Transcript

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European Healthcare CEO Call Series 2020 - Fresenius SE

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David Adlington Good afternoon and good morning, everybody. I'm very happy to host the latest edition of the Healthcare Conference Call Series today. We've got Stephan Sturm, CEO of Fresenius SE.

I'll hand over to Stephan in a second, but just a brief reminder of the format. Stephan is going to make some opening comments in a second, then I'll lead us through some Q&A before we open up the lines to questions.

If investors would prefer to email questions in, please feel free to do so to david.adlington@jpmorgan. With that, thanks Stephan for joining us today and over to you for some initial comments.

Stephan Sturm Thank you, David. Thank you all for joining. Your interest in Fresenius, as always, is appreciated. We've had a solid Q1, followed by a Q2 that did see some impact from COVID-19. On that basis, we adjusted our full-year guidance, which originally did not incorporate any COVID-19 effect, to do that now.

We had to shave off a little as far as the expected revenue growth is concerned. We had to shave off a little more as far as the expected full year earnings growth is concerned.

We do expect Q2 to have marked the trough. We do expect accelerated earnings growth through the second half of this year. The upper end of that adjusted earnings guidance range is still in the positive territory. It's going to be a stretch but it's not going to be impossible.

The assumptions that are underlying this adjusted guidance also, from today's perspective, remain realistic and, therefore, we're working away to materialise what we have guided you to. Your questions are more than welcome. Thank you.

David Adlington Great. Thanks, Stephan. Maybe, before we dive into the business and some of the near-term and potentially medium-term impacts of COVID-19, maybe you could just address the bigger picture for Fresenius SE. Is it growth? Is it value? Is it defensive?

The reason I ask that is we've got an investment world that appears to be increasingly trying to allocate companies to buckets or factors and it seems that Fresenius gets put into the value bucket. Maybe, if you could just talk to that, how you see the company, and what you think could drive the investment world to maybe reassess which bucket to put you into.

Stephan Sturm Thanks, David. We continue to view ourselves as a growth company. The question is not unfair, though, as our earnings growth, for various reasons, has fallen short of our top-line growth recently. We're working hard to reverse that, even though COVID-19 isn't exactly a help here but once we succeed, and I'm optimistic we will succeed, the choice of bucket should be easier.

Let me talk about top line growth, and organic revenue growth has been and will remain our backbone. In each of the last five years, we have delivered organic revenue growth of 5-6% and, but for COVID-19, we, in all likelihood, would have been in this range also this year.

Each of our four business segments has grown and continues to offer ample growth opportunities and, given our substantial investments in the recent past, we have also prepared ourselves to capture these opportunities.

I'm sure you will have a few questions about our medium-term targets. Let me just say at this point that those are consistent with the view that I just described. You know that over the years we have also grown via acquisitions and we continue to aim to complement organic growth, also, with the selective acquisitions. Those are meant to strengthen our existing businesses, especially geographically.

But, large, strategic acquisitions which, of course, by definition are higher risk, are not on the agenda, at least not in the short-term. Our risk appetite for the time being is somewhat limited and we are also focused on reducing our leverage ratio.

But, why was earnings growth short of the top line? Not only but primarily because of the investments across our businesses, investments that were going through the P&L. So, for instance, rollout of home dialysis, plant expansion, biosimilars at Kabi, clustering, strengthening the ambulatory business at Helios, and a few more initiatives where we expect payback over time.

But for COVID-19, we would have shown healthy earnings growth this year. The pandemic will cost us some growth points but we stick to our medium-term growth targets and if you share that belief, then you should put us into the growth bucket.

David Adlington Perfect. That's a very good summary and overview. If you think about the sources of growth for each of the four businesses, the organic growth in each of them is driven primarily by what?

Stephan Sturm I'd say, in a general statement for all our businesses, that the positive framework that we're operating in, that has not changed. Worldwide, we continue to see the need for medical care and ever-improving medical quality.

As a result, in general, the demand for our products and services is growing worldwide and, hence, I would very much expect that we will continue to participate in these megatrends, also, going forward.

When I look at our key strengths, our core competencies, then I'd say it is the development and the provision of affordable yet high quality healthcare products and services and that, in my mind, is going to play an ever more important role in the future.

