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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. I'm Hailey, your Chorus Call operator. Welcome, and thank you for joining the Fresenius Medical Care public presentation on the early indication for 2021. (Operator Instructions)

I would now like to turn the conference over to Dominik, Head of Investor Relations. Please go ahead.

Dominik Heger - *Fresenius Medical Care AG & Co. KGaA - Executive VP and Head of IR, Strategic Development & Communications*

Thank you, Hailey. We would like to welcome all of you to our presentation on our early indications for 2021. We appreciate you joining today.

As always, I have to start out the call by mentioning our cautionary language that is in our safe harbor statement as well as in our presentation and in all the materials that we have distributed on Monday. For further details concerning risks and uncertainties, please refer to these documents as well as to our SEC filing.

With us today is Rice Powell, our CEO and Chairman of the Management Board. Rice will give you a rough update on the business development for 2020 and the reasons around our Monday announcement. Also with us today is Frank Maddux, our Global Chief Medical Officer, who will give you some insights on the process our Global Medical Office uses for projections in respect to the excess mortality. Of course, also with us is Helen Giza, our Chief Financial Officer, who will give you more color on our early thinking around 2021.

I will now hand over to Rice. The floor is yours.

Robert Maurice Powell - *Fresenius Medical Care AG & Co. KGaA - Chairman of the Management Board & CEO of Fresenius Medical Care Mgmt AG*

Thank you, Dominik. Good afternoon, good morning, depending on where you are. Thank you for joining us for today's presentation and for your continued interest in Fresenius Medical Care. At this point, I presume you will have seen our announcement on Monday. We are scheduled to publish our fourth quarter and full year results for 2020 on February 23.

The German regulatory guidance and, in particular, the rules around the COVID impacts are very stringent and require us to report upon an early indication of a likely material impact. This is what happened on Monday. Therefore, we provided the market with some early indications for how these results and our 2021 outlook are shaping up at the very moment.

The regulatory guidance does not leave us with time for a detailed analysis before we have to inform the markets even though we have entered our quiet period. It is not our intention to be unavailable to your questions. We do apologize for this inconvenience. We continue to finalize our figures for Q4 as well as our 2021 budget. Consequently, giving a well-defined outlook for 2021 is very difficult at this point. Today, we present these early indications and explain our current thinking.

Recognizing that many of you will have questions, Helen, Frank and I endeavor to address as many potential questions as appropriate in these prepared remarks. At the same time, we wanted to spare everyone the frustration of having to respond with a, "We cannot comment yet." We are asking for your understanding that today is a listen-only call. After the quiet period, we will offer a Q&A session in our earnings call as we traditionally do.

With this said, please allow me to begin on Slide #3. It is no secret that COVID-19 presented us with real challenges in 2020, and we are certainly not alone in having to navigate through this unprecedented pandemic. I am incredibly proud of how Fresenius Medical Care employees were allied together to ensure our ESRD patients around the world continue to receive the life-sustaining treatments they depend on us for.

This tremendous effort by our team, with the efficiency and cost-saving measures implemented, also contributed to the strong performance of our business in 2020. Despite the negative impacts of the COVID-19 pandemic, we have achieved our revenue target and slightly exceeded our net income target for 2020 based on preliminary and unaudited financial figures.

Revenue growth is expected to come in at mid -- at a mid-single-digit growth rate, while net income growth is expected to come in slightly above the top end of our mid to high single-digit target range. As we have delivered on our targets in 2020, we plan to propose a dividend in line with our dividend policy. This is a real achievement and a testament to the hard work and dedication of our team at Fresenius Medical Care.

Now there are a couple of developments coming out of the fourth quarter that we needed to make the market aware of early on. First, as outlined in Monday's announcement, we anticipate a macroeconomic-driven impairment of goodwill and trade names in our Latin America segment of approximately EUR 195 million as a consequence of the macroeconomic downturn and increasing risk adjustment rates for certain countries in Latin America. The impairment will be treated as a special item.

This is something that we flagged as a possibility back in the second quarter of 2020, which is an indicator that we are constantly evaluating our goodwill in accordance with accounting rules and requirements. And we do confirm that we do not see further need for impairments in any other business area at this point in time.

