Transcript
Conference Call Q1 2021 results

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PRESENTATION

Markus Georgi: Good afternoon, and thanks, everybody, for joining us today. I would like to welcome all of you to our Q1 2021 earnings call. As always, with me on the call today are Stephan and Rachel. So before we begin, I would like to start the call by drawing your attention to the cautionary language, and that is included in our safe harbor statement on **Page 2** of today's presentation. And with that, I hand it over to you, Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon and good morning, a warm welcome. Thank you for joining us. As always, we appreciate your interest in Fresenius. Markus has pointed out the safe harbor language to you. So let's move right to **Page 4** and our key messages for Q1. We are pleased to report a good start to 2021. We're showing robust growth rates, despite a tough comp. Actually, it's a bit of an unfair comparison, as we're measuring this year's 3-month COVID quarter over an essentially only 1-month COVID quarter last year.

The pandemic is far from over and has been a defining element of Q1. All the more, I'm proud of our employees' relentless efforts to combat the virus, be it in our hospitals, our clinics, our dialysis centers, our manufacturing sites, or in logistics and admin. Fresenius is fighting COVID at many fronts, hence saving thousands of lives and making major contributions to society. Let me take this opportunity, please, to thank all our employees around the world for their tremendous dedication.

Consistent with our strategic roadmap communicated in February, we have been working with huge commitment on idea generation and detailing of our cost and efficiency program. In this current Optimization Phase, operational excellence and efficiency improvements are our highest priority. We are determined to bring Fresenius back onto a dynamic earnings growth trajectory. And the targeted cost savings will complement and safeguard accelerating earnings over the coming years.

But more near term, on the back of our good Q1 performance, we're now confirming our guidance for the full year.

I'll share my perspectives on our business segments in a minute and spare you those now. And so let's move onto **Page 6**, an update on our cost and efficiency program. In the few weeks since early February, we have been working hard to generate initial ideas and detail initiatives. And thus, we have defined three clusters for the various measures: procurement and costs, structural and organizational measures, and portfolio review and real estate. The Harvey balls on this slide are meant to provide a preliminary indication where we currently expect our business segments to primarily focus on.

Fresenius Medical Care's more fundamental approach requires a more diligent and, hence, longer preparation. But Rice and Helen will work towards sharing more of their plans with you as part of their second quarter release.

For Kabi, we see potential to further improve the company's cost position via optimization of procurement processes, direct costs, or the expansion of shared service centers.

For Helios, we see larger contributions to cost savings from portfolio review activities, such as clustering initiatives, the selective divestiture or development of hospitals and clinics, or the optimization of the ambulatory business. Here, we may be -- may have to be a bit more tolerant towards book losses, as we used to be in the past, with the clear goal to create long-term and sustainable savings for Fresenius.

For our corporate center and Vamed, we see the largest potential to create cost savings through structural and organizational measures, such as the optimization of layers and reporting structures.

Taking that all together for the group, the overall savings target remains unchanged. We aim for cost savings of at least €100 million per annum after tax and minority interest in 2023, with further potential to increase thereafter. Achieving these sustainable cost savings will require upfront expenses, which we said will be in the order of magnitude of €100 million per annum as an average for the years 2021 to 2023, here again, after tax and minority interests. Those expenses will be classified as special items, consistent with previous practice.

With that onto **Slide 7** and an update on Kabi, starting in North America, where in light of still high COVID cases, our hospital customers continued to face fewer elective procedures and have adjusted their demand accordingly. That has more than outweighed the extra demand for COVID related products. But with the good progress of the US vaccination program that we expect, however, an increase of elective procedures in the second half appears likely.

Onto Melrose Park: Whilst we were still supply constrained for certain products in the first quarter, we have made good progress to resolve the remaining manufacturing issues there. We are using our full manufacturing network to ease or avoid supply constraints for our customers. And by now, batch releases are increasing. Back orders are shrinking. We expect to resolve the remaining backorders and to stock up inventories again during the second quarter. We are aware it will take some time to recapture lost market share, probably quarters rather than weeks. But we have not only the will and the capabilities and the expertise. We also have the longstanding trustful relationships with our GPO customers that we can build on to be successful.

One word on pricing: We see mid-single-digit price declines in our base portfolio. And thus, price concessions are a notch higher than in the recent past. This is in our minds is due to intensified competition, especially for more mature molecules. But it's also our observation that this is at least partially related to the COVID-related temporary lack of volume demand.

We remain convinced of the long-term growth opportunities in the North American injectable generics market and Fresenius Kabi's leading position to capture them. In order to sustain and ideally extend our position, we have invested into our people, our production facilities, and also in channel diversification. We are particularly pleased with the progress we are making in parenteral nutrition. We're now the leading supplier of lipid nutrition in North America. And our most advanced lipid emulsion SMOFlipid has been received very positively by clinicians and has now become the most widely prescribed lipid emulsion in both the US and in Canada. We have not only expanded the segment for parenteral feeding. We have also increased share. And several leading teaching hospitals have adopted SMOFlipid as their standard of care. In parallel, we have made good progress and in line with expectations for the start of production of infusion solutions on US ground, and we hope to announce more details as part of our Q2 release.

With that, over to Europe, where unfortunately we also see fewer elective treatment activity. And that is partially compensated by extra demand for COVID-related products and a continuous ramp up of our biosimilars business. Mind you, the prior year quarter saw a spike in demand for COVID-related products, hence putting a weight on this year's growth rate.

