



## OVERALL ASSESSMENT OF THE BUSINESS SITUATION

At the time this Group Management Report was prepared, the Management Board continued to assess the development of the Fresenius Group as positive. Demand for our products and services continues to grow steadily around the world.

## OUTLOOK

This Group Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 76 ff.

### GENERAL AND MID-TERM OUTLOOK

The outlook for the Fresenius Group for the coming years continues to be positive. We are able to treat patients and supply customers reliably, continuously striving to optimize our costs, to adjust our capacities, and to improve our product mix, as well as to expand our products and services business. We expect these efforts to increase our earnings in the coming years. In addition, good growth opportunities for Fresenius are, above all, presented by the following factors:

- ▶ **The sustained growth of the markets in which we operate:** Fresenius still sees very good opportunities to benefit from the growing health care needs arising from aging populations, with their growing demand for comprehensive care, and technical advances, but driven also by the still insufficient access to health care in the developing and emerging countries. There are above-average growth opportunities for us not only in the markets of Asia-Pacific and Latin America, but also in Africa. Efficient health care systems with appropriate reimbursement structures will evolve over time in these countries, as economic conditions improve. We will strengthen our activities in these regions and introduce further products from our portfolio into these markets successively.
- ▶ **The expansion of our regional presence:** the fast-growing markets in Asia-Pacific, Latin America, and Africa especially offer further potential to strengthen our market position. China, for instance, offers excellent growth opportunities over the long term, not only in infusion and

nutrition therapies, IV drugs, and medical devices for Fresenius Kabi, but also for Fresenius Medical Care in dialysis. We plan to further roll out additional products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. Fresenius Helios is also present outside Germany with Quirónsalud, Spain's largest private hospital operator. Fresenius Helios also sees good opportunities for further international growth, including in Latin America. Here, Quirónsalud is already represented in Colombia and Peru.

- ▶ **The broadening of our services business:** for Fresenius Medical Care, opportunities to extend into new markets or to expand its market share arise if a country opens up to private dialysis providers or allows cooperation between public and private providers through public-private partnerships. Whether or not private companies can offer dialysis treatment, and in what form, depends on the health care system of the country in which they operate and its legal framework. Fresenius Helios has an extensive nationwide hospital network in Germany and Spain. Based on this platform, Fresenius Helios aims to develop and offer innovative, integrated care offerings. In addition, Helios Germany is expanding outpatient services in a separate division. Patient care should be further improved through the exchange of knowledge and experience (best practice) between Helios Germany and Quirónsalud. Growth opportunities in Spain arise from exploiting synergies,

the expansion and construction of hospitals, and further consolidation potential in the highly fragmented Spanish private hospital market, in particular. The close integration of Quirónsalud's facilities for occupational risk prevention within the Spanish hospital network offers additional growth opportunities. In addition, Fresenius Helios is seizing opportunities in Latin America through acquisitions to exploit potential in the private hospital market. Fresenius Vamed continues to expand its high-end services, such as sterile processing.

- **The broadening of our products business:** at Fresenius Medical Care, we see the planned expansion of the core business with dialysis products as a growth driver. At Fresenius Kabi, we plan to expand our IV drugs product business. We develop generic drug formulations that are ready to launch at the time of market formation, directly after the patents of the branded products expire. We also develop new formulations for non-patented drugs. Furthermore, we develop ready-to-use products that are especially convenient and safe, including, for example, pre-filled syringes and ready-to-use solutions in our free-flex infusion bags.
- **The development of innovative products and therapies:** these will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and the convenience of our products and therapies are key factors here. In our dialysis business, we expect home therapies to gain further importance, leading to growth potential for Fresenius Medical Care. In addition, Fresenius Kabi develops new dosage forms for its products. In the area of biosimilars,

Fresenius Kabi specializes in the development of products for the treatment of oncology and autoimmune diseases and has a pipeline of molecules at various stages of development. Helios Germany and Spain, as well as Fresenius Vamed, have been developing innovative business areas such as digital offerings in their own division.

- **Selective acquisitions:** besides retaining organic sales growth as the basis for our business, we will continue to utilize opportunities to grow by making small and mid-sized acquisitions that expand our product portfolio and strengthen our regional presence.

We are also exploiting any opportunities for potential within our operations for **cost-management** and **efficiency-enhancement** measures. These include plans for cost-efficient production and a further-optimized procurement process.

The outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2020 and beyond. Significant risks are discussed in the Opportunities and Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

## FUTURE MARKETS

We expect the consolidation process to continue among competitors in our markets in Europe, Asia-Pacific, and Latin America. Consequently, we expect that there will be opportunities for us to penetrate new markets, both by expanding our regional presence and by extending our product portfolio.

New markets will open up as **Fresenius Medical Care** successively rolls out its product and services portfolio, especially in emerging countries. Fresenius Medical Care is committed to preparing its business portfolio for further sustainable, profitable growth by investing in future growth markets in its product and service businesses, such as China.

**Fresenius Kabi** plans to introduce products already offered outside the United States into that country as well. It also aims to further roll out its product portfolio internationally, especially in the fast-growing markets of Asia-Pacific and Latin America. Market share is to be expanded further through the launch of new products in the field of IV drugs and medical devices for infusion therapy and clinical nutrition. In Fresenius Kabi's biosimilars business, we are developing products focusing on oncology and autoimmune diseases, which will be introduced to the market over the next few years.

With its broad hospital network across Germany, **Fresenius Helios** is able to develop new patient care models. In addition, Helios Germany is expanding outpatient services in a separate division. The increasing number of privately insured patients in Spain is opening up opportunities for private operators like Helios Spain. Fresenius Helios also sees good opportunities for further international growth, among others, in Latin America.

**Fresenius Vamed** is expecting to grow in the life cycle and PPP project areas, both with regard to the project and the services business. Moreover, the company intends to further expand its position with follow-up orders, as well as to enter new target markets. Furthermore, Fresenius Vamed will continue to strengthen its position as a leading post-acute care provider in Central Europe.



## HEALTH CARE SECTOR AND MARKETS

The health care sector is considered to be widely independent of economic cycles. The demand, especially for life-saving and life-sustaining products and services, is expected to increase, given that they are medically needed and the population is aging. Moreover, medical advances and the large number of diseases that are still difficult to cure – or are incurable – are expected to remain growth drivers.

In the emerging countries, the availability of basic health care and the demand for high-quality medical treatment are increasing. As per-capita income increases, individuals increasingly have to cope with the illnesses associated with lifestyle diseases.

On the other hand, experts estimate that further financial constraints in the public sector could result in more pricing pressure and a slowdown in revenue for companies in the health care industry. Some countries are experiencing significant financing problems in the health care sector due to the strained public finance situation. Especially in the industrialized countries, increased pressure to encourage saving can be expected as health care costs constitute a large portion of the budget.

It will be increasingly important for companies in the health care sector to increase patient benefit, to improve treatment quality, and to offer preventive therapies. In addition,

especially those products and therapies that are not only medically but also economically advantageous will be of increasing importance.

### THE DIALYSIS MARKET

The global dialysis market is expected to grow by about 4% at constant exchange rates in 2020.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2020, although significant regional differences will remain. For the United States, Japan, and the countries of Central and Western Europe, where prevalence is already relatively high, we forecast patient growth in the region from under 1% to just over 3%. In economically weaker regions, the growth rates are even higher.

Overall, factors such as aging populations and the growing number of people suffering from diabetes and hypertension, which are ailments often preceding terminal kidney failure, are contributing toward continued growth of the dialysis markets. The life expectancy of dialysis patients is also rising thanks to ongoing advances in treatment quality and the rising standard of living, especially in the emerging countries.

Further information is provided on pages 46 f. of the Group Management Report.

### THE MARKET FOR GENERIC IV DRUGS, BIOPHARMACEUTICALS, CLINICAL NUTRITION, INFUSION THERAPY, AND MEDICAL DEVICES / TRANSFUSION TECHNOLOGY<sup>1</sup>

We expect the global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices/transfusion technology to grow by around 5% in 2020.

In 2020, the **market for generic IV drugs** is expected to grow by approximately 3% worldwide. The demand for generic drugs is likely to grow because of their significantly lower price in comparison to the originator drugs' price. The growth dynamic will continue to be driven by originator drugs going off patent, as well as by original off-patent products that are offered at steady prices due to a unique selling proposition. A factor working in the opposite direction is the price erosion for original off-patent drugs and generic drugs that are already on the market.

We expect Fresenius Kabi's relevant **market for biopharmaceuticals** to grow by around 8% in 2020.