We have the critical mass already. We are efficient already. We are increasingly digitalised across our hospital and dialysis networks. We are increasingly automated and, hence, even more cost competitive and higher quality in our manufacturing. Hence, I believe that there will be very many opportunities for us to take advantage of.

I will give you a few highlights per business segment. For Fresenius Medical Care, I'd say organic growth is going to be driven by fairly sustainable patient growth around the world. Volume isn't everything but it is a very good starting point. I then point you to the acquisition of NxStage where, in near-perfect timing, we got ourselves onto that trend towards home dialysis.

When I look at Fresenius Kabi then, organic growth is going to be driven by higher-volume demand for generics in an attempt to provide more cost-efficient medicine. We have a very solid pipeline of new product launches in injectables. We keep on rolling out our product portfolio in other geographies. As an example, standard infusion solutions into the US, clinical nutrition in other geographies.

We are increasingly embracing the non-hospital market for our enteral nutrition markets. We are capitalising on a trend towards bundling of products by large buying groups. We have a very meaningful presence in Emerging Markets where, year in and year out, we are delivering double-digit or at least near double-digit organic growth. And, last but certainly not least, our investment in biosimilars, that is starting to pay off.

When I look at Helios, we continue in Germany to see mild patient growth but I'd much rather rely on market share gains, given our critical mass, given our ability to cluster, to specialise, given our superior medical quality. But, I would also rely on ongoing, fairly favourable reimbursement trends in order for the government to maintain the current hospital infrastructure across the country.

We have endeavoured on other growth avenues like occupational risk prevention, prevention centres for individuals, and we have already, for quite a while, gone about digital initiatives with quite some vigour.

In Spain, we continue to grow, given an undersupply of hospital beds across the country. We capitalise on long waiting lists. We are fairly safe as far as reimbursement is concerned, both in our PPP products with long-lasting contracts but also with regards to private health insurance companies, where we have a good balance at the negotiating table. There, in addition, the occupational risk prevention business is growing at an above average pace.

Lastly, at Vamed, I would say that we can nicely capitalise on a general trend towards outsourcing specific services by large hospitals, and small hospitals even more so. What I'm talking about is technical maintenance. What I'm talking about is, in particular, instrument sterilisation. That is our home turf.

In addition, when it comes to our post-acute business, it is becoming increasingly obvious that for stable patients that need longer-term care, post-acute, because of the lower cost base, is a much better place for them to be looked after than an acute care hospital and, therefore, I would expect us to grow there, as well.

David Adlington Perfect. Most of the companies we cover effectively walked away completely from FY20 guidance back in the March/April timeframe, given the backdrop of COVID-19. You obviously didn't update your guidance until a bit later amid the Q2 results but, frankly, you didn't make a lot of changes to the original guidance. I think you took a percentage point off the top line but you're still expecting to grow in a 3-6% range. You've still got guidance that indicates you could grow that income a little bit at the top of the range.

We'll get into some of the detail around the moving parts later but from a high level, given the headwinds from COVID, the change to guidance really isn't very material. Is that because the original guidance was super conservative or have you just been able to mitigate a lot of the headwinds?

Stephan Sturm David, let me first and foremost say that reliably guiding is a tough challenge in each and every year. This year it is particularly tough but we are, at the same time, acutely aware that we created a major disappointment end of ’18 and, therefore, this is about regaining trust.

We have done our utmost to be very transparent as to what the underlying assumptions are that we have taken but we have also, at the same time, very diligently, in a detailed bottom-up fashion, tried to encapsulate what is most likely to lie ahead of us

The key underlying assumption for our adjusted guidance is that there is not going to be a major second wave leading to nationwide lockdowns in any of our major countries and whilst, recently, the number of infections have grown again, and whilst we continue to monitor that, I still very much believe that this is a realistic assumption.

Just, I believe, two days ago, the Spanish secretary of state, when commenting on COVID-19, has said that there is not going to be a second lockdown. And, I believe, just last night or earlier this morning, our German health minister has said that there are quite some learnings from the first wave and that there is not going to be anything similar later this year. So, again, I feel encouraged that our base assumption is absolutely realistic.