With that, to the emerging markets, Latin America shows an excellent business development driven in particular by strong COVID-related extra demand. In China, we see very healthy volume growth, given a soft comp, but also elective treatment activity returning to prepandemic levels and, later this year, potentially even beyond that. On the other hand, we anticipate initial effects of national tendering processes for some of our products from the second quarter. As you would expect, we continue to closely monitor these developments and to prepare ourselves for potentially having to adapt our processes and our cost base appropriately. Asia Pacific ex-China, that also showed a strong business performance in this past Q1. Across the countries, with only few exceptions, growth rates were back or even above historic levels. Almost all countries have eased or nearly ended restrictions on sales activities. And with regard to the COVID situation in India, we are monitoring the developments very closely. So far, production units have continued their operations to manufacture lifesaving products without any major interruptions, fingers crossed.

Onto biosimilars, where for adalimumab, we have made good progress and have entered into various smaller markets, for example, Australia and Israel. Our partnership with the pharmaceutical company medac progresses in line with our expectations, and we have rolled out the successful marketing activities in the area of treatments for rheumatic illnesses to one other European market, and a further expansion is under close consideration.

Also positive, our tender wins in recent quarters, where we were waiting for proper implementation, are now gaining traction. And so we expect to see accelerated sequential growth in the coming quarters. And also, in prescriber markets such as Germany and France, we're making good progress and are gradually taking more market share.

A brief word on tocilizumab, the biosimilar to Actemra, we expect to enter the US and the EU in 2023. We're making very good progress. The Phase 3 study has been fully enrolled, and the last patient is by now dosed, despite the challenges of the COVID pandemic.

With that, onto Helios, and that's on **Slide 8**, starting in Germany, where we still see elective treatments below 2019. You will find a graph with more details in the back of this presentation. 2021 to date, the occupancy rate is on average about 15 points below prepandemic levels, with a slight improvement in March and April, though. And with an accelerated rollout of vaccinations, we expect a gradual recovery from Q2 onwards.

Government compensation related to COVID incidence, that broadly mitigated negative sales and cost effects in the first quarter. That financial support will continue until the end of May. And further government support under the so-called Hospitals Future Act, that is in place, though, until the end of 2021. And among the act's key provisions is a compensation for COVID-related shortfalls of revenue relative to the 2019 level. The compensation is expected to be negotiated individual for each hospital, and we're on these cases.

As far as COVID cases in our 86 acute care hospitals across Germany are concerned, we, thank God, see a declining trend. I hope it's sustainable. But from a peak in early January, when we were treating about 2,100 COVID patients, we are currently looking at about 1,100, of which 340 are in ICUs.

On the regulatory front, we continue to face pressure from the DRG carve-out, as the existing definition of nursing costs was narrowed. We said early on that we expect this regulation to have negative impact on our earnings. One of the mitigation measures is a selective adjustment of staffing levels for doctor capacity, which will gradually offset the negative effects during the year.

Over to Spain, on a very positive note, we have seen activity levels in Q1 that were already slightly above prepandemic levels, despite the fact that the third wave was even more pronounced than the first wave in spring last year. And during the third wave, there was no governmental intervention that prohibited us from treating elective cases. The growth was additionally supported structurally by a higher penetration of outpatient treatments. That is a difference to Germany. And other contributors were the ORP business, where we offer post-COVID health checkups as well as a continued strong demand for digital services, such as telehealth solutions. In parallel, we see a very resilient development of our hospitals in Latin America. Although also affected by COVID, our facilities there are holding up well and continue to contribute positively to our growth.

Brings me to an update on our fertility business. We have successfully closed the acquisition of Eugin that we announced just before Christmas. The company will be consolidated from the 1st of April onwards. With this acquisition, Helios becomes a leading international provider of fertility services. Eugin adds a global network of fertility clinics with excellent positions in Europe, Latin America, and the US and therefore nicely complements our existing footprint.

Given demographic and health trends, as well as the changing lifestyle, the underlying growth drivers for the fertility market have proven to be strong and sustainable. Also, notable scientific advances in this field have led to higher success rates and, hence, less strain for patients. As the global market for fertility services is still highly fragmented, it represents an attractive opportunity for consolidation, something that we know quite something about. And besides this, the Eugin business enhances our existing Helios portfolio and is one of the areas in which we can offer holistic care for our patients.

With Eugin, we are establishing a unique buy-and-build platform that offers substantial organic and nonorganic growth in this dynamic and growing market. First proof is the recent, albeit small, acquisition of a fertility center in Ohio in the US

That brings me to **Slide 9** and a brief update on Vamed, where we expect the burdens and constraints from COVID affecting both the project and post-acute care businesses to recede gradually in the second half of this year, whilst the technical services business is expected to remain robust. We see first encouraging signs of an improvement in the project business. The order intake in the first quarter increased by 11% year-over-year. And as an example, we won a major turnkey project in Angola. As I said, first and early signs, and we have to wait for the further development as, in these highly volatile times, we have even less visibility than usual.

With that, I'm pleased to hand you over to Rachel. Thank you for now.

Rachel Empey: Thank you, Stephan. A warm welcome to everyone. I am pleased that we delivered a good start to the year with robust growth rates, despite comparing with a relatively strong prior year quarter.

Our Q1 2021 results are on **Page 11**, and they're shown in our usual fashion, so before special items. For good order, in Q1 '21, we had no special items; however, we did in the prior year quarter. A comprehensive overview is provided at the back of our Investor News and in the Results Center on our Website. Our financials include COVID effects. We are providing you with ranges based on our best estimates of the quantitative impact of the COVID pandemic in the backup of the presentation, although, as time passes, this becomes a more and more difficult estimation process.

To the numbers, growth rates on the slide are on a constant currency basis. We delivered sales growth of 3% in Q1, in line with our guidance of low to mid-single-digit growth. COVID had a slight negative impact on our sales growth.

