EU Medtech & Services - Conversations with the C-Suite - Fresenius SE | Barclays | April 04, 2022

Hassan Al-Wakeel:

Good afternoon. And thank you for joining the second in our conversations with the C-suite in European MedTech and services. My name is Hassan Al-Wakeel, head of European MedTech and services research at Barclays. I am joined today by the CEO of Fresenius SE, Stephan Sturm, and head of investor relations, Markus Georgi. Today's call will last approximately one hour and will consist mainly of questions from myself to Stephan. If you'd like to ask a question, please drop me an email or send me a Bloomberg message and I will happily relay your questions. So Stephan, thank you so much for your time today.

Stephan Sturm:

Thank you for having me. Good morning. Good afternoon, all. Thank you for joining.

Hassan Al-Wakeel:

Brilliant. So let's start with the big picture Stephan, and maybe your appraisal of business performance since taking the helm as CEO probably six years ago now. And why you think the outcome of the recent strategic review should position the business for long term structural growth.

Stephan Sturm:

Of course, I am not happy with the performance over the about six years since I've had that job now. And I would've expected and preferred some easier going. Is it a fundamentally wrong business decision that we as a team or I personally have taken? Frankly, I don't see that, but I'll be open for criticism. I believe that the facts are that we have been able to grow our revenue, but that we have not been able to grow our profitability. It is also fair to say that over time we had to inject more capital into the business to keep the profitability broadly stable, and hence returns have come down. I believe that what we have done is that we invested very heavily into the medium to long term good of the company. We have captured in my mind, highly attractive growth areas like biosimilars home dialysis, fertility to name only a view.

Stephan Sturm:

I am very excited about these and hence also about the medium to long term growth in our business. But that also meant that in the very near term tactically, we were suffering a lack of earnings growth. And given that there is quite some skepticism out there, which I do appreciate not only but in particular vis-à-vis our efforts on the biosimilar side the share price is more than half. And hence, obviously I cannot be satisfied with that. The onus is on us to prove to ourselves, and maybe even more importantly to the outside world that our moves to safeguard the long term good of Fresenius are and have been the right ones.

Hassan Al-Wakeel:

That's helpful. And if we think about your talking about that strategic review and what you've talked about with regards to FMC, why could FRE be better off potentially without FMC?

Stephan Sturm:

Hassan, for the avoidance of doubt, that is not what I was saying. I [inaudible] like the FMC business. It is close to all of our hearts, has been integral part of the group ever since Fresenius medical care was founded more than 25 years ago. But what I did say, what I wanted to convey is that when we brought FMC to the stock exchanges as a separately listed entity, we quasi implicitly also accepted that if somebody felt that they should make an attractive offer for the business, that we would have to consider it. And that is what I was confirming because yes, there have been some uncertainties with regard to [inaudible] will and how closely that should be interpreted, and much time over the course of 2021 was spent to clarify that and to get that into a legally binding opinion. And therefore, yes, what I wanted to convey is that we would be open if something like this happened.

Stephan Sturm:

But Hassan, as you know, what I was also saying is that in my mind the current valuation, the current profitability, the current multiple is nowhere near what we expect given the strategic positioning of medical care.

Hassan Al-Wakeel:

No, that's helpful, Stephan. I guess what I was trying to understand was your perspectives on synergies between the businesses, as well as the lower growth or some of the challenges that you've talked about from some of the service businesses that clearly FMC sits within.

Stephan Sturm:

Synergies with Fresenius medical care being part of the group. Again, as I was alluding to pretty much across the board below the operating earnings line, what FMC gets us is more breadth, more scale, and therefore a meaningfully more attractive profile vis-à-vis our lenders and their agents, the rating agencies. As far as operating synergies are concerned, then yes, Fresenius medical does some manufacturing for Kabi and vice versa. But as you would expect, given FMC separate listing, all of that needs to occur at an arm length basis, and therefore could also be handled by a contract between generally friendly companies that don't share the very same ownership.

Stephan Sturm:

As far as growth is concerned, you will seen how intrigued we are about home dialysis, about value-based care. You will have seen FMCs latest announcement about entering into the earlier stages of kidney disease with that transaction involving InterWell and Cricket. And therefore it, you ask me, but I'm biased of course, I am not as critical as skeptical about Medicare's growth perspectives going forward.

