Transcript
Conference Call preliminary Q2 2022 results

July 28, 2022

CORPORATE PARTICIPANTS

Stephan Sturm, Fresenius SE & Co. KGaA – CEO
Rachel Empey, Fresenius SE & Co. KGaA – CFO
Markus Georgi, Fresenius SE & Co. KGaA – SVP IR

CONFERENCE CALL PARTICIPANTS

Barclays, **Hassan Al-Wakeel**
Berenberg, **Thomas M. Jones**
Credit Suisse, **Christoph Gretler**
Deutsche Bank, **Falko Friedrichs**
HSBC, **Sezgi Oezener**
J.P. Morgan Cazenove, **David Adlington**
Jefferies**, James Vane-Tempest**
ODDO BHF, **Oliver Metzger**

PRESENTATION

Markus Georgi: Thank you, Stuart, and good afternoon, good morning, depending on your time zone. Thanks for joining us. With me today are Stephan and Rachel. Please keep in mind that all published documents and today's call are based on preliminary and unaudited financials. The full set of final and audited Q2 numbers will be distributed on August 2nd.

Stephan will lead off, followed by a Q&A session. Today's discussion will include forward-looking statements, such as forecasts about Fresenius operations and future results. Please refer to the cautionary language and Page 2 of today's presentation.

And with that, I hand it over to Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon, good morning, everyone. Thank you for joining us on such short notice. And as always, we appreciate your interest in Fresenius.

Let's move right to **Page 3**. And I'd like to focus today's call on the news release we set out last night. Detailed segment slides are in the backup of this presentation. Many of you will have had the chance to join FMC's call earlier today. So I'm keen to provide the group's perspective rather than repeating in detail what you've heard from Helen this morning.

So what triggered yesterday's announcement? With COVID impacts continuing, both direct and knock-on, the cynic war in Ukraine going into its sixth month with no end in sight, and an ever more uncertain geopolitical and macro situation, we have experienced and continue to anticipate worsening headwinds significantly affecting our businesses. In particular, at Fresenius Medical Care, worsened labor shortages continue to drive wage inflation. And in addition, an accelerated cost inflation is putting a significant weight on earnings growth. As a consequence, also Fresenius Group second quarter results are below our earlier expectations.

At the same time, we firmly believe in the structural growth of the markets that we're operating in and the general effectiveness of our business models. But whilst we believe those macro headwinds to be largely temporary rather than structural, it would appear reckless to rely on a meaningful improvement during the remainder of this year. Much rather, we need to assume that the business growth that we had factored into our models and guidance is only going to materialize later. Thus, FMC has cut its outlook for 2022. Growing burdens rather than the modeled pickup, that in essence explains the magnitude of the guidance shift. Against this backdrop and despite the fact that, for all three other Fresenius segments we are confirming their respective outlooks, we have also revised our group guidance for this year.

As far as our medium-term targets are concerned, we confirm, yet specify our sales growth target. We now expect to deliver not more than the low end of the 4% to 7% CAGR range of the 2019 base. And that would call for broadly consistent revenue growth in 2023, as we have generated in recent years, which from our perspective is testament to the unabated volume demand for our products and services. For net income, however, we now believe our targeted CAGR range of the 2019 basis no longer achievable. The implicitly needed year-over-year net income growth in 2023 runs now at above 20%. In the current setting, that order of magnitude is just not realistic.

But again, I am firmly convinced that these macro headwinds do not affect the structural growth setting for Fresenius and, as such, have no bearing on our pursuit of the strategic agenda for the group.

As you will have seen in our release, Carla Kriwet will now take over as CEO of Fresenius Medical Care already on October 1st, so earlier than previously announced. And I'm delighted about that. And given my near-daily dialogue with her and me watching her go about onboarding, I am more convinced than ever that Carla is an excellent choice. Rice Powell will now step down as CEO of FMC on September 30th.

Furthermore, I'm pleased to announce that we will be hosting a virtual Fresenius Kabi "Meet the Management" event on October 7th. Our IR Team will follow up with details. Michael Sen and his team will be eager to present their plans to capture the structural growth opportunities in the Kabi world.