The second development relates to mortality. Given the delay in data availability and the time required to properly analyze, validate and model a trend, Monday was the first opportunity to judge the potential impact on our business development in 2021. Throughout 2020, we reported that COVID-19 affects people with advanced kidney disease and that the severity of the illness results in an increased mortality among dialysis patients. This excess mortality trend has accelerated in November and even more significantly in December and accumulated to an excess mortality of approximately 10,000 patients in 2020 over the pre-pandemic baseline. This represents roughly 300 basis points of our total patient population. The largest part of this impact results from the last 2 months of 2020. That excess patient mortality figure is worldwide. However, we are seeing the greater consequences from COVID-19 in the United States and the EMEA region.

We are not through with this pandemic by any means, and implications for 2021 appear even more considerable. We anticipate excess patient mortality will continue to grow and further accumulate beyond the 10,000 patients we have seen in 2020. We will update you on the developments quarter-to-quarter throughout 2021.

This trend also has material financial consequences in the near term. Helen will elaborate on those later. But before Helen does that, I will turn it over to Frank, and he will give you some insights on the process our Global Medical Office uses for projections with respect to excess mortality.

Franklin W. Maddux - *Fresenius Medical Care AG & Co. KGaA - Global Chief Medical Officer & Member of Management board of Fresenius Medical Care Mgmt AG*

Thank you, Rice. I'll begin on Slide 4. The COVID-19 pandemic caused by the SARS-CoV-2 novel coronavirus and its variants has affected economies and health systems around the world. The population of patients with advanced kidney disease, regardless of whether they yet require renal replacement therapy, are recognized as a highly vulnerable population of patients affected by the disease.

Our medical office and clinic operations have worked throughout the pandemic to provide guidance on maintaining access to therapy, identify those affected or at risk for COVID, apply aggressive nonpharmaceutical interventions to protect patients and staff, offer treatments in known cases of COVID, encourage vaccination and publish our methods of scientifically understanding features of this viral infection. I wish to thank all our clinic, manufacturing and operational staff that maintain access to care through the provision of supplies, equipment and direct patient care services for people with kidney failure. They are the heart of essential health care work.

Throughout the company, we looked to assess the burden and the impact of COVID on the patients we treat directly or supply needed equipment and products. This begins with an understanding of who has COVID or who is suspected of having COVID. Through screening for signs and symptoms, we have noted trends that indicate a surge in infections. We screen patients upon entry to a facility for temperature, cough, secondary signs of COVID infection like loss of taste, smell and breathing difficulties. Triggers from these screens lead to identification of patients being tested for COVID, identified as persons under investigation and isolated for their treatments. All this occurs in the face of a high level of nonpharmaceutical interventions, including masks, social distancing, intensive disinfection procedures and isolation.

Further, we track and monitor the number of patients with advanced CKD that are seen in our network of provider nephrologists or are referred for initiation of treatment to interpret disease burden in both the direct population we treat today as well as the population we expect may be referred in the future. These observed clinical and practice pattern findings allow the advanced analytic and epidemiology teams and the crisis response teams to look at population trends by locale in the identification of patients we directly care for and the burden or expected burden of disease in the coming days and weeks.

We have seen several waves of COVID infection in both focal and broad geographies around the world over the course of 2020 and now into 2021. These observations are detailed at the region, country and state level in the approximately 50 countries where we directly care for patients and the 150 countries where we provide equipment and supplies for dialysis therapy.

Moving on to Slide 5. We model the impact of the pandemic on hospitalization, missed treatments and death. These models typically may require 4 to 5 weeks of lag time as the acquisition of death information can be delayed and fragmented as much of the terminal care of these patients is not directly in our hands due to their acute illness. Once these data are validated, there are analyses of year-over-year observance to historical expected deaths. These are in the context of known seasonal variation throughout the course of the year. This expected death rate gives us a picture of the estimated excess deaths in the end-stage kidney disease population we treat directly.