Hassan Al-Wakeel:

Right. And how do you think about adding minority investors to Helios and [inaudible] and the benefits that these could potentially? I think some of the investors that I've spoken to worry about an increase in complexity as a result of further minorities, rather than a reduction in complexity.

Stephan Sturm:

And probably I did not make myself as clear as I should have, and I want to apologize for probably a clumsy way of communication as part of the press conference on [inaudible] 22. There is no way that I am looking for additional complexity just for the sake of it. I remain committed to reducing complexity, but at the same time when we were going through the barriers growth avenues across the different businesses, when we were also explaining that, given a lack of more meaningful [inaudible] growth, but pursuing those growth opportunities would endanger our investment grade rating. That this in turn is not sacred, but precious for us and that we want to protect it. Frankly, something's got to give. I believe not pursuing truly unique and the value adding growth opportunities is also not in the interest of our shareholders, but I also recognize that at the current valuation raising equity at the parent level is completely out of the question.

Stephan Sturm:

I have reason to believe that there is a better appreciation of the inherent value of our assets at the business segment level. And for the right opportunity to strengthen, to broaden the respective business segments profile, I would expect that accepting a minority shareholder at least temporarily is something that should be acceptable. Temporarily because I would always try to fix that situation later on. I would also only ever do that in order to immediately strengthen that business. So the idea that we would take on a financial investor to only do a cash injection that would inevitably lead to earnings dilution post the deduction of minority interest, that is the wrong route to pursue. I absolutely recognize that, but taking on nicely fitting business, adding growth and profitability, adding synergy potential and hence also being earning accretive, that is something that I would be open for.

Hassan Al-Wakeel:

Yeah. That's clear. Maybe if you could talk a bit about your conviction around the biosimilars franchise, something that you've added to recently. This is a very competitive space. So I'd be really interested to hear your thoughts around fundamentals here and what you view mAbxience is really bringing to the Fresenius franchise.

Stephan Sturm:

So let me start by taking you back to 2017 when already at that time, when we were acquiring [inaudible] biosimilars portfolio, we were saying, okay, we need to pursue the next growth trajectory, and small molecule injectables in our minds were at the risk of getting closer and closer to what we call the patent cliff. It has taken longer, continues to take longer, but still in our minds, it is very clear that in order to add growth to Kabi's portfolio, biosimilars is a good idea. That was the case at the time, we continued to believe that this is the right proposition, recognizing that there are very many biosimilars skeptics out there. But I would argue that essentially, and feel free to look up what we were saying in April, 2017 at the time of the announcement, essentially all of the expectations that we were having at the time have at least broadly materialized.

Stephan Sturm:

We were talking about massive size of markets per individual biosimilar. We were talking about the number of competitors not growing. Also tick that box. We were talking about underlying price increases by the originator. Yes, tick that box. We were talking about meaningful discounts there. Maybe those discounts have come in even a bit larger than was originally projected, but in combination with the underlying volume growth at the size of the relevant markets, they are still broadly where we thought they would be.

Stephan Sturm:

When you're saying their hugely competitive I would argue that in general the degree competition in our small molecule injectable space is at least as large as here. Typically, we are talking about, well, in any case, a triple digit million amount for a market size for a small molecule injectable. As you know, in biosimilars we are easily getting into the billions. For our [inaudible] for instance, we're talking a double digit number of competitors. In general, I would argue the number of competitors for any given biosimilar is somewhere in the mid single digits, apologies. The difference is that we still have the originator that tends to grab say 50% market share, but still also the remaining of over the number of biosimilars competitors is a very, very attractive underlying market size. In contrast to the small molecule injectables we have here and there an opportunity to be among the first if not the first to market with a biosimilar, and to get some extra market share and some extra margin, at least temporarily. Again, we were saying in 2017 that the margin profile should closely resemble the one that we're experiencing in small molecule injectables, [inaudible] give or take mid thirties EBIT margin. And we continue to believe that is possible. What mAbxience now brings us is a completion of the value chain, in particular on the manufacturing and the development side. We do expect that we can strengthen our position in the key success factor that we expect to become even more important going forward, and that is being competitive on manufacturing cost.