EBIT, with a decline of 6% in Q1, absolute COVID effects were obviously more pronounced in Q1 '21 in comparison to the prior year quarter, in particular at FMC and Vamed.

Interest decreased year-on-year by 17% in constant currency to €137 million, mainly driven by successful refinancing activities, lower interest rates, and currency exchange rate effects. That's in line with our expectations. For 2021, based on current exchange rates, we aim for net interest below the prior year, mainly due to refinancing activities and with some contribution to year-on-year group net income growth in constant currency.

The group tax rate before special items reached 22.8% in Q1, in line with our expectation. For 2021, we continue to expect a tax rate around 23%. Obviously, we have not taken into account any effects from the potential US tax reform. These effects would be considered as special items for 2021.

Moving onto net income, where we've seen a decrease of 2% in Q1, overall, a bit better than anticipated, in particular supported by phasing and expected lower SG&A expenses at Fresenius Medical Care, which are expected to reverse throughout the year, thus, a good start to the year, considering that we had a more negatively COVID-impacted quarter than in the prior year, a situation which we expect to reverse in Q2.

Over to **Page 12**, which illustrates the Q1 '21 momentum at our four business segments, starting with Kabi. The company showed 3% organic sales growth with very different dynamics across the regions, as Stephan explained.

Europe with a COVID-related organic sales decline of 1% in Q1 '21. Emerging markets showed very strong 27% organic growth in Q1, in particular driven by China. Latin America continued to show very strong growth, particularly driven by ongoing COVID-related demand. As in the previous quarters, inflation-driven price increases contributed to a certain extent to top-line growth rates.

In the US, lower elective surgery volumes, competitive pressure, missing sales from a Chapter 11 customer, and the manufacturing issues at our plant in Melrose Park outweighed extra demand for COVID-related products. This led to an organic sales decline of 9% in Q1.

Over to Kabi's EBIT, where we've seen an increase of 2% in constant currency. So to the regions, where Europe had a 15% increase in Q1, positively influenced by some one-time effects, but also with a solid underlying performance across our well-diversified product portfolio.

Emerging markets with an outstanding 90% growth in Q1, just as for the top line comparing with a weak prior year comp.

Over to US, with a significant EBIT decline of 26% in Q1, as expected, the headwinds from Q4 2020 continued in Q1 2021, mostly the same as in sales. If we adjust for those more one-time items, we are in line with our sustainable mid-30s IV drug business EBIT margin corridor.

Let's move to Helios, with 4% organic sales growth in Q1. The situation in Germany with fewer elective treatments compared to Q1 of last year was mitigated by governmental compensation measures. Moreover, case mix effects contributed positively in Q1. We've seen very strong 11% organic sales growth in Spain, where elective activity was above pre-COVID levels. Latin America continues to contribute positively to reported sales growth.

Over to EBIT, where we've seen a slight decline of 1% for Fresenius Helios in Q1 of 2021. In Germany, EBIT decreased by 9% over a tough comp, where we saw a very strong January and February last year. Moreover, the narrowed definitions for the carve-out of nursing costs had a negative impact on our EBIT development in Q1. We have identified countermeasures to ease the financial impact; however, the positive effects will materialize in the upcoming quarters. Helios Spain delivered strong growth of 14% in constant currency. Strong elective treatment activity, additionally fueled by new service offerings such as checkups for patients who have had COVID, an excellent performance by our ORP business, as well as good contributions from our Latin American business, drove a strong performance in Q1.

Moving onto Vamed, where we've seen an organic sales decline of 4%, as in prior quarters, the project business was marked by COVID, and the service business saw less demand for post-acute care treatments, whilst the technical services business remained robust. EBIT was very significantly impacted by COVID-related costs and lower sales.

Moving onto cash flow on **Slide 13**, a solid Q1 took the group operating cash flow to €652 million. At Fresenius Medical Care, the year-on-year decline was mainly driven by working capital movements and billing seasonality, as well as currency effects.

Kabi posted a very strong Q1 cash flow of €278 million. A strong margin of 15.8% took the last 12 months' margin to an outstanding 17.9% on the back of a good working capital development.

Helios, also with a strong year-on-year growth of 48% in Q1, the development is in particular driven by the strong operating performance at Helios Spain and some phasing effects.
Deducting the CapEx at 6.1% of sales, it brings us to a group free cash flow margin, bottom right, of 11.4%. We ended the quarter with a robust 3.5x net debt to EBITDA as a ratio. For the yearend 2021, we confirm our expectation to be around the top end of

the self-imposed target corridor of 3.0x to 3.5x, excluding special items. We will see the reversing effect of the CARES Act payments starting in Q2 and ongoing COVID effects weighing on our EBITDA development.

Let's turn to the 2021 outlook, and that's on **Slide 15**. Our guidance includes the effects of COVID and as usual excludes the effects of special items. Our assumptions for guidance purposes are unchanged from February. We project that the current burdens and constraints caused by the pandemic will begin to recede in the second half of the year. The improvements that we expect in H2 are, of course, heavily dependent on continuously advancing vaccination programs in our relevant markets. We are currently not seeing a deterioration of the situation, with containment measures that have a significant and direct impact on the healthcare sector and are not appropriately compensated. As a reminder, this would not be included in our group full year 2021 guidance. Also, effects from the cost and efficiency program are not included in this year's guidance. There remains, of course, significant uncertainty in these assumptions and the potential impact on our business.