We have across our businesses and across our geographies, I’ve spent quite some time on our Q1 and Q2 calls leading investors through that, some puts and takes. Fresenius Medical Care, with basically a non-elective treatment for chronic patients, is hardly affected and, when it comes to increased cost, there is a good reimbursement programme by the US government.

As far as Fresenius Kabi is concerned we are, on the one hand, benefitting from COVID-19, with higher demand for some of our anaesthetics, for our pumps, our infusion solutions. We’re not taking undue advantage of that. We’re trying to meet demand without increasing prices.

At the same time, when it comes to elective surgeries, there is very little demand, has been very little demand, which is now growing and where we have tried to model a recovery where, for now, I’m also encouraged that we have gone about it in the right way.

This leads me to Helios where, very differently, between Germany and Spain. We had very little COVID patients in Germany but still had to turn down elective patients but were made whole, by and large, by the government with a rescue package.

In Spain, quite a number of COVID patients with some commensurate reimbursement, also had to turn down elective patients, no reimbursement. Therefore, when Helios Spain was outgrowing Germany in the recent past, this year it is lagging behind. But, we still believe that, fundamentally, we’re looking at a very strong business where we’re going to see some catch-up.

Vamed is hardest hit and there, in particular, the project business but also, here, to some degree, I would hope that delays can be caught up later. To your question, this original guidance was not super conservative. It was realistic. It was meant to get us in a position that we can regain trust.

But, frankly, relative to the original guidance and stripping out the estimated COVID-19 effects, we most likely would have ended up at the upper end of that earnings guidance range or maybe even slightly above.

David Adlington Perfect. I think that's clear. Maybe, if you could bring all those moving parts together. You mentioned you're sticking to the mid-term guidance. If you think about the top line growth over the next three to five years, has COVID-19 had any impact in terms of how you're thinking about that over the next three to five years, the medium-term impact?

Stephan Sturm Frankly, no. As you observed, it was only a mere percentage point that we had to shave our original guidance and that, primarily, because of the effect at Helios Spain that I was just guiding you to.

As I said in my intro, consistent, sustainable organic growth has been our hallmark and we see no reason why that would change. The composition of our sales, that may change a little and has changed a little and that has, over time, led to fluctuation of the margin and divergence of EBIT growth.

In particular, when it comes to this year, we find it a bit harder to generate that revenue growth. We are looking at a higher level of expenses in general and, therefore, the effect on our earnings guidance is more pronounced than on our top line guidance.

But, as you rightly said, we continue to feel bound by our mid-term guidance. When it comes to a specific outlook for '21, you won't be surprised if I'm asking for your patience. That is something we thoroughly want to work up, bottom-up and that we will talk about next February.

David Adlington Perfect. I don't suppose anyone is going to give guidance for next year anytime soon. Maybe if we dive into some of the businesses and, as always, I will avoid Fresenius Medical Care.

But, maybe if we just go to Kabi, obviously a lot of focus on the US performance through last year and into this year, with the competition coming back from the beginning of 2019 and then starting to annualise as we entered into this year.

You started with 3-6% growth, I think, and now it's down to 2-5%. As you think about COVID-19 here, there are a few moving parts, some actually positive and some negative. Maybe, first, if you could just talk to the tailwinds you're seeing and then address where you see the headwinds coming.

Stephan Sturm Tailwind has been some extra demand, in particular, for our propofol, but also for our pumps and, to some degree, for our infusion solutions. As I said, this was primarily volume demand and we didn't enter any price action, as responsible and long-term oriented market participants.

Those were spikes in demand and they applied to North America and to Europe. I would also say that in quite a few instances we did get the impression that this was not demand then followed by utilisation, but that rather, end of Q1, early Q2, we were seeing some stockpiling against the backdrop of massive uncertainty.

We've seen a somewhat similar effect early Q3, ie, early July, in North America against the backdrop of a fairly rapidly increasing number of infections, but also that has normalised in the meantime.

The overarching theme, though, is the meaningfully reduced number of elective surgeries, where most of the products in Kabi's portfolio are being provided in connection with elective surgery and, therefore, what we're suffering from at Helios also has a knock-on effect on quite many of the products and, in general, the demand at Fresenius Kabi.