Hassan Al-Wakeel:

That's helpful. And could you talk a bit about the CDMO business at mAbxience, the appeal here and the extent of manufacturing synergies?

Stephan Sturm:

Let me first of all say that a CMO business is nothing new for Fresenius company. In our infusion solutions, in our injectables business,

Stephan Sturm:

... frankly, pretty much across the Kabi portfolio. We have been in that CMO business all along, and we're now looking at a revenue contribution in the low triple digits. It is attractive because it helps us fill manufacturing capacity. That we cannot tailor a long general upward trend whenever we expand a manufacturing site, that is typically with a 7 to 10 year time horizon. And so in particular, in the early years we have some excess capacity that we can continue to fill with the CMO business. But over time, the relative share of CMO business comes down and we try to fill it with in-house business of our own. And therefore we're not novices to such a business. We generally know how to do it. But we, again believe that mAbxience has something to add to our setup when it comes to the manufacturing for biologics. They have some additional expertise with the manufacturing sites in Argentina that is a highly cost competitive environment. We do believe that exporting out of these countries is going to get us into a favorable position, in particular when it comes to tenders for individual biosimilars.

Hassan Al-Wakeel:

And could you talk a bit about the business mix and growth and margin profile for the business at mAbxience and the CDMO business?

Stephan Sturm:

Hassan, bear with us. I know that I'm not particularly helpful to that end, but already on the call announcing the transaction, or the transactions last week, we've been relatively uptight here. The margin profile is in general a [inaudible] to what KABI as a whole currently enjoys. Also, as far as the CDMO business is concerned. The relative shares of the CDMO versus the outright biosimilars business, that is subject to fluctuation. We were alluding to the fact that in the contract manufacturing business, we're doing work for AstraZeneca's COVID vaccine. That is obviously a finite contract. That's going to come to a maturity. It'll come down to us, together with the current owners, finding a replacement to fill that capacity, but we are at least cautiously optimistic that we can actually do that.

Hassan Al-Wakeel:

Right. And how you think about the MedTech platform post Ivenix, and how do you see the medium term opportunity for MedTech, and what is needed to really achieve scale overall?

Stephan Sturm:

As you know on the Vision 2026, Kabi's strategic route, Michael Sen and his Kabi management board are, with close attention also from Rachel and me, they were taking fresh look at Kabi's portfolio setup, defining new priorities. And so Medtech was one of the three growth factors that we want to continue to strengthen. So we have been active in MedTech all along. We would work on the assumption that this is not all of a sudden going to be completely revolutionized. Don't expect us to all of a certain turn to big ticket items and capital goods sales. This is much rather smaller ticket sizes with an adjacency to the fluids that will remain certainly a core part of our business.

Stephan Sturm:

So pumps for infusion solutions, but also for clinic nutrition. Anything that is related to our transfusion technology. Anything that is related to blood collection, sampling, but also fractionation. That is something where we already have a fairly strong market position, but where we would be open to strengthen that further.

Stephan Sturm:

I was keen to point out as part of the call in the last week, and so I am today, that this is both a forward step, but it is at the same time also a move that safeguards some already preexisting investments. As you know, we invested meaningful amounts of money into power infusion solution manufacturing platform in the U.S. As many of you will know, tenders for infusion pumps go hand in hand, most of the time, with infusion solutions and therefore that link is what we believe we can strengthen with the Ivenix acquisition.

Hassan Al-Wakeel:

That's very helpful. So clearly on these two acquisitions, you're very focused in integrating them once they close, but how should we think about your capital allocation priorities going forward? Where do you see the most significant gaps for the portfolio and given where leverage is, would other transactions require raising further capital?

Stephan Sturm:

Before I answer that question, let me just say that also the mAbxience acquisition should be a good example for the right strategic pursuit. We are open, and we should be open, to accept minority shareholders. So the current owners still staying on board, that is on the one hand risk mitigation, but that on the other hand also reduces the stress on our leverage and the balance sheet and the rating. And therefore, I do believe that yes, with the temporary complexity that we're adding, that is something that we should be open to accept. I'm consciously saying temporary because there is this put call scheme in place, and I would not be surprised if over time there was somehow also a solution for that higher level of a complexity. But when we start with Kabi first and foremost, because as part of our strategic review, we were defining Kabi as the number one priority in terms of capital allocation. I would be keen to make maybe even more decisive steps in the direction of biosimilars.