In 2020, we expect worldwide growth of 4% in the **clinical nutrition market**. Growth perspectives are supported by increasing awareness of the need for early nutritional intervention, which is reflected in the latest guidelines and the increased practice of mandatory malnutritional screening. We see additional potential in the still underlying high percentage of people affected by malnutrition who do not yet have

<sup>1</sup> Market data refers to Fresenius Kabi's addressable markets. Those are subject to annual volatility due to currency fluctuations and patent expiries of original drugs in the IV drug market, among other things. Percentage increase based on market value (price x volume).



access to nutritional services. Continued high growth potential is projected in Asia-Pacific, Latin America, and Africa. We assume growth of up to 10% in individual countries.

We expect the market for infusion therapy in Europe to grow by around 1% over the prior year's level in 2020. Despite a slightly growing blood volume substitutes market, continuous price pressure in the tender-driven standard-solutions business is expected to affect growth. Outside Europe, we also estimate the market for infusion therapy to grow by approximately 1% in 2020, whereby Latin America is expected to grow by up to 8%.

In 2020, the **market for medical devices** is expected to grow by up to 3% and the **market for transfusion technology** by up to 4%.

## THE HOSPITAL MARKET

The number of hospital admissions in Germany declined slightly in 2017. No reliable figures are available yet for 2018 and 2019. However, we assume a further decline in inpatient hospital admissions and an increase in outpatient treatments as a result of the increasing provision of outpatient services.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2020 it was set at 3.66%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For surplus services agreed in advance with the health insurance companies, hospitals have to accept the so-called fixed cost degression discount on surplus services of up to 35%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies.

As a result of the Act to Strengthen Nursing Staff (PpSG), the nursing costs will be excluded from the DRG from 2020; instead, the costs for patient-oriented nursing care will be fully reimbursed by the health insurance funds via separate nursing budgets at prime costs. Measures to relieve the burden on nursing care are also to be financially supported to a certain extent from 2020. In addition, the regulation setting a minimum level for nursing staff has been extended to the areas of heart surgery, neurology, neurological stroke units, and early neurological rehabilitation as of 2020.

In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are currently being worked out in a consistent overall concept. However, we do not expect any adverse effects from this since the Helios Group is well prepared for quality-based remuneration thanks to its clear focus on quality and transparency of medical outcomes.

The future expectations with respect to their economic situation vary among the German hospitals: according to the Krankenhaus Barometer 2019 survey by the German Hospital Institute (DKI), only one sixth (17%) of the hospitals expect their economic situation to improve in 2020, whereas 44% expect it to worsen.

Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We expect the private hospital market in **Spain** to continue to grow by 2% to 3% in 2020. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future.

Relevant indicators, for example nationwide health care spending and bed density, indicate the further market development potential in the Spanish health care system compared with other EU countries. This also provides opportunities for the establishment of new hospitals. In addition, the highly fragmented private Spanish hospital market offers further consolidation potential.

## THE MARKET FOR PROJECTS AND SERVICES FOR HOSPITALS AND OTHER HEALTH CARE FACILITIES

For 2020, we expect the worldwide demand for projects and services for hospitals and other health care facilities to grow at a low single-digit rate.

In the Central European markets with **established health care systems**, we expect solid growth and a continued rise in demand. This is due to demographic developments and an increasing need for investment and modernization in public health care facilities. Demand is particularly strong for services, i.e., the maintenance and repair of medical and hospital technology, facility management, technical or overall operational management, and the optimization of infrastructural processes – especially within the framework of public-private partnership models. Additional growth opportunities arise from the fact that public institutions are increasingly outsourcing non-medical services to private service providers. In addition, an expansion of the range of post-acute services in Europe is expected.

In the **emerging markets**, we anticipate an overall dynamic development. Growth in markets such as Africa, Latin America, and southeast Asia will initially be driven by the demand for efficient, needs-oriented medical care. In China and the Middle East, growth will be driven by the development of infrastructure and the creation of new care services, as well as research and training facilities.

## GROUP SALES AND EARNINGS

Based on the 2019 financial results, Fresenius confirms the targets for the years 2020 to 2023. Group sales are projected to grow organically with a compounded annual growth rate (CAGR) of 4% to 7% in the timeframe 2020 to 2023. Group net income<sup>1,2</sup> is projected to increase organically with a CAGR of 5% to 9% in the timeframe 2020 to 2023. Small and medium-sized acquisitions are expected to contribute an incremental CAGR of approx. 1% point to both sales and net income growth.

In 2020, we expect to increase Group sales<sup>3</sup> by 4% to 7% in constant currency. We project Group net income<sup>1,4</sup> to increase by 1% to 5% in constant currency. Contributions from signed, but not yet closed acquisitions are included in this guidance.

