible a couple of years, months, or what have you ago.

And yet, that alone again reduces complexity, management resources. FMC management really can focus on their business only. This morning in the press conference, people asked me, will Helen Giza be still a member of your Management Board at FSE? Of course not. She will step down at FSE and will completely focus on Fresenius Medical Care.

And then again, us being now obviously intertwined, we know about her plans and the management team's plans. And there is a clear plan to improve the business, to focus on the operational turnaround and, as they call it, focus on the core.

So we believe that we act in the best interest of the shareholder if we want to also get the uplift which we see in FMC creating value in their stock because this will translate one to one into ours.

If I would tell you that we want to sell the share, what good does it do? First of all, it would be a complete value leakage, and then it would provide an overhang and what have you. Therefore, we have no intention. We said we're going to remain as a 32% shareholder also because the business is very attractive.

Now on Vamed -- and both of them, what do we mean with financial companies -- financial management in investment companies, that our management attention will reduce. And there will be probably also a reduction of capital allocation because FMC has all the freedom in the world to run their own equity story and their own balance sheets, while as Vamed, we have seen them coming in, in Q4, not to our liking. And also, they're having their toll on the '23 outlook. So they have enough to do to focus on their business. So this is not about incremental capital allocation.

And we're going to manage them just like a financial investment. We're going to see how the return of our investment is developing without going into any operational business.

Markus Georgi: Thank you, David. Thank you, Michael. The next question comes from Victoria Lambert, Berenberg. Please go ahead.

Victoria Lambert: Hi, I just have a quick question on biosimilars. 2023 is a key year. Kabi has completed one of the possible three launches in the US already. Does Kabi still expect to be among the first wave of Humira biosimilar launches in Q2 or Q3 this year? Thank you.

Michael Sen: Yes, look, biosimilars is indeed a very important topic because it's a growth platform, by the way developed nicely. We actually developed what we said. If I go back a year back, looking '21 towards '22, we kind of like said, even without Mabxience, that we sort of doubled the business. I think we overachieved on that one. Now we have a real business with mAbxience. We are integrating the stuff.

On Humira, look, obviously, '23 is important as in also the preparation for also what comes in '24. The whole Humira topic from the outset was this is an entry point. This is an entry point. This is kind of like a little bit testing the waters. It was clear from the outset that this is going to be very crowded.

The first one is already out there because they have the first settlement. We are amongst those who are in the second wave because we also have the settlement, so fully on track with that launch. But I said at the beginning of the year at a conference the Humira thing for me is a little bit testing the water.

So we are -- how should I say -- eager and stepping out our preparation for what we call Idacio in the US. By the way, you will have noticed that also peg is going to be launched this year in the US. We actually even sold the first peg prefilled syringe. I think it was 4 weeks ago or 6 weeks ago in the US. And toci is on track.

Markus Georgi: Thank you, Victoria. And the next question comes from Hassan Al-Wakeel from Barclays. Please go ahead, sir.

Hassan Al-Wakeel: Thank you. Good afternoon. I have a couple, please. So great to see today's update and the simplification of the structure. Again, following up on the FME topic but maybe put another way. The greater than 25% stake that you had previously gave you control. But now without control, why do you think it makes sense to own such a significant financial interest? And is there any lockup post the completion of this deconsolidation?

And then secondly, on your medium-term targets for Kabi around 14% to 17%, where do you see the US margin sustainably, given the weakness recently in this business? And how are you thinking about 2023 for the US franchise in terms of price deflation, volume, and margins?

Michael Sen: Yes, Hassan, thanks for the question and also for bringing the question because this gives us the opportunity on clarifying what really control is. The control we have -- still have -- via that KGaA structure is a mere accounting-related control, so that under IFRS 10, we can fully consolidate it. What in essence we're doing, we are inflating the revenue and the EBIT margin and then taking the minorities back out on the net income. So there is no domination agreement.

So you tell me what that control really means. Do we control operational business? Do we really control operational decision making? Can I go in day in, day out and ask for some operational KPIs on a weekly basis? No, I can't because, also today, we, Sara and myself, as Board members of FME, we have to act at arm's length principle. And we also need to act within the whole legal and regulatory framework.

So I think the whole word of control might be conceptually overrated. Obviously, it is a control under IFRS 10 so that we consolidate it, but once again, no domination agreement.