With that, onto **Slide 4** and an overview of the main headwinds we are currently facing, shown as building blocks of a bridge from our previous to the now revised earnings guidance. My main takeaway is bottom right. We consider most of these challenges on profitability to be transitory.

We at Fresenius develop innovative, affordable, and profitable medical solutions to respond to the megatrends of health and demographics. No doubt, we remain leaders in our markets which provide for structural growth opportunities. And we can approach ways to refine and improve our business models from a position of relative strength.

Accelerated inflation currently leads to rising material, energy, and supply chain costs across the entire group and, frankly, across our and most other industries. In our case, though, with very limited short-term ability to pass those higher expenses through to payers and our hospital customers who are suffering themselves. But with a well-founded confidence that such inflation is bound to be reflected in reimbursement rates going forward, albeit with a certain time lag.

Underlying staff shortages and wage inflation are currently the largest negative impact on group net income. These headwinds are blowing predominantly at FMC in the US. The growth effect is masked by the government support monies FMC have received. But whilst that moderates otherwise rapidly growing wage inflation, it is no solution for filling an also rapidly growing number of open positions. And these staff shortages limit onboarding opportunities for new patients in our dialysis clinics.

FMC has the group's largest exposure to the US labor market, here, particularly in the patient-facing services subsector, where the shortages and wage inflation have been particularly acute.

At Kabi, we have a sizable yet meaningfully smaller US presence but, obviously, here, in the products business, where the labor market appears less dynamic. And even though Kabi generally also faces these challenges, the net impact has been much less pronounced.

At Helios, the European labor environment has been much more stable, and the reimbursement system in Germany also provides direct protection from any nurse wage inflation. As to potential knock-on growth constraints, I'm glad to confirm that we remain successful in attracting new nursing and doctor talent to our hospital businesses.

Now obviously, we are working hard to accelerate the implementation of measures to offset the various headwinds, for example, through very tight cost control, phasing of projects, and product price increases, albeit limited in scope and magnitude. And with that, we have been able to broadly offset negative effects, particularly at Kabi. So the offset bar in the waterfall chart also includes monies received by Fresenius Medical Care from the US Government's Provider Relief Fund.

In full transparency, our expectations for the second half factor in neither a short-term worsening of macro challenges nor of the COVID-19 pandemic. And thus, our guidance does reflect our current contractual and hedging status but does not consider a significant supply disruption to gas or electricity supplies in Europe.

So again, whilst this current situation is unprecedented, I am convinced that most if not all of these headwinds will ease and by no means become the new norm. And whatever is structural is bound to be, at least largely, reflected in updated reimbursement rates. And with the structural volume growth being intact, mind our recent and current top line, also earnings growth will follow and hence accelerate, additionally fueled by our well-progressing cost and efficiency program, where no doubt the current situation provides a massive incentive to further accelerate and expand that program.

Now moving onto Q2, and that is on **Slide 5**, starting with Kabi. I'd say a solid Q2 on a tough prior-year comp despite deteriorating macro trends. Sales grew by 2%, and EBIT decreased by 15% in constant currency. To be comparable with guidance, both figures exclude the acquisition of Ivenix.

Although the pricing environment remains challenging for Kabi, the pressure eased somewhat during Q2, particularly in the US. Nevertheless, China continues to be marked by significant national tender-related price pressure. But we are pleased that our market shares in these two crucial markets remain robust. As far as Kabi's Melrose Park plant is concerned, just recently, FDA inspected the facility, and we expect feedback over the course of the third quarter.

Onto our biosimilars business, which is progressing well, preliminary figures show that we generated sales of €29 million in Q2, and hence slightly more than the €50 million in the first half -- more than €50 million in the first half, and that is well in line with our full-year target.

We are pleased to have closed the Ivenix acquisition during the second quarter. The mAbxience closing is eminent. The integration of Ivenix is running well, in line with our expectations. And the market entry of the new Ivenix large-volume pump is progressing well. We’re receiving promising first customer feedback, and so we’re making good progress with our Vision 2026 strategic growth initiatives.