We had hoped for more a V-shaped recovery in China. That did not materialise. We already made that clear, as part of our Q2 call, that it would take longer. If you remember that colourful slide that I was talking to, then really we would be getting, in our minds, into the neutral zone only well into Q4.

And, also in North America and in Europe, whilst we're seeing a recovery of elective surgeries, we are still below where otherwise we would be. This has been, to some degree, offset by SG&A savings but, on the other hand, what we're looking at is a decreased utilisation of our manufacturing capacities with a knock-on effect on overhead absorption. Those are the key drivers for our revised guidance but let me reiterate also, from today's vantage point, that guidance appears absolutely realistic.

David Adlington Perfect. Actually, the last couple of days we've seen some large orders that were put in place for ventilators through the February/March timeframe, particularly in the US, the government has actually walked away from some of those orders. Have you seen any cancellations, a reverse on that stockpiling you saw?

Stephan Sturm Nothing that I should report here.

David Adlington Perfect. Great. You touched a bit on it in your remarks but in terms of thinking about those tailwinds and headwinds evolving through the rest of this year, it sounds like China is taking longer to come back. As you begin to, maybe, have a bit of a crystal ball into next year, any thoughts around are we going to have a big pent up demand, meaning next year is kind of a super year?

Stephan Sturm I would say in elective surgery, if there is no recovery within weeks or a few months then, in all likelihood, the cases are going to be gone and, in very many instances, that is my general criticism of quite a few governments around the world where I believe those shutdowns of elective surgeries have been overdone.

In quite a few instances that has led or will lead to mortalities that we could have saved ourselves and, here, I'm not making that comment as a CEO, I'm making that comment as a citizen.

Therefore, back to your question, David, I would very much expect that to the degree that we see a normalisation on the COVID front, we would also see a normalisation on the demand front for elective surgeries and, hence, for our products related to it. I am mildly sceptical as to a pent up demand driven by those delays. I would be happy if we saw a back-to-normal as far as this product category is concerned.

David Adlington Interesting. Then, you started the year expecting, on the new approval side in the US, I think you guided 15 new approvals and given how the FDA has been impacted by COVID-19, as well, I think you're now down to ten to 12. Is that just a result of the FDA being focused elsewhere? Is that something that the industry, as a whole, is suffering from and, again, how quickly do you think they can get back to approving those products?

Stephan Sturm Small housekeeping, David, we're talking about launches, not about approvals. There may, from time to time, be a difference whilst, in general, we're always trying to turn approvals also into launches, but launches is the tougher criteria. We have originally guided, you're right, to 12 to 15. Now, we're down to ten to 12.

Yes, we're seeing some delays at the FDA, not so much when it comes to looking at file dossiers but rather when it comes to plant inspections that need to happen, in quite a few instances, before a new product is being launched. With the ten to 12, we would still be above our historical average. We continue to look at a very solidly filled pipeline and, to some degree, I would expect that we are looking at delayed revenues rather than foregone revenues.

David Adlington Presumably, that is just deferred revenues and the opportunity is still there, it's not depleted because, presumably, everybody is being delayed by the same amount.

Stephan Sturm As I said, primarily, this should be deferred or delayed revenues but, obviously, when you're late or later than originally expected there is always a risk that somebody else beats you to the starting line and that the opportunity is somewhat smaller, but that would be reflected in our '21 guidance. For 2020, what we have factored in here, as I said, that appears absolutely realistic.

David Adlington Perfect. I think one of the upside surprises for people on the street has been how robust the margins have been. First half margins in the US were still at 39%. So, maybe you could talk to how the pricing has evolved and are you still thinking that the mid-30s is the right level here over medium-term or do you think a higher level could actually be sustainable?

Stephan Sturm This is not a matter of price increases, in particular, not undue price increases trying to capitalise on an emergency situation. That is what we've absolutely abstained from.

This solid margin, I agree with you, is driven by product mix where emergency products have, all along, carried a somewhat higher margin. Propofol, everybody knows, is a relatively high margin product, as it should be.