Stephan Sturm:

We have now taken a major bite at the apple. We will most certainly chew it and properly integrate those businesses, see how much progress we can make before we go immediately to the next step. But if we thought about the medium term, and under the assumption that we're on the right track here, that we can also demonstrate that to you all, that would be most certainly one of the areas where I would like to see us grow even more.

Stephan Sturm:

Our clinical nutrition is the third growth factor on the Vision 2026, next to biologics and MedTech. That clinical nutrition, in my mind, is going to be primarily organic growth, but that will also require some capital. Clinical nutrition has been our growth star all along. In particular enteral nutrition, where we have devoted more resources to go beyond our classic home turf in a hospital setting, go more into pharmacy and drugstore settings. And that is also something that I would like to see grow.

Stephan Sturm:

So to your question about capital allocation, I would like to believe that the free cashflow that we continue to generate that that should be primarily channeled in the direction of Fresenius Kabi, but I would still very much like to see that those small, maximum medium size bolt-on acquisitions that we have pursued at [inaudible], and even more so at Helios, can be financed without doing any major change to the group setup. So for instance, continuing to string up these pearls with the fertility clinics that we have been very active with, that is not going to require any meaningful change. But a really strategic change, like going international or going more international for Fresenius Helios, that is in all likelihood something that will require us taking on new capital, and hence probably also new minority shareholders.

Stephan Sturm:

Is that something that is immediately on the horizon? No, but in an attempt to have a no surprises communication policy, I wanted to make it clear that this is something that we ought to be prepared for.

Hassan Al-Wakeel:

Thanks, Stephan, that's very helpful. Maybe a final one before we move on to the businesses. What, to your mind, is the single largest opportunity at Fresenius over the next two to three years, and what, to your mind, is also the most significant risk?

Stephan Sturm:

I think biosimilars qualify for both. We were talking about how determined we are to make this work. How large the skepticism out there is. I have an appreciation for people really being skeptical on us. I believe we're headed in the right direction. But if we fail for whatever reason, that is also a very meaningful risk. Not in the sense of having capitalized large amounts of goodwill that would have to be written down, no, but in terms of growth expectations that we will not be able to meet. That is probably the single largest, but value-based care at Fresenius, might it occur, or also fertility at Fresenius Helios rank also pretty high on my list.

Hassan Al-Wakeel:

Great. And if we maybe talk a bit about supply chain and inflation. These are topics that are discussed every day at the moment. Could you talk a bit about how significant the impact of cost inflation is across your different businesses? Be it wages, energy, raw materials, and what impact do you anticipate this having on margins this year?

Stephan Sturm:

The single largest effect is very clearly wage inflation, where I believe we got to distinguish between categories of staff members that we're looking at. And frankly, I'm not seeing at least that much out of the ordinary, as far as admin staff, support staff is concerned. I'm seeing, again, not that much out of the ordinary, as far as our colleagues on the doctor side are concerned, as there is no meaningful wage inflation at Helios in Germany for doctors. Most of our Spanish colleagues at Quirónsalud are self employed, and we are isolated from any potential wage inflation there. And also in the U.S. I'm not seeing as, again, anything to worry about.

Stephan Sturm:

Leaves us with nurses. And there, I really also want to break it down into different regions. As you know, that ill-fated regulation in Germany that reimburses us for nursing wages at the cost that we incur, that cost us originally a lot of money. At the moment at least it has the slight benefit that we are isolated from wage inflation there. In Spain, we're seeing a bit more than what we're used to. That was duly baked into our guidance for this year. I also alluded to the fact that now, given that level of wage inflation, there is more of an incentive to invest into leaner processes to make sure that with the very same number of nurses, we can cater to a higher number of patients.