The guidance for fiscal year 2020 does not include any effects from the coronavirus (COVID-19) outbreak, since it is too early to quantify those. From the current perspective, Fresenius does not expect a significant negative financial impact<sup>5</sup>.

### GROUP FINANCIAL MEDIUM-TERM TARGETS

	CAGR 2020 – 2023 <sup>1</sup>
Organic sales growth	4% – 7%
Organic net income growth <sup>2</sup>	5% – 9%

<sup>1</sup> Before special items

<sup>2</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

### GROUP FINANCIAL TARGETS 2020

	Targets 2020 <sup>1</sup>	Fiscal year 2019 <sup>2</sup>
Sales growth (in constant currency)	4% – 7%	€35,409 m
Net income <sup>3</sup> growth (in constant currency)	1% – 5%	€1,879 m
Dividend	Continue profit-driven dividend policy	Proposal +5% per share

<sup>1</sup> Before special items

<sup>2</sup> Before special items, including IFRS 16, including NxStage operations (see table on page 75)

<sup>3</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

### FINANCIAL TARGETS BY BUSINESS SEGMENT 2020

	Targets 2020 <sup>1</sup>	Fiscal year 2019 <sup>2</sup>
<b>Fresenius Medical Care</b>		
Sales growth (in constant currency)	Mid-to-high single-digit %-range	€17,477 m
Net income <sup>3</sup> growth (in constant currency)	Mid-to-high single-digit %-range	€1,236 m
<b>Fresenius Kabi</b>		
Sales growth (organic)	3% – 6%	€6,919 m
EBIT growth (in constant currency)	-4% – 0%	€1,205 m
<b>Fresenius Helios</b>		
Sales growth (organic)	3% – 6%	€9,234 m
EBIT growth (in constant currency)	3% – 7%	€1,025 m
<b>Fresenius Vamed</b>		
Sales growth (organic)	4% – 7%	€2,206 m
EBIT growth (in constant currency)	5% – 9%	€134 m

<sup>1</sup> Before special items

<sup>2</sup> Before special items, including IFRS 16 effects, including NxStage operations (see table on page 75)

<sup>3</sup> Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA

<sup>1</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

<sup>2</sup> Before special items

<sup>3</sup> Base 2019: €35,409 million, including IFRS 16, including NxStage operations

<sup>4</sup> Base 2019: €1,879 million, before special items, including IFRS 16, including NxStage operations

<sup>5</sup> Taking into account minority interest structures across the Group

## SALES AND EARNINGS BY BUSINESS SEGMENT

In 2020, we expect sales and earnings development in our business segments as shown below:

For 2020, **Fresenius Medical Care** expects sales to grow in the percentage range of mid-to-high single digits<sup>1</sup> in constant currency. Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA is expected to grow in the percentage range of mid-to-high single digits<sup>1,2,3</sup> in constant currency.

For 2020, **Fresenius Kabi** expects organic sales growth of 3% to 6%<sup>1</sup> and EBIT development in constant currency of -4% to 0%<sup>1,2</sup>.

For 2020, **Fresenius Helios** expects organic sales growth of 3% to 6%, and EBIT growth in constant currency of 3% to 7%.

For 2020, **Fresenius Vamed** expects to achieve organic sales growth of 4% to 7% and EBIT growth in constant currency of 5% to 9%.

## FRESENIUS GROUP / FRESENIUS MEDICAL CARE / FRESENIUS KABI – 2019 BASE FOR GUIDANCE 2020

€ in millions	Fresenius Group	Fresenius Medical Care	Fresenius Kabi
<b>Sales (as reported = base for guidance)</b>	<b>35,409</b>	<b>17,477</b>	<b>6,919</b>
Transaction costs Akorn			3
Revaluations of biosimilars contingent purchase price liabilities			-32
<b>EBIT (before special items = base for Kabi guidance)</b>			<b>1,205</b>
<b>Net income (as reported)</b>	<b>1,883</b>	<b>1,200</b>	
Transaction costs Akorn	3		
Revaluations of biosimilars contingent purchase price liabilities	-19		
Gain related to divestitures of Care Coordination activities	-15	-49	
Transaction costs NxStage	6	18	
Expenses associated with the cost optimization program at FMC	21	67	
<b>Net income (before special items = base for FSE &amp; FMC guidance)</b>	<b>1,879</b>	<b>1,236</b>	

## FINANCING

For 2020, we expect continued strong cash flow with a cash flow margin between 12% and 14%.