Having said that, let's turn to the 2021 outlook by business segment, starting with Kabi. With 3% organic sales growth year-to-date for Kabi, we confirm our outlook range of low to mid-single-digit percentage organic sales growth for the full year. We assume ongoing volatile COVID effects as we go through the year and that competitive pressure in the US will last at least through Q2 this year. Moreover, we see tougher comps and anticipate some more price pressure from the tendering system in China, especially in H2. With an EBIT increase of 2% year-to-date, we confirm the outlook of a stable EBIT development up to low single-digit percentage growth. The top-line drivers have a direct impact on the EBIT line. In terms of phasing for Q2, we are assuming to see ongoing significant regional differences, for example, with relatively soft comps in emerging markets and tougher comps in North America.

So for Helios, in terms of organic sales growth, with 4% organic growth year-to-date, we feel confident to confirm the outlook range of low to mid-single-digit percentage growth for the full year. As far as EBIT is concerned, with an EBIT decline of 1% in constant currency in Q1, we confirm our full year guidance range of mid- to high single-digit growth. In Q2, we expect Spain to grow significantly faster than Germany on the back of COVID-driven softer comps and a strong top-line development.

Moving to Vamed, with an organic sales decline of 4% year-to-date, we confirm the outlook range of mid- to high single-digit growth. As I said in February, we expect accelerated growth in the second half year on the back of softer comps. Moving to EBIT, despite a negative €4 million in Q1, we confirm our outlook of an absolute high double-digit million-euro amount for the full year. And just as for the top line, we expect an improvement in the second half.

Now taking that all together for the group, and we find that on **Slide 16**, starting with sales, with 3% constant currency growth year-to-date, we confirm our guidance of low to mid-single-digit growth for the full year.

Over to net income, where after a strong start to the year with only a decrease of 2% in constant currency, we confirm our guidance of an at least broadly stable development.

In terms of phasing for the group, given the overall COVID headwinds we saw in Q2 last year, we expect to see a stronger growth rate in net income in Q2 this year. We will obviously continue to actively monitor any potential knock-on financial impacts of COVID, including balance sheet implications. And as to the currency translation effect, if current exchange rates prevailed until the end of the year, we would see a headwind of around 3 percentage points, mainly from the US dollar, for both sales and net income.

And with that, Stephan and I are happy to take your questions.

Q&A

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

Tom Jones: Good afternoon. Thank you for taking my questions. I have two, if I may. The first was on Kabi North America. I was just wondering if you could help us sort of disaggregate the 9% drop that you saw. I guess there's some very temporary effects in there, the manufacturing interruptions and the Chapter 11 issue. But maybe if we strip those two things out, what was the underlying growth ex those two sort of rather one-off items?

And maybe if I can be so bold as to ask is -- when do you expect Kabi North America to return to positive growth?

My second question was on the Spanish business for Helios. You put some very nice charts up showing outpatient volumes and diagnostic procedures. I was wondering if you could just make some comments on inpatient trends as well? Because obviously, that's a big chunk of the business.

And also, in that vein, on those charts that you put up, there was quite a sort of bit of volatility towards the end of March, early April. Was that just an Easter effect, or was there something odd going on in that market? Because virus cases didn't really spike up that much at that time. So I was just trying to understand that big swing you saw sort of late March, early April.

Stephan Sturm: Thank you, Tom. And I'll get started. As far as Kabi North America is concerned, I think Rachel was already trying to be helpful by saying that, by stripping out the one-time effects, we'd be broadly in line with our sustainable margin guidance. But I defer to her. Maybe she can add something to it.

As to the second part of your question, I would expect us to return to a positive organic growth later this year. Whether it's already in Q2, that is difficult to say, but Q3, Q4, I am fairly optimistic.

I'll hand you over to Rachel, and then I'll try to cover your Quirónsalud question.

Tom Jones: Perfect. Thanks.

Rachel Empey: Hi, Tom. Thanks for the question. As Stephan quite rightly said, I tried to do some estimates for you in terms of margin. And let me try and make some comments in terms of some background color for the sales development. As you know, trying to strip out individual items is always a little bit complex, but a little bit of commentary maybe. The Chapter 11 customer has a relatively small impact on sales and a greater percentage impact on the bottom line. So this is a contributing factor to the negative development, but doesn't make an enormous difference in terms of overall percentages.

What is, of course, very relevant is a combination of volume effects. And here, you heard us talk about the fact that there are obviously fewer elective procedures going on in the US in Q1. And at the same time, of course, the constraints that did ease during the quarter at Melrose Park did nevertheless have some impact overall. And stripping exactly those volume effects out and segregating them between what is happening from a COVID perspective and what is happening from a (inaudible), as you can imagine, is relatively difficult. But nevertheless, I would say that the COVID volume effects here probably outweigh those driven by Melrose Park. And clearly, those volume effects as part of the overall development in revenue do outweigh the price effects.

You heard that we are seeing a more mid-single-digit erosion on our base portfolio. So if you take that in combination with the somewhat stronger decrease in volume driven, I would say, more strongly by COVID, but also with a contributing factor from the Melrose Park situation, that leads us then to the minus 9% organic growth that we reported for the quarter.

Tom Jones: Okay. Perfect. That's very clear. And Helios?

Stephan Sturm: Tom, Helios Spain, as far as the inpatient business is concerned, that very much tracks what we're seeing on the outpatient front. Outpatient is just so much more relevant for our Quirónsalud business, which is why we've chosen to show you that. And your suspicion is absolutely right. The volatility that you're seeing on the charts, that is primarily Easter driven, with Easter this year just being on the merge between March and April and being exclusively a Q2 event last year.