Stephan Sturm:

In the U.S., at Fresenius Medical Care you will have heard what Rice and Helen had to say, and there is meaningful extra expense, and they have set aside a hundred million over and above the more normal 3%. It remains to be seen whether that is sufficient. I think it is a very good starting point. Next to wages we're obviously also looking at logistics, freight rates. That is clearly a headwind that we were factoring into our guidance. The situation ever since the war broke out, hasn't made that all any easier. When we put our models together, when we published our guidance, that was just before the war broke out, we were expecting an extended geopolitical tension, not a war. It felt like a conservative guidance at the time. It is not conservative anymore. But at the same time, as of today, I and we still stand by that.

Stephan Sturm:

Energy, for most of '22 we are hedged. Obviously, on the unhedged position, what has happened in the meantime also isn't a help. Rather a headwind. We need to watch counterparty risk for those positions that we have hedged, but touch wood, so far we believe we are in okay shape. So also there, not helpful. Clearly turning an originally conservative guidance into a more challenging one, but in

Stephan Sturm:

... my mind still, absolutely possible to get there. We got to watch and see what the implications then for '23 are.

Hassan Al-Wakeel:

That's helpful. And how are you looking to offset some of these cost headwinds? And to what extent do you think that they could be more persistent over time?

Stephan Sturm:

You heard me talk about the various categories of wage expenses, and I would not be surprised if the very same situation extended itself into '23. But that is why I was saying we are isolated as far as nurses in Germany are concerned, and we are starting to go about leaner processes at Quirónsalud in Spain.

Stephan Sturm:

We have got to step up our training, our education efforts. We have doubled, for instance, the number of our nursing apprentices at Helios in Germany over a relatively... I'm sorry, not doubled. Plus 50%. Sorry. As far as nurses in Helios in Germany are concerned, we will continue to do that in order to become more self-sufficient.

Stephan Sturm:

I have to say that in those highly regulated service businesses, we are generally reimbursed for these inflationary trends. However, always with a bit of a time lag. I do recognize that when, for instance, the DRG inflator for Helios, Germany was published last fall, people were surprised because it was only a two as the first digit. But that is always taking a look in the rear view mirror.

Stephan Sturm:

And there was no more pronounced inflation in the 12 month preceding that. And I would be surprised if we had as low a DRG inflator being published in Q3 this year for 2023. And the same in my mind does apply to CMS reimbursement for dialysis treatment.

Hassan Al-Wakeel:

That's helpful. And what about supply chain challenges? How significant are these for Fresenius? And to what extent do you expect them to persist or are they easing?

Stephan Sturm:

They persist. They are not across the board. Our high level of vertical integration does help us. Our relatively high level of inventories of raw materials and semi-finished goods entering into that period has also helped us. But obviously, that is also a finite position. We will have to, like everybody else, think about higher reimbursement levels or passing through cost increases, also buyer price increases.

Hassan Al-Wakeel:

Yeah. That's helpful. And then I guess, finally here, could you talk a bit about the cost savings program and your conviction about being able to drive this, and where you see the key levers in being able to drive some of these savings through?

Stephan Sturm:

People know that I hate cost savings programs because there is no better signal that you should have done something earlier in a more pronounced fashion than you're doing it now. But in a sense, our excuse is truly the pandemic. I'm saying that because 1st of February, 2021, we had that nasty surprise with the excess mortality at presenters Medicare. And we were scrambling to put something together in really, in very few days up until we had to communicate with the capital markets about our outlook for '21.

Stephan Sturm:

And therefore, in that relatively short period or very short period of time, it had to be a top down target setting. What is realistically achievable? At the same time, what does make a difference to our earning space? And that is how we got to the 100 million after tax in minorities. Representing about five, 6% of group net income.

Stephan Sturm:

And we felt that that was achievable, and made a difference, but we were only, over the course of '21, identifying individual initiatives to fill the envelope that we had set for ourselves. And hence, not completely surprisingly, we came up with a few more ideas to make that happen. And therefore, I feel comfortable with us having raised the target from 100 to 150 million after tax and minorities.

Stephan Sturm:

You will have seen that Fresenius Medicare left their target of 500 million at an EBIT level unchanged. You will know from previous communications that I feel that Helios environment have industry leading lean cost structures. And therefore, the dominant contribution to that extra that is coming from Fresenius Kabi, where we are going about a simplification of our product portfolio, a pretty steep reduction of SKUs.