It is through validating these analyses that we capture the 2020 excess mortality impact which contributes to the guidance change noted in our recent announcement. Each surge of COVID, whether in a focal series of hotspots like we saw in the spring and summer of 2020 or the more recent December 2020 surges in cases that has generated broad and sweeping infection rates across multiple parts of the world, is followed some 4 to 5 weeks later by an increase in reported related deaths. This occurs in the general population, the CKD population and our end-stage kidney disease population. The most recent holiday surge in cases has been broad and seen across several continents and in many countries. It has followed the pattern of increasing infections, followed by increasing burdens on health systems, and we are now recognizing the related increase in excess mortality.

The company has been using predictive mortality models of excess deaths for the general population from the University of Washington and other sources to extrapolate predicted mortality for end-stage kidney disease patients and the potential impact of country-level, nonpharmaceutical interventions, mitigation strategies and vaccination impact for our patients and staff. Country-level variability in acknowledging and addressing COVID has had different levels of COVID impact, which in turn has affected what we see in our global population of patients affected by the pandemic.

It is with a slow growth in vaccination availability, vaccine hesitancy in some countries, the known risk of attenuated immune responsiveness to vaccination in people with kidney disease and the appearance of novel, highly contagious COVID variants that compel us to signal an expectation of continued impact until the pandemic is under better control, at which time we anticipate a return to baseline clinical patterns and results.

With that, I will end my comments on the approach we have taken to address the burden and understanding the impact of the pandemic. I will now turn it over to Helen.

Helen Giza - *Fresenius Medical Care AG & Co. KGaA - CFO & Member of Management Board of Fresenius Medical Care Mgmt AG*

Thank you, Frank. Hello, everyone. I hope you and your families are staying safe and healthy.

And we'll pick up on Slide 6. As just outlined by Frank, the accelerating effect of excess mortality due to the COVID-19 pandemic are continuing into 2021. Excess mortality is expected to further accumulate in the first half of the year and have an increasingly significant adverse annualization effect on treatment volumes. This also negatively impacts the operating leverage on our clinical utilization and downstream effects on complementary assets.

A major reason we are now seeing a more material net income impact from mortality is that with a lower treatment volume, we also lose patients to a more sizable extent that previously covered our fixed cost base. And given the extent of the pandemic, this reduces profitability for many of our clinics. With only a small number of patients missing per clinic for a certain period, the consolidation of clinics in the shorter term is not broadly viable in a meaningful way as an offsetting factor for 2021.

Additionally, the excess mortality has a downstream effect on some of our complementary assets like the renal pharmacy or our vascular access business. The effective mortality in our patient population and our complementary assets combined account for roughly 2/3 of the negative net income impact. It will recover with underlying patient growth over time and inorganic opportunities.

Something we talked about continuously through 2020 are the comprehensive measures we took in order to protect patients during the COVID-19 pandemic and to maintain safe operations in more than 4,000 dialysis centers and 45 manufacturing sites around the world. These measures include the provision of personal protective equipment for employees and patients and higher compensation for our employees working in isolation clinics.

These measures have resulted in significantly increased costs in the Dialysis Services business, which in 2020 were largely compensated by government support, in particular, in the U.S.; accelerated efficiency measures supported by lower spending levels; as well as a strong product business development. However, at this time, we are not anticipating government relief for 2021, and yet these protective measures continue to weigh on our business and account for roughly the other 1/3 of our net income delta to our plan for 2021. These costs are not assumed to carry over into 2022.

Against this backdrop and based on the currently available information and status of analysis, for 2021, we anticipate revenue growth of up to mid-single digits and assume net income before potential restructuring measures to decline by up to 25%. In order to avoid any misunderstanding, the basis for the 25% is the high level of 2020 net income before special items, this means before the impairment charge.

As we've mentioned, we are working in an unprecedented time with an increasing number of variables, which makes it extremely difficult to give guidance this year. Frank was so kind to explain that there is more up-to-date information to come, and we need time for a careful analysis of the latest data. We will use the next 3 weeks to refine our guidance range, and we'll provide regular updates over the course of the year.

Turning to Slide 7. Here, we have outlined the high-level assumptions informing our early indications for 2021. We are expecting monthly excess mortality to continue to accumulate for the first half of 2021. This is dependent on both the adoption as well as the speed at which vaccinations can be rolled out to our patient population around the world. As we talked about earlier, COVID-19-related additional costs, such as personal protective equipment or increased personnel costs in the Dialysis Services business, are expected to remain at a high level. For PPE, in particular, we see an ongoing need that is further exacerbated by rising costs.