Tom Jones: Okay. Perfect. And then I had just one quick follow up, which was on Kabi's EU margin. You mentioned a number of one-off items, but the margin was really quite strong, much better than I expected at least in Europe. Maybe I -- absolute numbers, but in terms of the year-on-year improvement you saw, it would be helpful to get kind of a rough idea of how much was an underlying improvement and how much of it was more temporary and one-off in nature.

Rachel Empey: Thanks, Tom. I'll take that one. As you know, when we have some volatility in terms of what we're selling, that does have an impact on our margin. And clearly, we have seen some volatility in terms of COVID demand, both with fewer elective surgeries, but particularly in the prior year quarter, clearly, with a peak in COVID-relevant drugs. And I think that is one, let's say, contributing factor to why we have seen a little bit of volatility in terms of the margin, particularly when you compare year-on-year. But I would say most of the outperformance is coming from one-time effects in the quarter. So that is definitely the predominant driver here. Other than that, I would say it's more a mix effect in the background.

Tom Jones: Okay. That's very, very clear. I'll get back in the queue. Thanks very much.

Rachel Empey: Thanks, Tom.

Veronika Dubajova: Good morning, guys. Well, good afternoon. And thank you for taking my questions. I have three, please, if that's all right. My first one is just actually an update, Stephan, on where you are with the FDA on the issues in Melrose Park. I know you were hoping for a reinspection date. Do you have it? Have you had any further conversations with them and, I guess, just broader assessment of whether there's an impending risk of a warning letter? So that's my question number one.

My question number two is on biosimilars. And I'm going to keep asking this every quarter, I guess. But can you share with us the revenue number that you generated in Q1 and, if not, at least give us a little bit of a ballpark on that?

And then my third question is on some of the measures that you're taking within Helios, both temporarily in Germany and also more fundamentally to address some of the margin pressures you're seeing. I heard you mention clustering. Obviously, this in the past has led to some unhappiness among your employee base, which drove some issues a number of years back. So just kind of looking for color from you on why you're pursuing that and what you're going to do differently this time around to avoid some of the missteps of 2018. Thank you.

Stephan Sturm: Thanks, Veronika. Rachel is going to cover your biosimilars question in a minute. As far as Melrose Park is concerned, no further formal interaction with the FDA. We're continuing to prepare ourselves for a physical inspection, where we continue to believe that it'll take a physical inspection to resolve the issue. As I told you in my prepared remarks, also good progress when it comes to the operating environment.

I continue to hold the view that a warning letter cannot be excluded but that, from my perspective, it is by no means a given that we are going to receive one. On the one hand, there is no strict time limit for the FDA. But at the same time, I would also argue that the more time passes, the more the probability of us receiving a warning letter should at least gradually decrease.

Biosimilars, Rachel?

Rachel Empey: Thanks, Stephan. And, Veronika, thank you for the question. A few comments and then maybe some color. I think, as you heard from Stephan, we're pleased with the ongoing development of the biosimilars business, both from a development perspective, let's say, more in the background, but also from our sales and marketing activities. We're making, I would say, good step-by-step progress quarter by quarter. You heard how we are, let's say, seeing some of the implementation of tenders. And you've heard previously from us in terms of some of the activities we're taking across the various markets where we've launched. You know that we're not reporting those numbers in detail separately. As we are only selling one product in the market right now, I'm sure you can continue to appreciate, Veronika, that there is some sensitivity to that. But nevertheless, I can indicate for you that we have made progress again quarter over quarter and have a low double-digit million-euro number in the quarter.

Stephan Sturm: Veronika, on your Helios question, let me first say that you were only talking about Helios Germany, and that is actually a fair assumption. There is very little that we have foreseen in terms of cost reduction and efficiency improvement measures at Helios in Spain.

Secondly, in my prepared remarks, yes, I was referring to clustering and further developing individual hospitals. That is, as a matter of fact, what we have done ever since 2018. At the outset, you are right in reminding us we were taking arguably too crude an approach. But we have learned from that and are substantially more flexible when it comes to combining individual indications at single locations. And we take a much more constructive approach vis-à-vis the chief surgeons. At the same time, you will have heard me in my prepared remarks talk about a selective reduction of doctor capacity. That is from our perspective necessary to protect our profitability and our ability to further invest against the backdrop of a meaningful reduction of the number of cases that we are treating, COVID driven.

All in all, I am comfortable that we've learned quite a few lessons out of 2018, that we're taking a much more nimble and individual approach and that, therefore, mishaps from the time can absolutely be avoided.

Veronika Dubajova: Excellent. Thank you, guys. I'll jump back into the queue.

Stephan Sturm: Thanks, Veronika.

Michael Jüngling: Thank you, and good afternoon. I have three questions. They're all related to Helios. Firstly, on Helios Spain, can you comment on which elective procedures are seeing the strongest recovery and the categories which are seeing the weakest recovery?

Question number two, also on Helios Spain, how significant is the pent-up demand in the first quarter? And for how many quarters can this pent-up demand last?

And thirdly, on Helios, what is the fundamental difference here in the speed of the elective procedure recovery between Germany and Spain? Thank you.

Stephan Sturm: Michael, as to your first question, nothing stands out in particular, and we're seeing a pretty broad positive development across our indications.

Secondly, if you look to the backup slides, then you can see that, for most of the quarter, we have tracked above the relevant reference period. I believe that we have a bit more in terms of extra demand ahead of us, but that is not what we're firmly relying on as far as reaching our guidance is concerned.

And to your third question, I would argue that the key difference between the German and the Spanish market is an overcapacity in terms of hospital beds in the German market and that, therefore, the average German patient is more hesitating before returning to a hospital for an elective surgery, whereas it is our observation, the observation of our Spanish colleagues that quite a few Spanish patients do perceive this current situation as an opportunity to get an elective surgery that otherwise they would have had to wait for can be done ahead of time.