Stephan Sturm:

We are looking at our manufacturing setup where a few plants probably are going to be redundant. We're looking at a more functional organization, avoiding duplications, getting more into shared service centers. Something that arguably, we should have done some time ago. But on the other hand, that more regional organization helped us in our fight for market share. Now is the right time to change course and to become more centralized and to get the cost savings that this entails.

Hassan Al-Wakeel:

Perfect. No, that's all really helpful. In the last, maybe 20 minutes or so, if we could talk a bit about Kabi. And I'll try and stick to broadly 10 for each. But with Kabi maybe if you could start, Stephan, by talking about Michael's contribution to the business, what he's brought to Kabi and what you think he's doing differently.

Stephan Sturm:

Michael is a very experienced manager in not only, but in particular in healthcare. And he has taken a fresh perspective. He brought us a fresh when it comes to looking at our portfolio. Fresh outside in. So highly objective, rational. And so, he could have dismissed completely the idea of biosimilars along the lines of very many of the skeptics out there. The opposite is the case.

Stephan Sturm:

He has declared biosimilars as one of the three growth vectors. I don't think anyone is surprised that the clinical nutrition remains one of our growth business. And maybe also not that surprisingly given his Siemens background with a stronger focus on medical devices, med tech. Again, that is not something that was a complete surprise for me.

Stephan Sturm:

He is coming out of organizations, both Siemens and E.ON, where we have a higher degree of centralization, more functional organizational setups and therefore, he can add to our cross savings initiatives. And I guess those are the highlights. The capital market will have a chance to get to know Michael even better. I consciously let him present the two acquisitions that he was striving with the Kabi team. But there is going to be an opportunity later this year to meet him even better.

Hassan Al-Wakeel:

We look forward to it. Stephan, could you talk a bit about the competitive dynamics in the US for the Kabi business, and whether competitive intensity is stabilizing or not? Some of the IQVIA data that we've tracked for Q1 suggests not. How should we think about your ability to offset inflationary costs in this business, which sees markedly lower prices?

Stephan Sturm:

When we look at the IQVIA data then frankly, market shares, at least among the top three in the market, remain remarkably stable. And we had the McPherson incident some time ago that led us to temporarily gain market share that we were then relinquishing soon thereafter. But if you take a reasonably long time horizon, then frankly, at the top of the market, there is very little movement.

Stephan Sturm:

Underneath there are more meaningful switches between new market entrance, primarily out of Asia and others having to give way. I had alluded to the fact that these new market entrants make our life difficult here and there by opposing price challenges that we choose to react to. Not all of the time, but most of the time.

Stephan Sturm:

And therefore, they contribute to a bit more price pressure that is in particular the case, given the lack of elective surgery activity that was or has been, and continues to be driven by the pandemic. I would work on the assumption that once we see a normalization of COVID, we see a return of elective surgery and the corresponding big volume demand for drugs that are needed for that, that we would then also see an alleviation of that price, pressure and a return to what we are used to. And that would be a price erosion in the low single digits. And that, in my mind is a situation that would allow us, in combination with the underlying volume growth, to at least keep margins stable.

Hassan Al-Wakeel:

And on margins, could you maybe talk about the building blocks for this year's margin guidance, or at least the difference between EBIT guidance and sales growth guidance? And how you're thinking about the impact from Chinese tenders. And to what extent your expectation is that more drugs will get added to that list, if at all.

Stephan Sturm:

Of course, an EBIT decrease at Kabi is not something that we're used to. We don't want to get used to that, and it should truly be a one-off. The key driver in our minds is the effect of the volume-based tenders in China kicking in. We had two so far. We have won both of them. That's the good news. The massive price concessions that we had to make in order to win them, that is obviously the bad news. We were going about trimming our SG&A already in anticipation of that. We've made good progress, but the effect is nowhere near the foregone gross profit given those price cuts.