Secondly, what is that control worth? Your question implies, are we giving up control without getting paid anything? Why did I say it is the smartest move to deconsolidate? That control cannot be monetized. It just cannot be monetized.

If I was to sell the 32% attaching the KGaA structure, the bylaws request that whoever buys it has to make a takeover offer for all shareholders with the same premium. That means in essence tell me if you find a counterparty, and then tell me if that control, if it's not monetizeable, is worth something.

So on to -- and why do I want to keep the 32% stake? Because we have the 32% stake. So we need to do the best out of that for our shareholders in creating value. And I don't think the best thing is that we just sell it and then have a value leakage.

By the way, today, we could not even sell it because, if we were to sell it in today's structure, it immediately triggers a change of control clause, and FMC would have to refinance their entire debt instantly in that very second. And therefore, decomplexing that convoluted structure is a huge thing, and that's why we announced it today.

And then the 32% stake, as I said, we're going to be normal Board members, but we have shareholding representation proportionally. So we have some say on that one. And therefore, I said I'm going to be or we are going to be a demanding, supportive shareholder and using active oversight.

Now over to Kabi, look, Kabi, I said it from the outset, even when I started the company. We have to and we will do a better job in disclosing what really Kabi is. As much as I understand this whole topic of US business accretive, not accretive, what I would assume -- don't want to put anything in your mouth but -- words in your mouth, but we have at the back of our head that it's the US IV generics business. That is a big portion which was a cash generator in the past. Kabi is so much more.

As I showed you, €2 billion nutrition, north of €2 billion nutrition business growing, growing nicely, will be growing nicely in 2023, delivering margin, maybe even margin expansion. And the IV generics business in the US as we have seen it the last couple of years is obviously under pressure. That's why the whole strategy with 3+1 that you also within Kabi focus on other growth platforms which will cater incremental not only growth but then earnings.

But by and large, obviously, comparing and contrasting to the margin band, irrespective of what I said, the US business is accretive, yes? It is accretive. But nevertheless, there is also pressure in the US business, yes? And with that pressure, you see a little bit -- how should I say -- the ramification in ’23.

Meanwhile, I -- or we received the feedback that you didn’t like maybe what we said on how Kabi is going to develop in ’23. Guess what? Part of it is price pressure also in the US because these large GPOs -- and that will not change. They retendered, and then there is obviously price pressure, and there is cost inflation.

By the same token, Kabi -- and I’m still the CEO of Kabi -- is taking matters into their own hands and driving structural productivity. But the hit in ’22 and ’23 is as such that we are exactly -- I wish I would’ve left Kabi already being in the margin band.

If we would not have had the whole 9 yards on inflation and the like, that would’ve been gone because the incremental pressure in ’22 and ’23 from inflation of input factors is huge. Don’t forget Kabi is an industrial business which has a deep value chain.

So there’s a lot of reasons to believe why Kabi should be in the margin range in ’24 because now we have a real business with mAbxience, Nutrition business is growing. Sara this morning said that the MedTech business is picking up again post-COVID. People go into blood donation centers again. So we see growth picking up. On that one, we’re confident.

Markus Georgi: thank you, Hassan. There are a few follow-up questions. The first comes from David Adlington, JP Morgan. David, go ahead.

David Adlington: Yes, thanks, guys. Just coming back to the FMC margin target for ’25 of 10% to 14%. Obviously, a pretty wide range, but at the top of that range, you’re looking for 650 basis points of margin expansion from this year.

I just wanted to check whether that margin range is something that you’ve given as a top-down target for FMC or whether that’s been worked out on a bottom-up basis by the company.

Michael Sen: Yes, look, the way -- and as I told you, I have experience with that -- the way this whole thing on margin targets works is that you derive it from competitor baskets but also looking at market fundamentals. And this is how we went about it.

Obviously, as we are still today in one company, we aligned with Helen. If you see what she is disclosing on her outlook in ’25, this really sits somewhere in that margin range. Obviously, why a range? Because they’ve got to work their way up from where they are today. So at some point, they’re going to be in the margin range, and their own ambition, they speak for themselves. You heard.

You heard us say that we’re going to be a demanding shareholder. And what does a demanding -- if you asked, how does it work with an investment company, with an investment company, we look at, what do other people earn in the marketplace? What do we believe is the profit pool? And then we ask our company to show us a plan how to get there. This is how it works, and that’s why you have that upper end.