Over the slides to **Slide 6** and a brief update on Helios and Vamed. Helios has shown 5% organic sales growth in Q2, driven by a solid development in both Germany and Spain. EBIT increased by 1% in constant currency. At Helios Germany, we saw a 4% sequential and a 5% year-over-year increase in admissions, continuing the trend of the last quarters. In Spain and Latin America, the overall activity levels have continued to rise, and also, in our fertility business, we have seen activity picking up during Q2.

Now at Vamed, we have seen an organic sales increase of 1%. COVID and supply chain disruptions remained headwinds in the project business. The service business showed ongoing growth. EBIT was a positive €11 million, also here driven by the service business. As a leading indicator for the future potential in our project business, order backlog is yet again at an all-time high. So despite the macroeconomic challenges that Vamed is also exposed to, we believe the company remains on a good path towards pre-pandemic profit levels.

With that, let’s turn to the 2022 outlook on **Slide 7**, where importantly, you see the six tick marks in the right-hand column. But first, briefly, on our assumptions. Obviously, the updated assumptions for Fresenius Medical Care’s full-year ’22 guidance are also fully applicable to our guidance. For Kabi, Ivenix and the eminent acquisition of the majority stake in mAbxience remain excluded. And as I mentioned, the guidance does not consider a significant disruption of gas or electricity supplies in Europe. We do expect COVID to continue to impact our operations in 2022 and unlikely but possible significant deterioration of the situation triggering containment measures that could have, again, significant and direct impact on the healthcare sector without any appropriate compensation. That is not reflected in our guidance for this year.

So all our business segments with the exception of FMC are confirming their respective full-year ’22 outlook. However, all business segments have to cope with worsening macroeconomic headwinds. So we’re looking at a generally increased risk profile where, therefore, we’ve launched additional compensating measures in all segments.

Brings me to group guidance on **Slide 8**. The labor shortage, inflation, and macro headwinds are predominantly a bottom-line burden. Nevertheless, we see a certain impact also on our sales growth guidance, predominantly driven by the effects at Medical Care. With 4% sales growth year-to-date, we now expect sales to grow in a low to mid-single-digit percentage rage for the full year. Given the outlook adjustment at Medical Care, we also have to adjust our net income growth guidance for the full year ’22. We’re now expecting net income to decline in the low to mid-single-digit percentage range.

As a reminder, we guide in constant currency. The current exchange rate development, particular that of the US dollar to euro, continues to provide significant support to our reported numbers.

And that brings me to our medium-term growth targets on **Slide 9**. In February 2019, when we had originally communicated our midterm targets, no one could’ve foreseen a global pandemic and related knock-on effects such as increased inflationary pressure or excess mortality among dialysis patients. No one could’ve foreseen the geopolitical tensions with the related knock-on effects such as rising energy prices. Moreover, back in 2019, no one was anticipating the magnitude of the impact of regulatory changes such as the carve-out of nursing costs in Germany and the tendering in China.

So as I said at the beginning, given the necessary revisions to our full-year ’22 guidance, the required year-over-year growth rate in ’23 appears unrealistic. And we therefore no longer believe that the net income CAGR of 5% to 9% of our 2019 base is achievement. But we expect to reach our medium-term sales target, even though we now expect to end at the low end of the 4% to 7% CAGR range. We don’t expect the macro headwinds from this year to further worsen in 2023. And not least, we expect a significant acceleration of our biosimilars business.

To underpin what I just said, we are active in structural and resilient growth markets. Currently, we are, however, impacted by temporary headwinds which are beyond our control. But we have already implemented the right levers to accelerate growth over the next years and are convinced to revive earnings momentum and to occur even stronger out of the current situation.

With that, Rachel and I are happy to take your questions. Thank you for now.

Q&A

Operator: We’re now starting the question-and-answer session.