As I also said, we have found it a bit tougher to generate those revenues when it comes to manufacturing and extra PPE equipment or also when it came to safeguarding the rest of our staff. That has weighed on our cost structure, in particular, when it comes also to transportation.

When we try to strip out the mix effect, then I would say the underlying price erosion that we have talked about, it must be now for more than ten years. Our observation is that has broadly continued, maybe a bit less than our fairly conservative assumption that we had at the outset of the year. If we strip out the mix effect going forward, then I would still believe that a sustainable margin is somewhere around the mid-30s, maybe slightly above.

David Adlington Perfect. Europe has been, actually, okay on margins, as well. It's Emerging Markets where you've seen some pressure. I think it's down the best past of 300 basis points in the first half. What are the drivers there and how do you expect them to evolve?

Stephan Sturm Europe also, to some degree, has benefitted from above average margin of COVID-related products and China, on the other hand, has suffered from a lack of elective surgeries.

As you know, China, for us, is to a large degree a clinical nutrition market. Clinical nutrition is not something that your average COVID patient does receive. It is rather something for elective surgery and regular emergency patients. There, we have suffered from a lack of volume demand and you heard what I had to say about the likelihood of a recovery.

David Adlington Perfect. Then, maybe just moving on, the unexpected headwind I think, when we were having this conversation this time last year, was around opioids, where you could see a headwind you weren't expecting as you started 2019. Do you see any recovery in that market, at all?

Stephan Sturm Opioids, the market as a whole has decreased pretty meaningfully but has stabilised more recently. Within that market, we have lost some ground that we had won before, given issues of our large competitor who is now back to the market and has regained the market share that we have sort of borrowed from them.

David Adlington Perfect. Then, maybe, just moving on to biosimilars. Maybe, if you could just give us and update on Idacio that is biosimilar to Humira. It's a moving target but I think you've launched in nine European countries and, so far, we've seen relatively limited financial impact, maybe a little bit behind expectation. I think that's probably not helped by COVID-19. Maybe your thoughts, in terms of how you expect it to evolve from here and what needs to happen before we see a more significant ramp.

Stephan Sturm I continue to be satisfied, if not happy, with what I'm seeing. We are competitors. Just because Fresenius Kabi launches Idacio, no tender market is going to open up on the spot. We have to wait throughout the market until a tender opportunity arises. Not all of the time, but on more occasions than I had expected, we have been successful in these tenders.

COVID-19 has now delayed the implementation of these tender results. On the one hand, that hurts us. On the other hand, those tender wins are here to stay. They're not going to go away any time soon and there is going to be a time when we can capitalise on them.

The key data point for me is, as I said, we are competitors. We continue our launch activity across Europe. There is hardly a European market where we are not present yet.

As far as Germany is concerned, you will have seen that we have entered into a distribution cooperation with Medac, who are the key distributor of the complementary drug for rheumatioid arthritis. Having the opportunity to offer both complementary drugs out of one distribution source, that has, right in the first weeks, already proven an advantage.

In those markets where you need to make your case vis-à-vis a prescriber, obviously COVID also hasn't helped because there it is much easier, then, to stick to the product that you have prescribed for the last weeks and months and the newcomers like us have found it more difficult. But, again, my general observation is we are absolutely competitive and there's going to be a time when we can prove that more convincingly.

David Adlington Perfect. Maybe, just a final question for Kabi. You've been investing quite a lot on the biosimilars side. If you think about how much you'll be spending on biosimilars in 2020, what is the sort of spend that you're looking at? When does that spending peak and when do those costs begin to fade?

Stephan Sturm When we acquired the business I was talking about an aggregate spend of approximately €700 million over a five-year timeframe, so €140-150 million per annum as a linear interpolation and a number to that tune, so approximately €150 million is what I would expect for this year.

Let me use that opportunity to say that, also, the second part of my announcement at the time of us acquiring Merck's portfolio remains true and that is I see a hard investment ceiling of €1.4 billion all in, so the development spend plus upfront purchase price plus milestone payments. And, I want to see us reach break-even before we hit that €1.4 billion hard ceiling.