Stephan Sturm:

My crystal ball is not entirely clear, but my own working assumption is that for '22, that should be it as far as more tenders are concerned. I cannot rule out more tender activity in '23 and '24, but the majority of the effect should be behind us. It was first and foremost, proper fall in the Q2 of last year with the implementation in Q3. And it was [inaudible], our parenteral nutrition product in the third quarter becoming effective in Q4. And therefore, it will be until Q4 of '22 until this would've annualized out. And up until then, we'll be comparing apples with oranges as far as the Chinese market is concerned.

Stephan Sturm:

Beyond that, my firm expectation is that we're going to see a return to very, very healthy volume growth, and with much more normal price erosion. However, after a fairly steep reset. COVID, isn't a help. That's the second factor. Rachel on the full year call, was talking about that double whammy. When Delta at least had a bit of an offset for us with extra demand for proper fall in our infusion pumps. But with the generally much more mild cause of the disease on the Omicron, we continue to see the hesitation as far as elective surgeries is concerned.

Stephan Sturm:

And at the same time, don't get that offset. And therefore, that is yet another headwind. We have been talking about the [inaudible] GPO tender this year in the summer. We have also penciled some extra price erosion to that degree. But Hassan, I'm asking for your understanding, I cannot go more into detail there because it may hurt us in competition. But those are the three key factors that weigh on Kabi this year. And in the end, lead to

Stephan Sturm:

The negative, or the EBIT decrease that we have protected.

Hassan Al-Wakeel:

That all makes sense, Stephan. You talked a little bit about clinical nutrition as being a key business within Kabi. It doesn't get spoken about enough, at least in amongst investors. Could you talk us through some of the fundamentals in this market, your strong market position and where you see key opportunities for growth going forward?

Stephan Sturm:

Yes. Thank you. And you're absolutely right. It doesn't get enough attention, because there is a very clear growth trajectory here and because hospitals have recognized, but also continue to recognize, that in this day and age when it comes to taking cost out and to get by with a relatively meager DRG, this is all about reducing the average length of stay. You will have heard that from us, from our hospital business for a long time already, but also other hospitals are increasingly waking up to the fact that the average length of stay needs to come down. And feeding your patient better, seeing to it that your patients are getting better sooner, that is a key investment that can really propel your asset turn. You will be able to fill that very same bed with the next DRG case and so that is the case for making better use of clinical nutrition.

Stephan Sturm:

We are, in a already fairly consolidated market, the only competitor that offers both parenteral and enteral nutrition, so we can be part of a patient journey right out of the ICU until they're being released and increasingly also when they take on clinical nutrition in enteral form at their home. We do recognize that this is increasingly also an item that lends itself for self pay in an increasingly health conscious population. Which is why, I said it earlier, we have started efforts to go beyond the hospital distribution channel and more, but always in a highly scientific context, also into drug stores and pharmacies.

Hassan Al-Wakeel:

That's really helpful, Stephan. If we switch gears to Helios in the time that we have remaining before taking some of the questions that I've received by email. Stefan, can you talk a bit about the current impact of COVID on your two different businesses between Spain and Germany and maybe Latin America as well? Some of the challenges around staffing and I guess where the backlog of elective procedures sit currently at the different platforms.

Stephan Sturm:

Let me start in Spain and Latin America, where we are basically back to pre-COVID levels as far as patient numbers are concerned. Where it seems we have the situation much better under control as far as availability of staff is concerned and where there is also no pronounced lack of appetite as far as elective surgery is concerned. And in our minds that is largely driven by the available capacity, hospital capacity, in these markets. And therefore we continue to grow nicely in these markets. And frankly, given that COVID for Quirónsalud in Spain has been a massive reputation builder, so society has truly recognized our contribution to fighting the pandemic, I would argue that we have gained some market share points that are also here to stay on a sustainable basis.

Stephan Sturm:

The situation is somewhat different in Germany, where we continue to track say 10, 15% behind pre-COVID case numbers. But there it is no longer, or let me put it that way, it is to a much lesser degree now, patient hesitation. We do increasingly get the impression that patients are eager to return and to get the elective surgery done that they wanted to see done for two years now.

Stephan Sturm:

At the moment, much rather the constraining factor is availability of staff, where either staff members themselves or relatives in particular when it comes to children of our female nurses, they are in quarantine and where we are looking at a touch wood, temporary constraint to our workforce capacity.