Hassan Al-Wakeel: Hi. Thank you for taking my questions. I have a couple, please. Firstly, this is another FME-driven profit warning which has driven renewed investor focus on group structure. So is Fresenius better off without Fresenius Medical Care?

And could you provide an update comment on speculation around a Helios merger? And to be clear, if you look at doing anything to Helios, as you’ve talked about previously, would you still look to have a controlling stake in the business?

And then secondly, could you talk about your expectation in terms of returning to net income growth? Can you commit to this being a 2023 event, either on a group basis or at least on an ex-FMC basis?

And if I can squeeze one more in, could you talk about the US IV generic market and how this is shaping up into the second half? Are you seeing a greater degree of price pressure than previously talked about? And is that driving the weaker margin for the quarter? Thank you.

Stephan Sturm: Hassan, thank you. I believe those were five questions, according to my counting, but let’s try and go with them one after the other. Look, I am disappointed, needless to say, with the development at Fresenius Medical Care. However, I believe it is fair to say that we are by no means on our own. I think there are very many other well-reputable companies who go through similar difficulties at the moment and also have to turn to profit warnings. My ultimate judgment on this is going to be informed by our relative performance within the sector and also within -- relative to our immediate peers. If I detect a pronounced underperformance, then in close collaboration and alignment with the incoming CEO, I’m sure we will take the appropriate measures.

Far as Helios is concerned, I don’t think there’s anything meaningful to add to what I have been saying in February. Yes, we continue to see a very positive performance at Quirónsalud. Against that backdrop, the idea of replicating such a situation appears appealing. So yes, we are continuing to monitor situations as they present themselves and would be generally open to do an acquisition/merger, however, with the knock-on question that you had, with the aim to retain a controlling majority stake in that business.

Hassan, you will appreciate that preliminary earnings based on the back of an ad hoc release are not the ideal ground on which to make reliable statements. I believe it is too early to say anything specific here. You heard my caveats about the macroenvironment. At the same time, you heard me say that it is our firm belief that these are transient. You heard me with the conviction that, sooner or later, those inflationary effects will find their way into reimbursement rates and prices. At the same time, we know that there is typically at least a 12-month time lag in the German hospital system and, more, a 24-month time lag in the US dialysis system. So I'm afraid all I can say right now is I'm structurally positive, but it is too early to say something definitive for '23.

As far as the IV generics market in the US is concerned, as I alluded to, price pressure has been easing but is still -- a price erosion is still there. We have held our ground relative to our large competitors, where others have actually had to give way. And against that backdrop, I am positive that that is also going to be something that we will be able to perform to in the next year.

At the moment, with the staff shortages that I was alluding to primarily at FMC but also to a certain degree at Kabi, we are to some degree output constrained. And I would very much hope and expect that this situation can be improved in and for 2023. Thank you, Hassan.

Hassan Al-Wakeel: Thank you.

James Vane-Tempest: Yes, hi. Thanks for taking my questions, please, two if I can. Firstly, just regarding 2023, FME this morning was unable to give any visibility into next year. So what are the drivers you have to reaffirm your top-line guidance in 2023, albeit you can't confirm net income guidance?

Second question is on leverage. I know you're keen to maintain investment grade, but clearly, FME setback also impacts your balance sheet. So what headroom do you have on your covenants? What leverage level do you anticipate this year, especially when integrating recent transactions? And what would it take potentially to do another scrip dividend next year? Thank you.

Stephan Sturm: James, Rachel is going to help you out with those two.

Rachel Empey: Thank you, Stephan. If we take a step back, James, and look at 2023, I think, as Stephan alluded to very clearly in his speech, most of the measures and most of the issues that we are facing, firstly, we see as transitory. But more importantly, when we're talking about revenue guidance, they are cost orientated and so have a much more pronounced impact on the bottom line than on the top line. I think you also heard that very clearly from Helen this morning.

At the same time, if we look forward to 2023, notwithstanding the potential impacts or leftover impacts of those issues we've been discussing today, you also have the opportunity for the annualization of some of the other headwinds that we've been facing in 2022, for example, the Kabi tendering processes in China that we've been talking about a lot.