David Adlington Perfect. That is a very useful reminder. Maybe, in the interests of time, move on to Helios, and it's really a tale of two cities here. First, on Germany, the country as a whole has, so far, coped with the pandemic better than most other countries in terms of infection and death rates. What do you think the driver for that is, and is it right that some of your hospitals have yet to treat a single COVID patient?

Stephan Sturm I believe Germany had the advantage of being late and having the advantage of being in a position to learn from the developments in other countries. I believe that, yes, Germany has a good healthcare infrastructure.

We turned to testing and pretty radical social distancing early on but, frankly, also from a cultural perspective, social distancing is something that Germans are more used to than quite a few other cultures and, therefore, it wasn't that hard to implement that. The result, for us, was that I think at the peak we weren't even at 500 patients per day across our 86 hospitals and therefore this was absolutely manageable.

David Adlington That's pretty different to some of the situations we saw across the rest of Europe. Then, obviously, the reimbursement system stepped relatively rapidly in terms of both an amount for actually treating those patients but also an amount for those services which you weren't able to complete, those elective surgeries which you talked about earlier. I think the calculation has changed for those patients a little bit since the original but I think I'm right in saying that the new method is actually slightly better for you.

Stephan Sturm Originally, it was a flat €560 per unutilised bed day, unutilised relative to last year. Now, we're looking at a band between €360 and €760. The number of hospitals that remain in the €560 category is the largest, and we've seen slightly more hospitals that saw an increase than those that saw a slight decrease to that rate so, by and large, mildly positive, yes.

David Adlington Perfect. But, I think that reimbursement only runs until the end of this month, end of September. So, what happens then and what visibility do you have on it being extended into Q4 and potentially beyond?

Stephan Sturm David, discussions are still ongoing. I believe it is a realistic assumption that that current programme is going to expire end of September and that we're not going to see anything similar in the fourth quarter and beyond. At least, that is what we have used as an assumption for our guidance.

David Adlington Perfect. We know there will be less reimbursement but, going forward here, you've potential got some extra procedures. If there is some pent up demand out there you've got the extra costs associated with PPE. How much does that change in how you do procedures, the extra costs of PPE, the washing down of the facilities between patients? How much does that impact your capacity?

Stephan Sturm It has a very mild negative impact on the available capacity but do please bear in mind that full capacity utilisation is reserved to individual weeks, maybe even only a few days throughout the year.

Capacity is constrained because of social distancing. Wherever we have single bedrooms or double bedrooms, it is not an issue. In the few remaining instances where we have three bedrooms, yes, there we will only be able to occupy them with two patients. That is where the constraint is coming from. Again, overall, I'd say a mild effect.

Extra cost for PPE and those procedures? There has been a reimbursement that has been okay. Also, that's my understanding, it is still in discussion and there we may see an extension of that.

In any case, the key issue for now is to regain patients' confidence that a hospital is a safe to go to and that they no longer delay truly necessary check-ups and elective surgeries before they become mandatory surgeries.

We are working quite heavily with safety concepts, hygiene concepts. We are communicating in a very transparent fashion that, yes, there are various parts of a hospital, pretty much like the clean room hierarchy at a manufacturing plant, where whoever is tested as negative will be able to move freely but that in the inner parts of hospital where we have the departments, the wards for infectious diseases, only a few people will be able to enter into.

Capex related to that is a small amount but I would still expect that given our communication, given the brain that has gone into these concepts, we will be able to regain trust and maybe even gain some market share.

David Adlington Perfect. Then, maybe, moving on to Spain which has been a more difficult overall. Obviously, the country was hit much harder by the virus, so elective procedures have been hit very hard and hospitals have been treating a lot of COVID patients.

I think there's two elements here. For treating those COVID-19 patients, I know you came to an agreement with the Catalunya region, I think, back in April time for some specific reimbursement which I think was pretty generous. How are you getting on with the other regions and how have you been recognising those revenues?

Stephan Sturm We're making good progress there but before I go back to, specifically, your question let me just say that, yes, it is a tale of different countries and Spain has been hard hit and we, alone, have treated more than 10,000 COVID patients at our Quirónsalud hospitals and the bulk of them in the metropolitan areas of Madrid and Spain.