Michael Jüngling: Thank you, Stephan. Maybe I can just follow up on Germany. And that is, how far behind is Germany in relation to Spain? Are we okay to say that maybe in a quarter or two the German population gets more confident, and therefore, we'll see a similar sort of response as we're seeing in Spain today?

Stephan Sturm: This is obviously all driven by vaccination progress and by a relaxation of the various lockdown measures. But all in all, I would expect that, yes, in 1 to 2 quarters, we should be seeing a return to normality. I would again want to caution you to model any pent-up demand like we're seeing it in Spain. We're going to be fine with a return to normality.

Michael Jüngling: Great. Thanks so much.

Stephan Sturm: Thanks, Michael.

Lisa Clive: Hi, three questions from me. First of all, the strong growth in clinical nutrition, and apologies if I missed details on this, but was this just a bounce back in your China business, given that clinical nutrition is heavily weighted towards that region?

And then second question, per the helpful comments about the margin in Kabi North America, you stated that there was increased competition in a certain number of molecules. I think I understood that some of those have been molecules in your portfolio for quite some time. So were these just less profitable, and thus, the increased competition was really more of a revenue headwind rather than an EBIT headwind?

And then last question, in terms of the recent change in the leadership for Kabi, any chance you could provide us a bit of color on the noted differences of opinion that led to the change? Did it relate to biosimilars or a focus on specific geographies? This is a vision with a lot of moving parts and a lot of opportunities for potential incremental investments. So just curious as to how you're thinking about where to best allocate capital across Kabi in the coming years.

Stephan Sturm: Thanks, Lisa. I'll try and collect my thoughts for your third question, and until then, Rachel's going to answer the first two.

Rachel Empey: Hi, Lisa. Thanks for your questions. Going back to your first one on the growth of clinical nutrition, so firstly, I think, thank you for the observation. Clearly, we were very pleased with the development that we saw of clinical nutrition in the first quarter, good double-digit growth there. And you are, I would say, predominantly right in observing that the very strong performance that we've had in Asia-Pac in Q1 on the back of a return to something much more like normality after a very strong COVID-driven quarter in last year, particularly in China, I would say, is really the key driver behind that.

We have also seen good strength in the clinical nutrition business in Latin America, given that we have had quite an outstanding performance in Latin America in Q1, yes, with COVID-driven demand, but also, I would say, with good strong other growth that has also contributed nicely to that clinical nutrition growth that we saw in the first quarter.

Coming to your question in terms of the Kabi North American margin, I think, 2 or 3 things here, and I hope I've got the angle of your question correct. Finally, we did report I think quite a nice margin of 31.2% in the first quarter. And what I was explaining in my voiceover is that, if you strip out the more one-time-like items, it does bring you to the, let's say, expected normal mid-30s margin for that IV business in North America.

I think your question was around the pricing pressure and how that is not just affecting revenue, but also flowing through to margin. Clearly, here, what we report as a margin in any one quarter has a lot to do with all of the dynamics that we've been discussing today, of course, in terms of the product mix that we have happened to sell in the quarter and the achievable gross margin based on which contracts those are sold under and what kind of pricing and costing dynamics we've seen for those molecules.

I think that your assumption that the existing molecules where we have seen some price pressure is a pure revenue hit and doesn't have some dilutionary effect on margin, I would say, obviously differs by molecule. But in general, where we have seen some pricing pressure, and we have chosen to move our price, there is some flowthrough effect to the margin.

So I don't think that it's entirely true that you can say that that pricing pressure is not putting some pressure on that margin overall. But nevertheless, I think that it is pleasing to see the improvement in margin that we have seen in the reported numbers since the lower number we reported for you guys in Q4. And I think that the underlying margin sustainability is a very, very important message that we can take from this Q1 result. Stephan?

Stephan Sturm: Lisa, I wouldn't read too much into the wording of our press release. Different views on the further strategic development, that in my mind is standard wording that is ever so politely trying to indicate that it was rather the Supervisory Board's idea to go separate ways than Mats. Having said that, we as a company owe Mats for tremendous contribution over the years. I think it was just then the mutual recognition that a change in leadership could instill more and new ideas to drive Kabi's growth and in particular Kabi's margin back to the levels that we are used to. Nothing in particular that stands out, and again, I wouldn't read too much into a different way of capital allocation going forward. That is not the intention.

Lisa Clive: Okay. Thanks for the clarification. Very helpful.

James Vane-Tempest: Hi, thanks for taking my questions, please. I have three if I can. Firstly, just on the fertility business, I'm just curious how you're viewing that in terms of expansion plans. It's easier to globalize than the acute hospital business. So how are you thinking about that in terms of scale and perhaps in other regions where you don't have a presence like Asia-Pacific.

The second question is just to come back to the savings slide which you had. You mentioned in the prepared remarks a difference in approach to Fresenius Medical Care. So I guess, I'm just curious how the €100 million charges for the first couple of years and then sort of savings have basically been aggregated. That'd help us try and understand that.

And then the third question is -- you talked about caution in terms of modeling pent-up demand in Germany in Helios. My understanding is there isn't really any backlog at the moment, just given the extra capacity Germany has compared to other markets. So that was all pretty much addressed last year. But I was just wondering if you had comment on that, please. Many thanks.