And there are some well-expected acceleration opportunities, for example, as Stephan mentioned in his speech, the biosimilars business, where we do expect a meaningful kick-up next year.

And if you have a look at the overall performance that we've been able to drive over time, I think the implied growth rate that we need for '23 to reach the lower end of those medium-term revenue targets is within reach and is a completely different order of magnitude to the acceleration that we would have needed to reach those net income targets, as Stephan alluded to in his speech.

In terms of your question on leverage, as Stephan pointed out, clearly, our call today is on the back of an ad hoc last night. And thus, we have been very focused on the key P&L metrics to be able to give you a good update today. And I'm sure you can understand that we are continuing to evaluate the details of the potential flowthrough effects for the balance sheet and for cash flow. But nevertheless, I think your observation is fair. Clearly, the news that we are announcing today is not positive in the short term for the balance sheet position and the leverage position. Nevertheless, as you heard clearly, we believe in the structural growth opportunities for our business and the opportunities that will bring us back to good and sound solid profitability growth and ultimately then, clearly, bringing us back to the deleveraging profile that we are used to.

We do remain fully committed to our leverage target range. That's 3.0x to 3.5x net debt to EBITDA as a ratio. And we are confident that we will come back within that range. Today I see as more of a short-term setback in that direction. That doesn't change our fundamental beliefs and our structural beliefs that that is the right range for us, and we will come healthily back into that range in due time.

I think it's fair to say we had previously given you guidance that we expected to come back into the range at the end of this year. And with the announcement that we made last night, I can imagine that, when we finalize the modeling, it may be that we end up slightly above the range at the end of next year. But clearly, as I said, I'm happy and comfortable that we will come healthily back in the range at an appropriate time.

You asked in terms of covenants setup. Overall, we actually have very few outstanding financial instruments with financial covenants within them. And essentially, they are currently suspended, given the investment grade status that we have. And if I have a look at those covenants, I would say they're really not a concern for me at this point in time. I think our financial strength, despite the short-term setback, puts us in very good stead there.

So overall, yes, potentially some short-term impact on the leverage KPI, but nevertheless, we remain committed to the range that we've stated, and we don't see significant concerns from covenants. Thanks, James.

James Vane-Tempest: Thank you.

David Adlington: Hey, guys. Maybe just circling back on the Helios state point, I think, in February, you were thinking about selling off a minority stake to raise capital for investment elsewhere, i.e., in Kabi. And we now seem to have moved onto looking at asset equity swap, which obviously won't raise any capital. So I just wondered if you had any other options for raising capital to fund that growth. Thanks.

Stephan Sturm: David, what I'm saying today is absolutely consistent with what I've been saying in February. And I would encourage you to go check the transcript from the time. I was explicitly talking about a contribution in kind at the time as the most elegant solution. At the time, I was also talking about our willingness to accept dilution at Vamed below a majority stake. And I was also talking about our general willingness to investigate, as we should, any offer for our FMC stake as a whole. Given most recent events, that at least in the short term appears less likely. But again, what I've been saying in February remains absolutely and accurately consistent.

David Adlington: Okay. Thank you.

Oliver Metzger: Hi. Good afternoon. Thanks for taking my questions. The first one is about your Melrose Park inspection. You said it's already done. You wait for feedback. How much time does it take when basically the proof is there and you can really start to launch new IV drugs from the facility? Because I think, earlier this year, you mentioned that you don't assume any launch from this facility in Melrose Park in this year.

Second question is on the mAbxience closing eminent. At the point of time at the acquisition, you said that the majority of synergies relates to the potential really to manufacturer biosimilars by yourself. So basically, if acquisition is done, how much time will it take to -- when you can start to realize the first synergies?

Stephan Sturm: Oliver, thank you for the first question. As I said in my prepared remarks, I would expect the FDA to provide us with more definitive feedback over the course of the third quarter.