Markus Georgi: Thank you, David. We’d like to remind you, if you would like to ask a question, please use the link we provided you with and click on the yellow button indicating “I want to ask a question.” The last question so far comes from James Vane-Tempest, Jefferies. Please go ahead.

James Vane-Tempest: Hi, thanks for taking my follow-up questions just on guidance, if I may. So firstly, for this year, if we look at Kabi EBIT last year, it declined 14% in constant currency or 10% excluding Ivenix and mAbxience. So if there was potentially as much as a 4% headwind, around €40 million or so, due to deals, how much of this is there still to consolidate this year?

Because I'm just wondering whether consolidating Ivenix and mAbxience actually is having a headwind to the guidance which you've given at the group level, which could potentially be as much as 2% ex-FMC.

My second question, just on the midterm guidance, firstly, 6% to 8% ROIC, some might say that's challenging to deliver economic returns, given rising rates. So how much scope is there to improve that further, or are there structural limitations?

And then lastly, a follow up to David's questions on FME, so '25 targets, if they deliver on those margin targets, potentially, that could be the fastest business growing within FRE. So just curious in terms of the decision to look to deconsolidate now. Thank you.

Sara Hennicken: Sure. Let me take your first question. And I think what you raised is certainly true in terms of what we are seeing for 2022. And as a reminder, we only acquired those businesses in 2022. So if we are looking for '23, obviously, we will see that ramp up of Ivenix, We will see the ramp up of mAbxience. And thus, you should naturally expect that headwind, obviously, to decrease and the contribution of Ivenix and mAbxience to improve on that basis.

So I think that's the first if you look for '23 Kabi, where we will only show numbers including mAbxience and including Ivenix, and also as a gentle reminder, we will go for the product split when we talk about Kabi.

Now on your second question on midterm guidance, and we deliberately don't have a midterm guidance out. I think that's also just to clarify. The financial framework for us is really an ambition level on fundamentally where I think we need to be at, fundamentally where the Operating Companies need to be at and the Investment Companies, but then also -- and I think that's the bottom piece of that chart -- where we want to be in terms of return focus but also in terms of capital and balance sheet. And that's I think important for us to really focus on that as well.

Now the ROIC, if you decompose it, it will not get up overnight. Where we currently are is not satisfactory, is below our cost of capital, quite frankly, but we need to improve. And I think the two ways to improve is really to focus on the return, to focus on achieving the return we would want to see, but at the same time, really strict capital allocation, managing our capital allocation, not acquiring and spending capital for growth, but really being prudent with our capital allocation along our strategic pillars, but then also along strict return KPIs. And that will increase the return over time.

If you look at -- because you also in your next question come to FMC, if you look at the ROIC excluding FMC today, we're above the group ROIC. So I think, quite naturally, where you see where FMC currently stands, they have some way in front of them and ahead of them. And I think Helen has alluded to it this morning, will probably allude to it in the call later today.

And maybe last question, I hand back over, Michael, to you.

Michael Sen: Yes, if I understood the last question, why deconsolidated that's the fastest growing, was that the question? Yes, look, this has nothing to do with the deconsolidation. As I said, the economic impact on net income remains the same. It's just not deconsolidated, but we are getting rid of a convoluted structure. And then we keep the option that, if they grow fast and they deliver value, we get the benefit of that value. So one thing has nothing to do with the other.

And by the way, why is it even the best period now to deconsolidate? Because if we really now know that there is a plan in place, there's a new management in place, we want them to solely focus on their business, and that's what we are getting with this one.

And then the clear benefit we can harvest later on for our shareholders with all option spaces open because, after the deconsolidation, there are other options what to do and not to do with the stake. But as I said, we want to be a remaining shareholder.

One minor adjustment, you said Ivenix and mAbxience negative. Mabxience is not negative. mAbxience is contributing EBIT.

Markus Georgi: Thank you, James. There's another follow up by Hassan Al-Wakeel from Barclays. Hassan, please go ahead.

Hassan Al-Wakeel: Thank you. A couple of follow ups, please. Michael, you talked a lot about Clinical Nutrition, which had a strong end to the year. Can you unpack this growth geographically and by segment and where you're seeing the most significant share gains? Also, would it be fair to assume that this is a mid- to high-20s EBIT margin business?