I'm saying that because reimbursement for COVID patients did not play a significant role in Germany, it does play a fairly major role in Spain. We can live with the outcome that we have received with the private health insurance companies so far. I'd be a bad businessman if I now told you that those were splendid reimbursement rates. We can live with them.

Let me also use that opportunity. I'm being old that part of my remarks on the Q2 investor call were misinterpreted that there may be a risk of having to reverse revenues that we had already booked. I want to rule that out categorically. That is not going to be required.

David Adlington Perfect. I'm just thinking back to the Q1 results where you pointed towards some potential compensation for those lost elective procedures. There was, I think, €9.0-10.0 billion of central government funding that you thought you might be able to get some of. Then, by Q2 it feels like that chance has gone away. What happened? What happened between April and August, and do you think there's any chance that you get any funding for those lost elective surgeries?

Stephan Sturm It is an evolving environment and it was hot off the press at the time of our Q1 call that the Spanish government was planning a double-digit billion euro rescue package, pretty much along the lines of what we had seen in Germany.

That got reversed over the course of Q2. On the one hand, positively, financial support by the EU was announced and therefore, yes, there is a healthcare support package now in the magnitude of €9.0 billion.

I was saying also, in between Q1 and Q2, that it was not clear how those funds would be allocated by the central governments to the individual regions. The regional governments are in charge of the healthcare infrastructure.

Already, at the time of Q1, I was very clear that this would not be distributed pro rata to the COVID patients treated but, originally, I was hoping there was something similar coming along like we are benefitting from in Germany. That, it is now increasingly clear, is not going to happen.

Those funds are much rather going to be allocated to replenish healthcare budgets in the individual regions to be prepared for a second wave. They are also meant to facilitate payment of historic bills which otherwise would have taken a bit longer. Therefore, where I'm somewhat sceptical as to an extra P&L effect, I am encouraged as to the cash flow effect that we can expect over the remainder of this year.

David Adlington Perfect. I am very mindful of the time because we've been chatting on for a while. Usually, we wouldn't necessarily talk very much about Vamed but it's been hit particularly hard by COVID-19 I think, really, on two fronts you've called out: the projects and the rehab clinics.

How are you thinking about the recovery there? It sounds like the recovery of elective surgeries is maybe a bit slower than you were originally thinking. Presumably, that has a knock-on effect to, certainly, the rehab clinics and on the projects, as well.

Stephan Sturm We have to dig a little deeper, David, and that is that, in particular, it is the projects business that is hard hit by travel restrictions around the world and do please bear in mind, many of our projects are in Emerging Markets where experts from Europe need to be on the construction site and there progress and, hence, revenue, and earnings recognition is pretty meaningfully delayed.

I would still expect that for those construction sites that have already started, there is catch-up potential. Revenue, by no means, and earnings are, by no means, gone. Where I'm a bit more sceptical is for those projects that were still in the marketing phase and where we didn't have a signature. That is the area where we are also particularly hard hit on the earnings front.

When we are incurring marketing expenses in order to get a project into our order book, that is then capitalised and depreciated, offset by the earnings over the life of that project. In these days, when we don't get order entries as we would like to see them, those marketing expenses are going through our P&L. That is a key driver.

On the other hand, as far as our service business is concerned, yes, we are suffering from delayed elective surgeries. It is no emergency patient that needs post-acute, it is only elective surgery that needs post-acute services. So, with the recovery of those elective treatments, we should also see, with a bit of a time lag, post-acute treatments recover.

You heard me at the outset when I was talking about the growth drivers, technical facility management, instrument sterilisation services. That should continue to growth for the medium-term.

David Adlington That's great. Those are the questions I have for each of the businesses. I am very aware of the time. Operator, could we open it up to the lines to see if we've got any questions from investors, please.

Operator As a reminder, ladies and gentlemen, if you would like to ask any questions, please would you press *1 on your telephone keypad now. If you are joining via the web, please click the Request to Speak flag icon.

Caller #1 Thank you very much for taking the questions. I have three, actually, one on M&A, two on Helios, and three on Kabi. M&A, I was quite astonished to see that the company was focusing the M&A outside of Europe or the US, especially with Helios. I was thinking about the fact that eventually, by being the leader in Germany with quite a low market share in the Helios space, you would actually consolidate more.