But to your actual question, the economic impact on whatever decision the FDA may take on this one here is actually increasingly limited. As I alluded already at the time we were flagging the issue in the third quarter of 2020, right after taking the appropriate disciplinary measures and patient safety measures, we also made sure that the approval files for the drugs in our pipeline also relate to the other two facilities that we have in North America. And therefore, I would expect a fairly robust launch schedule irrespective of the final verdict on Melrose Park.

As far as mAbxience is concerned, there is a near-term contribution from the contract manufacturing business also for other biosimilar developers out there in the market. The transfer of our own biosimilar files to mAbxience manufacturing facilities frankly is going to take a few years. That is just the nature of the regulatory beast, of the burden that we need -- of the hurdles that we need to overcome. And therefore, this is, as we alluded to, a strategic acquisition against -- within the framework of Vision 2026, where from all that we’ve seen ever since we signed the transaction, we remain very much convinced of the strategic soundness of that step, but where near-term synergy potential is going to be rather limited in size. Thank you.

Oliver Metzger: Okay. That’s helpful. Thank you very much.

Christoph Gretler: Thank you, Operator. Hi, Stephan, Rachel. Just had two questions. The first relates to actually Vamed. Could you help us to understand what kind of risks are included in your project business and essentially the contract structure and the pricing of these projects? Is there a significant risk that, over time, you basically will take on a lot of risk in this particular business?

The second question relates to Kabi. I think there was a positive development in terms of price in the US in your base product portfolio. Could you maybe help us understand how this price development will develop over the short to medium term, given these various cost pressures I guess the whole industry sees on energy, material, labor, etc.? So at some stage, you should be able or the industry should be able to pass on some of these cost pressures onto the customers down the road. Maybe could you discuss that and how constrained, for example, contracts are in this ability? That would be great. Thanks.

Stephan Sturm: Christoph, thank you. At Vamed, I would agree with you as much as the project business poses higher risk than the service business, which over time -- which has been one of the key reasons why, over time, we were pretty meaningfully increasing the relative share of Vamed service business. But also, if you look back over the years, the project business has done a formidable job dealing with all sorts of risks.

If you’re now referring to fixed-price offers against the backdrop of largely growing cost of materials, that is rather the exception than the norm. And frankly, we keep on working with subcontractors who will then bear, if at all, that price risk if we can’t put it through to the end customer. The more tangible nearer-term risk against that backdrop is that projects are being delayed just for that reason, which is why I keep on watching our order backlog, both with some joy, but also with a bit of sorrow, as it is also a representation that we cannot be as fast or we aren’t as fast in working on these orders as otherwise we would. I hope that’s helpful.

As far as Kabi is concerned, as I alluded to, price pressure in our existing portfolio has somewhat eased. And as I alluded to on an earlier call, we have also seen the results of the large tender that we had to participate in. And that was broadly in line with our expectations. So I would not expect any meaningful price pressure event going forward.

All in all, I keep on having the view -- I maintain the view that price erosion is to a very large degree driven by volume demand against the backdrop of the number of elective surgeries occurring in hospitals.

And against the backdrop of fairly fixed and high-cost manufacturing base, if there is a shortfall in volume demand, willingness of our competitors to make price concessions is just a touch higher. And that has taken on very few occasions in the past price erosion from the low to the mid-single digits. Going forward from here, our planning assumption is a return to the low single-digit price erosion area. Thank you, Christoph.

Tom Jones: Good afternoon. Thank you for taking my one question. Unfortunately, it’s one that relates to FMC, but I think it is one that is relevant to ask you. A lot of -- there’s been a lot of discussion about the capital structure on the -- or the business structure on the Fresenius SE side. But I just wondered if you could talk to your thoughts of the relative advantages and disadvantages of returning the group to its kind of pre-1997 structure, whereby the bulk of the product side sits within the Fresenius SE family, but the clinics is independent.

I ask the question because, if we look at the last 3 or 4 years, it’s really been the clinics business and particularly the North American clinics business that’s been the problem. The products business has been pretty solid. And then if I put the kind of new reporting structure of FMC with it very clearly split into products and the clinics business and perhaps then add on the fact that the new CEO seems to be more of a products rather than a services person, I just wonder whether there’s something there, or am I putting 2 and 2 together and making 5?