Stephan Sturm: Thank you, James. In my prepared remarks, I spent quite some time on addressing the underlying attractiveness of the fertility market. And I do believe that this lends itself very much because -- to us as a business because of its proximity to the hospital business because of our knowledge and expertise when it comes to rolling out similar treatment protocols, regimens across a variety of sites. We also have something to bring to the party when it comes to combining a stationary, ambulatory, and a digital business. And that in short is what is making this business attractive for us. Yes, we are keen to expand both organically and nonorganically. As a first step, we will try and bundle our forces by bringing the existing part of the fertility business within Helios and Quirónsalud closer together to Eugin. Remember the business is now with us for a month. That'll take a little while.

But at the same time, we have encouraged our new colleagues to remain active on the nonorganic growth front also in the interim period between signing and closing, which is why we can now point to the first step in the US. I would not rule out for the medium to long term an expansion into territories that are a bit further away. But for the time being, I would expect us to focus on those territories where Eugin is active already today. And that would be Europe, LatAm, and the US.

As far as savings are concerned, I want to really ask for your patience. We're going to be more explicit; that is, the expectation is part of our Q2 release. At the same time, I wanted to give you an indication today what I would, from today's vantage point, expect the businesses primarily to focus on. This is -- by no means should not be mistaken by an indication as to what the relative contributions from the individual business segments are meant to be. From the initial steps that we've taken, I feel encouraged with our €100 million target. I think that is realistic and achievable. But it is too early to provide you with a reliable breakdown of the €100 million into the different businesses. Other than that, I would like to ask you to be part of Fresenius Medical Care's conference call, where Helen and Rice are also going to talk about their initiatives.

As far as elective surgery is concerned in Germany, I think your observation in general matches out. There are individual indications where we may be able to capture some extra demand going forward, but again, as in my previous question, we have not modeled that to make our guidance. And much rather, we would expect that us returning to a normal pace and maybe even a bit below, given that quite a few patients have now made themselves comfortable with an ambulatory treatment, is going to lead the way also going forward.

James Vane-Tempest: Very clear. Thank you.

Stephan Sturm: Thanks, James.

Oliver Metzger: Good afternoon. Thanks a lot for taking my questions. Two on Helios, one on Kabi. The first on -- that's Helios Germany, so it's also on elective surgeries. So we all know elective is not elective, and there might be still some parities between different elective procedures. So could you share with us your experience of case mix of elective surgeries, how that has developed over last months? That's question number one.

Question number two, you also made some comments on the carve-out of nursing costs. So some time ago, hiring of nurses appeared excessively. So would you say now that you've hired too many nurses whose costs are not fully reimbursed, or how would you explain the situation?

And my last question is on Kabi more general. It's about bundling. So we know you do it a lot in the US with IV business. So could you elaborate which potential do you see in addition for other segments of Kabi, like clinical nutrition, to put them into a bundle, and how would the economics be?

Stephan Sturm: Thank you, Oliver. As far as Helios Germany is concerned, you will have noticed that our revenue decrease has been much less pronounced than the reduction in the number of cases, which is a very clear indication that the underlying case mix has improved, has increased. That is part of an underlying trend in the market. But we are also very much focused on that. We view Helios Germany as specialists for more complex cases and will try and make that even clearer going forward.

Your -- remind me, please, your second question on Helios.

Oliver Metzger: It was about the hiring of nurses.

Stephan Sturm: No, no, no. That's -- thank you. We have by no means hired too many nurses. Again, the underlying point is that nursing staffing costs are fully reimbursed. It is much rather that now the earlier definition of what is being counted as nursing has been narrowed and that, therefore, in order to protect our profitability, we need to fine-tune our setup as far as the doctor capacity is concerned. We are glad and proud of the progress that we have made in hiring so many talented nurses for the German Helios network. And that has been a no-regret move.

As far as your third question is concerned, Oliver, this all has to do with the customers that we're talking to and whether they have a demand for more than just injectible generics. And therefore, I would be keen to make biosimilars, clinical nutrition, infusion pump, infusion solutions, you name it, part of an ever-growing bundle to ever purchasing organization or hospital network. That has been the idea, and that remains from our perspective a very good idea.

Oliver Metzger: Okay. Thank you.

Stephan Sturm: Thanks, Oliver.

Falko Friedrichs: Thank you very much. Good afternoon. Two questions, please. Firstly, on Helios Germany, so following this DRG carve-out that you mentioned, could you briefly remind us where you think the margin level of Helios Germany should be or should go post the pandemic?

And then secondly, on Kabi North America, you just mentioned that you would expect growth to be positive again later this year. Would that also mean that your margin should be back to a mid-30s level by then, or would you rather expect the margin to lag the top-line development for that?

Rachel Empey: Hi, Falko. Rachel. Let me try to address those two questions for you. Helios Germany, firstly, thinking about margin development, I think I always say this, but I will say it again. We don't finally manage any of our businesses for the relative margin. Clearly, we are trying to drive the right investments, to drive the right growth and right absolute profitability for the group. Nevertheless, I do know that, for many of you, it's an interesting metric for us to look at.

From my perspective, clearly, there are a number of moving parts in here, particularly when you're having a look at 2020 and 2021 with all of the COVID impacts and then the different accounting from receipt of the Rettungsschirm and the other supportive measures from the government, what is running through revenue, what is running through cost, etc. So I do think that margin particularly through this period is something that is a little bit more difficult to compare with a running normal business. And of course, you're quite right. In a world with the DRG carve-out included, whereas Stephan pointed out earlier, there is a direct reimbursement at cost for a significant proportion of our costs, obviously, again, when you're comparing with years before 2020, that makes a difference when you're looking at relative margin.