In 2020, pandemic-related costs in the Dialysis Services business were largely compensated by accelerated efficiency measures and government support, particularly from the U.S. However, besides the extended suspension of the Medicare sequestration through March 2021, there is currently no further public relief funding assumed to dialysis providers in 2021. Our up to mid-single-digit revenue growth, while negatively impacted from the excess mortality and calcimimetics, does benefit from the tailwinds from value-based care, home business growth, Medicare Advantage expansion and ESRD PPS bundle rate increase.

The impact on net income is more negatively pronounced due to lower volume and resulting negative impact on clinic utilization and overhead absorption. The outlined downstream effects on other business areas, like vascular access and pharmacy, add to this effect, along with the full impact of the ongoing protective cost measures not covered with relief, the impact from calcimimetics and anticipated transactional exchange rate losses.

Additionally, we are not expecting a deterioration of our commercial book of business in 2021. Albeit economic impact from COVID-19 lingers and unemployment is high, we have not seen an impact on our commercial book of business so far. We also do not have any major payer negotiations in 2021. Despite the pressure resulting from the pandemic, we expect our products business to grow against the high level of 2020.

2021 will no doubt be difficult. However, we are confident that we will get back on track as soon as we see sufficient vaccinations available in our markets around the world. In the U.S., for example, the referral rates for new patients has normalized at the end of 2020, which should help the organic growth moving forward. Therefore, our midterm target, as defined at our Capital Markets Day last October, remain unchanged. By 2025, we project to grow our revenues in the mid-single-digit percentage range, along with high single-digit net income growth.

While these targets did not include unknown aspects, such as the potential impact from COVID-19, the phasing of these targets might now look different from a free cash flow generation perspective than initially assumed and are more back-end loaded. To that extent, we are evaluating potential additional cost efficiency and restructuring measures that would strive to compensate for the earnings impact we are experiencing as a result of this pandemic. The potential additional cost efficiency and restructuring measures under evaluation should be contributing, in particular, in a meaningful way towards the medium term.

For the sake of clarity, regardless of what will come out of our analysis in terms of potential additional optimization measures, we do not anticipate a positive contribution for 2021. We are evaluating different opportunities and plan to come back with additional detail at our earnings call on February 23.

A final point from me before I turn it back over to Rice. At this time, we see 2021 as probably a lost year for growth. Based on our current assumptions, we do not expect an acceleration of organic growth before Q4 2021. In the midterm, we do expect to see growth normalize once the pandemic abates.

With that, I will now hand you back to Rice to walk through Slide 8.

Robert Maurice Powell - *Fresenius Medical Care AG & Co. KGaA - Chairman of the Management Board & CEO of Fresenius Medical Care Mgmt AG*

Thank you, Helen. At this time, we are continuing to closely monitor the development of mortality on a global basis, the adoption and speed in which our patient population receives vaccinations globally as well as the potential availability of government relief. In addition, as outlined by Helen, potential cost efficiency and restructuring measures to further adjust our cost base in the medium term are under close evaluation. We plan to give a bit more detail on this in our scheduled earnings call later in the month. There is more work to be done first.

There is no question that 2021 will continue to be a difficult operating environment. We are confident that once COVID-19 is behind us, our 2025 strategy will prove to be correct, and we will be in a very good position. Please be assured that we will continue to work with full commitment and tireless effort for our patients, employees and investors to overcome the impacts the pandemic has challenged us with and to achieve the midterm targets.

This concludes what we have prepared for today. Again, I trust you understand that we cannot take any questions until the quiet period is over. But I hope Helen, Frank and I were able to address some of your potential questions. We look forward to speaking with you again on February 23, and most certainly, we will have Q&A at that time as we traditionally do.

Thank you, stay safe and be well. Thank you again for your interest in Fresenius Medical Care.

Operator

Ladies and gentlemen, the conference has now concluded, and you may disconnect your telephones. Thank you for joining, and have a pleasant day. Goodbye.