Because it does seem to be -- obviously, a straight sale would be the best solution, but absent the possibility of that, it would seem to solve kind of many of the problems of the group structure at the moment, albeit you would lose the advantages of being a vertically integrated dialysis company.

Stephan Sturm: Tom, thank you for that question. And against the backdrop of recent events and last night’s announcement, it is obviously very much an appropriate question. But we have debated the virtues, the pros and cons of vertical integration ever since we went about FME ’25. And whilst I think nothing in this very dynamic environment can be cast in stone, the result of our analysis has been that FMC has over the years benefited largely from vertical integration. So the internal creation of more responsibility, accountability, transparency by getting into a care delivery and care enablement structure should not be mistaken with an attempt to dissolve that vertical integration. That is not on my -- on our agenda.

And Carla has, I agree, more of a products background but has been active also in businesses where she was seeing the virtues of just that vertical integration. And frankly, it has been one of the key attractions for her, as for other people that I have interviewed for that and similar positions over the years.

I would say also that recent announcements in the industry much rather indicate vindication and support of the vertical integration concept. And therefore, I continue to believe that we are on the right path here.

Can that vertical integration be managed in an even better way? Of course, yes. And as I was alluding to, to Hassan’s question right at the beginning, I believe taking an even closer look at current developments elsewhere in our industry and how we’re doing on a relative basis is going to inform Carla's, Helen's, and my thinking to a very large degree. Hope that's instructive, Tom.

Tom Jones: No, that's very clear. And then my sort of second follow-up question relates on sort of larger external opportunities for Helios. Obviously, you're not going to talk about specifics, but in the past, you've made the comment that markets kind of closer geographically to your existing ones probably have more attraction than others. And you've also kind of expressed some views about specific markets. But is there anything in broad terms you'd be prepared to add on what may or may not be attractive to you within that hospital business? Obviously, there's quite a lot going on in the sort of global hospital market, if I put it that way, especially the European side. But just wondered if there's any kind of broad observations you might make about relative attractions or non-attractions of where you may or may not be interested in looking in that business? Obviously don't want you to get into specifics, clearly.

Stephan Sturm: Tom, the criteria that we keep on applying here are relative political stability, for what is stable in the current environment, and frankly, there wasn't much last September in the general federal election that could've led to a completely different picture also in our home country. Secondly, I'd say an undersupply of hospital beds for the population, and that proves immensely useful, valuable in the Spanish environment, where we can deploy capital to shorten waiting times for patients. Thirdly, I would say the degree of novelty or the development stage of a reimbursement system, i.e., ideally the lack of discrimination of private operators, and secondly, also within that reimbursement system whether there is room for more ambulatory and less inpatient care because, as we all know, that is clearly going to be the path into the future.

I guess, Tom, those are the high-level criteria that we're checking against. And your opening comment about proximity to home, that is also valid because we believe that the closer to home we would look, the more aligned medical practices are likely to be, and therefore, the larger the potential for, in particular, purchasing synergies is going to be. I hope that is already a fairly comprehensive list.

Tom Jones: No, that's very comprehensive and very clear and although I guess we can have a view on two and three, I think, one, the relative political stability I think, in these current climes, that's anyone's guess where that might be. No, but that's very clear.

Stephan Sturm: Thank you, Tom.

Falko Friedrichs: Thanks very much. I have one question left for you, Stephan. So the market perception this morning seems to have been that the guidance cut at FMC might not be enough, and there could be further downside risk to their guidance later this year, unless things improve significantly. So when looking at your new net income guidance range, do you feel like you have at least a bit of a buffer at the lower end so that, in case FMC comes in even weaker, at least you wouldn't have to revise your guidance again as well? Thank you.