Nevertheless, I think, what we've said before I would reiterate. We have a margin of around 9% for Helios Germany in Q1. And I do think something that is in that order of magnitude is a sustainable margin associated with our acute care business. Nevertheless, as we look at the diversification, the greater use of both digital and outpatient ambulatory services, clearly, those additions and growth areas could come with a different margin, which will change the margin of the Helios Germany business over time, based on the mix that we would deliver. But nevertheless, I think that what we have at the moment is an indicator for what is sustainable and achievable for the core acute care business.

I think your second question was around Kabi North American margin. Stephan pointed out earlier that a return to organic sales growth in Kabi North America is, in our view, likely later in the year. As I was saying earlier, again, mix effects have a significant impact in terms of what we can expect on margin. As I said to you before, I see Q1 as consistent with our long-term mid-30s percentage margin for the IV business, given that there are some one-time effects in those Q1 numbers. And I would reiterate that I do think that that margin target level is sustainable and achievable. Exactly how that plays out with all of the moving parts that we have particularly this year I think is harder to call. But nevertheless, I think, following return to revenue growth and following a, let's say, stabilization and normalization with all of the other moving parts that we see, we will return to that level.

Falko Friedrichs: Okay. Thank you.

Ed Ridley-Day: Good afternoon. Thank you. Firstly, Stephan, if I may follow up on Lisa's question and perhaps ask it a different way, what do you think you can do perhaps differently strategically to help realize the value that Kabi clearly has in terms of potentially speaking to adjacent markets or indeed realizing perhaps with the -- its position in the wider structure of Fresenius? That'd be my first question.

And secondly, it's a quick one on China, and obviously we've seen reimbursement (inaudible) historically. Is this more the standard sort of biannual pressure we've seen, or is this part of the wider new national tender process that we have seen affecting other parts of the healthcare sector?

Stephan Sturm: Thank you, Ed. Good to hear from you. I do believe that we have quite some complexity in the group as a whole and also quite some complexity within Fresenius Kabi. I tend to look positively at that complexity and rather view it as helpful because it gives us more diversification and hence more stability. As -- so I'm saying that because I believe that, with the currently fairly broad setup within Fresenius Kabi, there is very little appetite to go beyond the business lines that we're currently active in.

I think, at least for the time being, I would much rather expect to see us to continue to broaden our geographic setup and roll out the very fine products that we already have in our portfolio into other geographies, so enteral nutrition more into China, standard infusion solutions, where we have some differentiating factors, into the US, also the infusion pumps into the US.

Yes, we have started a bit of a venture consciously with our biosimilars. And we're very happy with that, as you know. And that is also something that I would like to see strengthened. And once we've proven to ourselves and, maybe more importantly, to you out there that we're mastering this challenge, then I would also be keen to further broaden our setup there and make that a much more meaningful business line.

But you know that there was a time when we were also looking somewhat skeptically at our transfusion and cell therapy business. Ever since, the business has performed extremely well. I see no reason to revisit that situation from the time, the long, the short of it. I'm generally happy with the setup that we have. I would like us to improve the quality situation that we have now recently suffering under in the US that has somewhat depressed our growth. I would like us to become leaner as a result of the cost-efficiency measures that we're going through. And I also would like us to harmonize our approach to the individual businesses, business lines within Kabi more so that we can reap more benefits from bundled product offerings. Ed, that is my current view.

I'll hand you to Rachel for your second question.

Ed Ridley-Day: Thank you, Stephan.

Rachel Empey: Thanks, Stephan. So, Ed, China, your question around the tendering process, so I think Stephan mentioned it briefly in his prepared remarks, and I will just try to recap to try to make sure that we're clear. What we have seen is, over and above the tendering activities that we've seen in the past few years, a national tendering process that I think has been rolled out on a product-by-product basis in the -- let's say, through the overall hospital purchasing system. What we are expecting is that, in Q2, we will begin to see some impact of that, where one of our larger molecules has gone through that tendering process, and those tenders will effectively begin to be enacted, let's say. And then we are anticipating that, as we have seen in other areas, that other products in our portfolio will gradually go through that tendering process over an extended period of time.

I think, here, importantly, yes, these tendering processes have tended to lead to some price discounts, in some instances, relatively significant price discounts. But it clearly is a different buying and selling process. China is historically a market with a lot of sales and marketing activities and promotional related activities. And clearly, in a tendering market, that is a different set of activities that need to be undertaken. And thus, for us, it is important that we are looking carefully at our structures and overheads within our Chinese setup so that we can react to this new way of selling and which will also help us be able to offset any resulting price pressure that will come from these activities. But to answer your question specifically, we have seen this national tendering process applied to one of our significant molecules. And we are anticipating that, over time, that will become applicable to more of our products.

Ed, I hope that answers your question.

Ed Ridley-Day: Yes, that's very helpful, Rachel. Thank you.

Operator: There are no further questions at this time, and many thanks for your attention in joining today's conference call. If there are any further questions, please contact the IR team. I would now like to turn the call back to Stephan Sturm for any closing remarks. Please go ahead.

Stephan Sturm: Thank you, Stewart, thank you, all, for participating today, for your interest, and for your questions. I think it is fair to say that, despite all the uncertainties that have been around and are continuing to be around, we had a good start to the year. At least, we feel encouraged.

We have confirmed our guidance with a good feeling. And we will continue to keep our heads down, work away, and try our hardest to deliver on the expectations that we have raised.

We welcome you to participate in our shareholder meeting on May 21st. And we will see many of you, albeit for the time being only virtually, in between the quarters at the various conferences that will be going on. And we'll be back with a report on our Q2 results end of July, when I would also hope that we can shed a bit more light on the cost savings and efficiency improvement measures.

Thank you for now. Stay sane and healthy. Take care.

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