But that makes me at least cautiously optimistic as far as a small backlog is concerned that we should be able to take of later this year. Not factored into our guidance, we have always been very clear that we're not assuming a backlog, but what we're hearing, what we're seeing right now in terms of patients appetite to get surgery done, that is encouraging.

Stephan Sturm:

For the time being, we are underwritten, quasi by the German government, not enough in terms of fulfilling our growth expectations, structural growth expectations, but is still a very viable safety net and underpins our guidance for this year.

Hassan Al-Wakeel:

And, and just on that point with regards to the German government, I mean, how do you view the medium term outlook in Germany from a regulatory perspective? Rewind a few years back, we clearly had some pressure. Fresenius and many other players have really done their part for society throughout the pandemic and stepped up. Do you think that this robust response from the private sector will somewhat mean that the regulatory environment is more benign going forward?

Stephan Sturm:

I think that would be overly optimistic, but at the same time, I am optimistic that we're not going to get further regulatory shocks. The carve out of nursing wages that was a shock. You remember that cost was a high double digit made in Euro amount, in terms of EBIT. There were various points in time when we had to be concerned that what was applied to nurses would also be applied for doctors. Nobody talks about that anymore. In the run up to the general election last fall, there was even a pretty vocal discussion about getting rid of the overall DRG system. That wasn't to be and nobody's talking about that anymore. So I believe we're looking at a period of relative stability.

Stephan Sturm:

And given that there is a growing recognition that with that ill fated regulation, with regard to the carve out of nursing wages, not a single additional nurse had been created and very meaningful, extra costs had been incurred that in all likelihood is going to lead to higher contributions to health insurance. There may even be hope that this regulation is going to be... Well, I'm not a dreamer, it's not going to be reversed, but it may be fine tuned with a lesser impact on us.

Hassan Al-Wakeel:

That's really helpful. I want to fit in two questions from investors in the time that we've got remaining Stephan. So firstly, what is your strategy around fertility and how big do you expect this business to get over the medium term and how will it look? And then secondly, how do you think about the size and opportunity of Tocilizumab given the significant market size and limited competition? What market share are you targeting?

Stephan Sturm:

Unfortunately, we continue to be intrigued by the underlying very, very obvious growth in that market. Given the various social demographic changes, it is very clear that a growing number of parents need help, seek help, are willing to pay for help. This is a highly fragmented market without a sufficient level of quality regulation. We have all the in infrastructure in place to make a difference. We have a reputation for quality and therefore we can make a difference in that market. NeuGen has been one of the very, very few in my mind, only two, pre consolidators this in that space that is now part of Helios. And I was alluding earlier to the idea of continuing to string up pearls in individual country markets by adding new fertility clinics, but also seeing to growth in the fertility clinics that we already have. We are looking at a fairly modest starting point, but over the medium term, out of a combination of organic and non-organic growth, I would like to believe that it should be possible to take this business into the four digits as far as top line is concerned.

Stephan Sturm:

Tocilizumab is the biosimilar to Roche's [inaudible]. The underlying market size is around 2 billion. As I was saying earlier, typically that's my observation. The originator holds on to at least the 50% market share. Whoever asked the question, got it right. There is limited competition among biosimilars right now. As far as we can see, we are the only one in the pipeline. We're looking at the 2023 launch. We're working on the assumption that Roche isn't going to simply take that on the chin, but we'll have some ideas to minimize the impact that we're going to have. We are determined to make this a success. I'm asking for your understanding, so I will not delve into specifics of our launch strategy, but I will tell you that even at a very meaningful discount to the current originator price, we need nowhere near a 50% market share at the outset to satisfy our growth ambitions.

Hassan Al-Wakeel:

Brilliant. Okay. I think we are out with time. Thank you, Stephan for what has been a very insightful session.

Stephan Sturm:

Thank you, Hassan. Thank you for having me. I hope that was instructive and hope to see many of you on the road in the coming weeks. All the best.

Hassan Al-Wakeel:

And thank you all for joining. Our next call is on Thursday with Rice at Fresenius Medical Care and we hope you can join. Thank you so much. Take care. Bye.