And secondly, you talked about selected disposals reducing leverage. Outside of your Investment Companies that you talk about today, I'd love to get more color on this. Should we be thinking about underperforming hospitals or assets or smaller markets or all of the above? And how significant can this be in terms of revenue contribution and pro forma margin or indeed growth uplift? Thank you.

Michael Sen: Yes, look, on the first one, we said there's going to be a Capital Market Day for Kabi where you'll get much more depth. And then those questions will go exactly in the direction you have been pointing at because this is also the intention we have. I think, currently, it's a little too premature.

Let's put it this way. First of all, Clinical Nutrition is enteral and parenteral. And by and large, I would agree on what you've been alluding to as in margins, but you will get more color as we go on that one.

On the geographical, they were very strong in Europe and in Latin America. By the way, in Q4, we did see some softness in China because of the geopolitical situation in China, which we saw in January picking up, but that is too premature whether it was a kind of restocking effect or whether we see then how Chinese New Year went. So we've got to look at quarter 1 how this whole China topic, also by the way because it is primarily clinical nutrition, evolves.

So but you will get much more color on the Kabi Capital Market Day and then on the change disclosure overall.

Well, the portfolio exercise, I said we looked at 28 business cells, business units, whatever you want to call them. And we will update you, but I guess you will understand that I will not use this forum as a sales auctioning platform for potential counterparties. So bear with us. We're going to come back, but you should know that we are committed to that handful of businesses.

Markus Georgi: Thanks, Hassan. And another one from Victoria Lambert from Berenberg.

Victoria Lambert: Thanks. Could you please talk to the operating environment for hospitals in Germany? Based on some news articles, it seems like a lot of public hospitals are under a lot of pressure or loss making and may have to exit the market. What opportunity does this leave for Helios in Germany? And are we seeing some consolidation in play already? Thank you.

Sara Hennicken: Happy to start. I think, if you look at it, there are currently a number of topics being discussed in the healthcare space and in particularly around hospital and legislation in Germany, most of which is too early to comment on it right now.

However, kind of initial reaction would be that some of the topics which are currently being discussed would sit well with us, for example, that whole topic of greater collaboration, that topic of clustering. Why should every hospital have to have the same service level? Shouldn’t there be more specialized hospitals? I think that’s something we have been mentioning and actually already successfully executing in over the last couple of years.

And if you look at Helios, I really think -- and that’s why they are in the margin band -- they are best in class. If you look at, for example, take energy as an example, there’s a lot of topics being in the newspaper on energy.

Actually, if I look at our Helios energy consumption compared to the average on hospitals, it’s much better than what the average hospital spends on energy. That’s because we invested early. That’s because we invested in energy efficiency. And we really try to drive an excellence-in-execution business, I would say.
88
So we are waiting for further discussions. There will be a lot of more to follow over the course of the summer. But in general, we look forward to engaging into that dialogue.

Michael Sen: Yes, and Victoria, let me add, currently, I wouldn’t be -- or we are not too worried on what we hear on this whole reform topic because, as Sara said, a lot of topics have a pattern which matches almost our operating model and are in our favor. Therefore, on many topics, we are supportive.

The second thing is that, with every hospital reform, if we look -- and we went through past papers -- this is the way Helios was built, on a consolidation kind of move. Now there still might be other options here because I absolutely agree with you that maybe there’s overcapacity in Germany. But we’re also going to be selective on what we take in or not.

Also, because we want to -- there’s sometimes options to do it capital light. The, let’s say, primary target would be, how can you get access to the patient flow? And what else can you do these days with digitization?

We see -- and there, we can learn from Quirónsalud, who are very, very good in managing an entire patient population -- population health management, that’s what it’s called -- on digital platforms. And Helios Germany can build on that one.

And then what I said in my speech, this whole thing, it doesn’t need only to be hospitals. This whole interconnection between ambulatory and clinics is something which we think will also rather work in our favor.

Markus Georgi: Thank you, Victoria. Thank you, Michael. Thank you, Sara. There are no further questions. So we have reached the end of today’s event. If there are more questions going forward, please contact the Investor Relations team. Would see many of you in the coming days and weeks. Until then, stay healthy, and thank you for participating today.

Michael Sen: Thank you.

Sara Hennicken: Thank you.

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