Stephan Sturm: Falko, an absolutely fair question on the back of a very disappointing profit warning. There is no clearer expression of an element of surprise than having to go ad hoc. So what we have tried to do is to balance the necessary speed once we recognized that we had no choice but to revise and, on the other hand, a thoroughness to make sure that this would be it, and very clearly, that is the aim.

Now within that thoroughness criteria, frankly, I also have to apply a certain ambition level. I must not let responsible management off the hook too quickly and do what I guess in the capital markets terminology is called kitchen sinking. So that is not what we have done. But do I feel comfortable in the current environment with the caveats that I have also mentioned, in particular with regard to the gas supply situation? Yes, I do feel comfortable with that guidance that we have provided. It has gone through a sound validity check in relatively short period of time, but I -- we as a Management Board stand by it.

Falko Friedrichs: Okay. Thank you.

Sezgi Oezener: Hi. Thanks for taking my question. My question also relates to Kabi. We know it's a specialized situation with the dialysis centers in the United States and the labor shortage. But we also know that labor shortage in the United States is much worse than the rest of the world. So how does the situation at Kabi compare to FMC and the rest of your business? And what's the labor cost inflation that you're pricing in versus the overall inflation for Kabi as well as the rest of the business?

Stephan Sturm: Thank you. We've seen this or we're observing this as a cascaded picture. I believe, within healthcare, labor markets are particularly dynamic in the US. Within the US healthcare market, it is particularly dynamic on the services front and there, again, particularly dynamic on the patient-facing services side and, hence, FMC's much larger exposure to the issue.

At Kabi, we're primarily looking at manufacturing staff. And we are also observing a higher churn, higher fluctuation, and on that basis also higher training expense and also higher expense to attract talent. The share of applicants that makes it onto our payroll is already much smaller than in previous times. And those that stay with us for a year or more is also much smaller than before. Having said all that, given that the exposure is smaller so far, now touch wood, we have been able to deal with it, and I was -- as I was alluding to in my question I guess to Christoph's -- in my answer to Christoph's question, this has been rather a growth-constrained than an additional expense burden, i.e., we could've supplied a bit more and generated a bit more revenue if we had been able to fill more of the open positions.

We -- in my general comments, I was saying we do not expect the situation to worsen -- at the same time not to improve. And on that basis, to the best of our knowledge, we have provided that Kabi guidance.

Sezgi Oezener: And if you were to put it into ballpark concrete figures, like what kind of a different --

Operator: The questioner has disconnected. There are no further questions at this time, and I would like to hand back to Stephan for any closing remarks. Please go ahead.

Stephan Sturm: For the avoidance of doubt, we didn't cut her off.

Look, in closing, we hate surprises. We sprung yet another surprise on you. I want to apologize for that. But as I said earlier, I believe we're by no means on our own, and others in the industry are facing very similar issues.

The numbers that we presented to you today are on a preliminary and unaudited basis. Markus said that at the outset. The full set -- and frankly, they are also not entirely complete. You will have noted that information on cash flow and leverage has been missing. We are on a very tight schedule that always leads us to that scheduled day, and therefore, we weren't in the position to provide that today.

You're going to receive a full set of documents next Tuesday, August 2nd, and the originally scheduled call date. But at the same time, we feel that the new and additional information that we're going to provide you with is not going to merit yet another call. So today's call replaces the one that was scheduled for next Tuesday.

Having said that, I together with Markus will try to talk to as many of you as possible over the coming days. We will make absolutely ourselves available to try and answer your question. As part of these conversations, no doubt, it's going to be tough to convince you of the current share price being an absolute must buy opportunity, but I will also here try my utmost to do that. As far as I personally am concerned, I have every intention to stock up my personal account in the coming days.

In closing, this today is the last conference call where I have the pleasure of sitting next to Rachel. It's very unfortunate that this has to be a profit warning, but it is what it is. I want to thank you, Rachel, also on your behalf, I guess, out there, for the contribution over the years and the additional transparency that you have provided. Thank you, and all the very best.

And that is what I wish you out there as well. As I said, I hope to be in touch with as many of you as possible, and until then, take good care of yourself. Thank you.