In addition, unused credit lines under syndicated or bilateral credit facilities from banks provide us with a sufficient financial cushion.

Financing activities in 2020 are largely geared to refinancing existing financial liabilities. Fresenius Medical Care's upcoming maturities mainly comprise the equity-neutral convertible bond in January 2020, which was already refinanced

through the issuance of bonds in November 2019, bonds in October 2020, and repayments under the syndicated credit agreement. At Fresenius SE & Co KGaA, refinancing activities are mainly related to the bonds due in July 2020, which were issued in 2013.

Without further acquisitions, we expect some deleveraging: the net debt/EBITDA<sup>4</sup> ratio by the end of 2020 is expected to be towards the top end of the self-imposed target corridor of 3.0–3.5x.

<sup>1</sup> Details of the base 2019 can be found in the table opposite.

<sup>2</sup> 2020 before special items

<sup>3</sup> Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA

<sup>4</sup> Calculated at expected annual average exchange rates, for both net debt and EBITDA; including contributions from signed, but not yet closed acquisitions; including IFRS 16 effects, excluding further potential acquisitions



## INVESTMENTS

In 2020, we expect to invest about 6% to 7% of sales in property, plant and equipment. About 45% of the capital expenditure planned will be invested at Fresenius Medical Care, about 30% at Fresenius Kabi, and around 20% at Fresenius Helios. At Fresenius Medical Care, investments will primarily be used for the expansion of production capacity, optimizing production costs, and the establishment of new dialysis clinics.

Fresenius Kabi will primarily invest in expanding and maintaining production facilities, as well as in introducing new manufacturing technologies. At Fresenius Helios, we will primarily invest in the new buildings, in the modernizing and equipping of existing hospitals, and newly acquired hospitals.

The regional focus of the Group's investment spending will be on Europe and North America, which will account for about 60% and 30%, respectively. The remainder will be invested in Asia, Latin America, and Africa. About 30% of total funds will be invested in Germany.

We assume that the return on operating assets (ROOA) and the return on invested capital (ROIC) will be broadly stable over 2019.

## DIVIDEND

The dividend increases provided by Fresenius in the last 26 years show impressive continuity. Our dividend policy aims to align dividends with earnings-per-share growth (before special items) and thus broadly maintains a payout ratio of 20% to 25%. Fresenius intends to continue its profit-driven dividend policy in 2020.

## OPPORTUNITIES AND RISK REPORT

The Fresenius Group is exposed to a number of risks due to the complexity and the dynamics of its business. These risks are inevitable consequences of entrepreneurial activities.

**Opportunities can only be exploited when there is a willingness to take risks.**

As a provider of products and services for the severely and chronically ill, we are relatively independent of economic cycles. The diversification into four business segments, which operate in different segments of the health care market, and the global footprint further minimize the Group's risk profile. Our many years of experience, as well as our regularly leading market position, serve as a solid basis for a realistic assessment of risks.

At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

### OPPORTUNITIES MANAGEMENT

**Managing opportunities** is an ongoing, integral part of corporate activity. To be successful over the long term, we consolidate and improve on what we have already achieved and create new opportunities. The organization and management of the Fresenius Group have a decentralized, regional structure. This enables us to recognize and analyze trends, requirements, and opportunities in the often fragmented markets and to focus our actions accordingly. We maintain regular contact and dialog with research groups and scientific institutions to explore new prospects, and keep a close watch on markets and competitors in order to identify opportunities.

Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the business segments. Anticipated future opportunities for the Fresenius Group are discussed in the **Outlook** starting on page 70.

### RISK MANAGEMENT

#### FRESENIUS RISK MANAGEMENT SYSTEM

Risk management is a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. The **Fresenius risk management system** is closely linked to its corporate strategy. Opportunities are not recorded in the risk management system.

Markets are kept under constant observation and close contact is maintained with customers, suppliers, and institutions. These policies allow us to swiftly identify and react to changes in our business environment.

Using standardized processes, risk situations are evaluated regularly and compared with specified requirements. If negative developments emerge, responses can be initiated at an early stage.

Responsibilities for **processes and monitoring risks** have been assigned as follows:

- The business segments and their operational business units are responsible for identifying, assessing, and managing risks.
- The managers responsible are required to report any relevant changes in the risk profile to the Management Board without delay.