So, the question would be, in that sense, are you quite comfortable enough being the number one, that you can actually expand your market share without making M&A? I do fully understand that this appetite currently is quite low but eventually, mid to long-term, it could actually increase and be more Germany. That's the first question.

The second one, talking Helios and reimbursement. I understand that we have some hiccups and, at some point, will have less reimbursement or slower reimbursement from governments due to the COVID situation and, you alluded to before, from Q4 onwards.

But, if you were to normalise an after-COVID situation, can you share with us some thoughts about how you see reimbursement, especially in Germany and eventually in Spain, and how or what is making your nights not so fantastic or we have concerns of a change of reimbursement which could actually put under pressure, your margins. So, this was reimbursement on Helios.

And, the last one, I understand that on the Kabi side, there generics volume is actually you're quite fine and optimistic going forward. Can you just share something on the pricing situation at Kabi, please. Thank you.

Caller #1 M&A in Germany at Helios, frankly, it is a matter of the availability of targets. Privatisation has never been popular. It is also not popular now. Much rather, politicians are keen to maintain the current state of affairs.

If opportunities that fit into our regional presence and come at the right price point where we have very tangible near-term synergy potential come along, then we will always be interested. You may have seen that we have also recently acquired further hospitals from the Order of Malta, and that is just the type of opportunity that I would continue to be keen on.

As far as Spain is concerned, we continue to be interested but, also, there is a matter of the availability of suitable targets. I will be keen to watch the environment there later this year, also next year, to see whether there are any repercussions coming out of the COVID situation.

As far as reimbursement in Germany is concerned, yes, there has been a fairly major regulatory change with the carve-out of nursing cost. That has weighed on our earnings, weighed on our earnings growth. I believe we have coped with that fairly well.

The underlying guiding principle in my mind is that reimbursement will have to be at a level that far less efficient hospitals than ours, in particular the public ones, will be able to survive. Reimbursement, therefore, quasi by definition will have to be at the level of wage inflation. Our exposure to labour cost is substantially lower than that of our average public hospital and, therefore, I believe that healthy reimbursement increases are more than likely but, at the same time, they should help us driving our profitability.

Lastly, your question on Kabi. I am specifically talking about generics in North America. That is our key and core market for that product category. Yes, I would expect, given growing population, given budget constraints, there is going to be mid-single-digit volume growth for the generics category.

But, as we have observed all along and also at this point in time, I would work on the assumption that this is going to be offset to quite some degree by price erosion, which typically I would call for in the low single-digits.

What I would then see on top is the effect of new launches, us broadening our product portfolio into pumps, infusion solutions and biosimilars and, therefore, I do expect sustainable organic top line growth for Kabi in North America, despite that price erosion.

Caller #1 Thank you very much.

Stephan Sturm Thank you.

Operator As a reminder, it's * followed by 1 if you would like to register a question, and it's the icon flag if you are joining via the web. We have had no further questions registered at this time.

David Adlington Perfect. I've had a couple online. I might just take a couple of minutes to quickly go through them. Certainly, one is quite pertinent. Obviously, this year is US election year. As you head into the election cycle, is there anything you're particularly worried about and the potential for a higher US tax rate?

Stephan Sturm David, I vividly recall you asking me that question about four years ago on the day Donald Trump was elected and my answer, maybe surprisingly, remains unchanged and that is I am not particularly worried and that we, as a company, will be able to cope with either choice of the American population.

I believe both candidates stand for sound funding of the US healthcare system. Maybe the one differentiating factor is that many of you will recall that we were a beneficiary of President Trump's tax reform. It's my understanding that if Mr. Biden was to be elected, then it would be his plan to at least partially reverse that. That is something that we would watch.

David Adlington Prefect. Great. Well, we are over time here, Stephan. Thank you very much for spending time with us again this year. It's been really interesting, as always. Thanks, everybody, for dialling in. We'll let you have a great rest of the day and stay safe out there. Thanks very much, guys.

Stephan Sturm Thank you, David. Thank you, all. Thank you for your interest in Fresenius. Markus and I will speak to you soon. Thank you.