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Transcript

European Healthcare CEO Conference Call - Fresenius SE

Tuesday, 26 November 2019

David Adlington Good afternoon, good morning, everybody. I'm very happy to host the latest edition of the healthcare conference call series today. 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 will 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.com. But with that, first of all, thanks to Stephan for joining us today, and over to you for some initial comments.

Stephan Sturm Thank you, David. Thanks for having me, and good afternoon, good morning, everybody else, a warm welcome. Thank you, as always for your interest in Fresenius.

We are acutely aware that we created a major disappointment that time last year, so 2019, in our minds, is about delivering on our commitments, and that is what we continue to do.

In the first nine months, we have managed to broadly offset some negative one-time items with some positive ones, and thus the first three quarters were solid and in line with the financial performance we indicated at the beginning of our investment year.

Talking about investments, those various investment initiatives to secure long-term, sustainable growth, and that is across all of our businesses, they are proceeding according to plan. And we are confident that these growth initiatives will pay off, as they have done in the past and as they do right now.

When we look at Fresenius Kabi specifically, we are pleased with the outstanding financial performance in the emerging markets in Q3, and frankly throughout 2019 so far. So the already strong performance of the first half even accelerated in Q3, and offset, at least partially, the softer development in North America.

At Helios in Germany, we are pleased with the excellent top line development in Q3, also helped by admissions growth. And that's the same as in Spain, where we are pleased with the results of our efforts to drive admissions growth during the summer months.

At Fresenius Vamed, my highlight is the smooth integration of Helios's German post-acute care business. I view that as excellent execution.

But coming back to Fresenius Group, and as far as our medium-term expectations are concerns, we continue to expect healthy growth going forward. Organic and inorganic growth will both continue to play a role for us in the medium term. So in terms of sales, we expect a CAGR of 4% to 7%, purely organic. And at the earnings level, we see growth a touch faster, at a CAGR of 5% to 9%, again organic-only.

Having said that, I would expect growth to be somewhat back-loaded. We expect that our launched and contemplated sales growth and efficiency improvement initiatives, as well as the expected break-even of Fresenius Kabi's biosimilars business, will drive an acceleration of group earnings growth over the planning period. And so, we may operate a bit below that CAGR range initially, but should grow healthily into the range in the outer years.

Small and mid-sized acquisitions are expected to contribute an incremental CAGR of approximately 1 percentage point, and that is to both sales and net income growth and, at the same time, we exclude special items, significant acquisitions or disposals.

Taking all that together, the absence of earnings growth this year should be an exception, and we clearly expect accelerated earnings growth post-2019. David, with that, I'm happy to take your questions.

David Adlington Stephan, that's a very good and clear summary. Maybe before we dive into the businesses we could just step back and pick up a couple of points you picked up on there really, which was the bigger picture in terms of strategy and capital structure.

Obviously, in terms of strategy, you've been, I think it's fair to say, a fairly acquisitive beast, but more recently been a bit quieter. Does that reflect some post-Akorn conservatism? How are you thinking about valuations? Are they looking a bit too rich, currently? Or is it just the fact that you're looking on the organic business, given the issues you went through last year?

Stephan Sturm Let me be clear, David. There is no post-Akorn conservatism. That has nothing to do with that. I think over the period 2016-2017, we did major acquisitions basically for all of our businesses, be that Quirónsalud, at Helios, be that NxStage at Fresenius Medical Care, be that the biosimilars business at Fresenius Kabi, or be that the post-acute hospital businesses at Fresenius Vamed.

With those, I think we had our work carved out for us, and are still working on the integration and reaping the benefits of what we've done. At the same time, the acquisition activity that we have shown has taken our leverage above the self-imposed leverage corridor in pre-IFRS 16 terms.

Many of you will remember the 2.5 to 3 times net debt to EBITDA that has served us well, and there, as of now, we are still slightly above. For the right opportunities, I have always said, and Rachel, our CFO, shares that view, that we shouldn't be shy taking this even meaningfully higher, but, at the same time, I don't mind us getting back into the target corridor.

Valuations are high, but frankly, from my perspective, fairly stable on a high level. That is also not a deterrent. Frankly, if I had to name the one bottleneck, then I would point to the lack of available and suitable targets. We have always been very disciplined, that has served us well, and I want to continue to demonstrate that discipline.

But again, coming back to your original hypothesis, Akorn has actually proven to us, to me specifically, that our risk management works very, very well, and therefore I would, post-Akorn, approach any acquisition situation with even a higher level of confidence.

David Adlington And now, you talked about the acquisitions across the four businesses, they look like they're bedding down all pretty well. Are you becoming more active externally, or is it the same level of activity in terms of potential acquisitions you're looking at?

Stephan Sturm I would say this is pretty much the same level of activity as we have shown. Let me start with Fresenius Vamed. The business is, for many of you, too small to play a major role, but frankly there, beyond the post-acute care businesses, we have done pretty meaningful M&A activity when it comes to project businesses, but also when it comes to high-end service businesses, sterilisation services, and therefore I'm pretty happy with that.

As far as our Helios business is concerned, given that we were going through a rough period towards the end of 2018, I didn't want to overburden management with further M&A activity, particularly in Germany, but you obviously have seen that we have been active out of Quirónsalud in Latin America, specifically in Colombia.

You will undoubtedly have picked up, as part of my comments in the Q3 call, that I observe a growing number of consolidation opportunities in the German market, which again we're going to be very disciplined about but we're going to take a look at whatever comes up.

As far as Fresenius Kabi is concerned, the strategic rationale by the attempt to acquire Akorn remains unchanged. We are keen to further broaden our product range in the injectables space, however there in particular, potential targets are few and far between.

As far as FMC is concerned, we continue our routine of acquiring dialysis clinics or small chains of dialysis clinics, pretty much around the world, but the key focus, as of now, is the home space and the proper integration of NxStage.

David Adlington I think that's a pretty good summary, actually, so we'll wait for further developments in that space. Maybe it's a good time to dive into the businesses. And I know, historically, you haven't wanted to go into a lot of detail around Fresenius Medical, and obviously we had a similar call with Reece a couple of weeks ago, but I think it would be just worth getting your view on how the business has performed since around this time last year, when it also faced a few issues.

And one of the things that Rice took the opportunity to highlight was the headwinds from calcimimetics pricing and ESCOs were probably higher than they anticipated, and then obviously going through and trying to offset those currently. Are Fresenius Medical left to themselves to deal with that, or will you, at a group level, try to pull some additional levers to offset the wider impact group?

Stephan Sturm Fresenius Medical Care is a separately-listed entity, and we at Fresenius SE have a 32% state. At the same time, I think everybody knows that FMC for us at Fresenius is not your regular investment. This is core Fresenius business, this is part of our heritage. And also, given that we fully consolidate Fresenius Medical Care in the group financial statements, this is more than just an investment. I am the chairman of Fresenius Medical Care.

From time to time, when I deem it is appropriate, I try to become a bit more of an executive chairman, but most of the time, as I should, I leave the business in the very capable hands of Rice, since the first of this month, Helen, and the rest of the team.

You will have heard me being fairly vocal about my disappointment, how the ESCOs have turned out, and even though Rice knows his way much better around DC, I have still decided to join him and to lend a hand when it comes to voicing our dissatisfaction, and also to making it clear that we would expect to be fairly treated if we are meant to play a more meaningful role in home dialysis, going forward. But when you are, with your question, alluding to financial support, I can absolutely rule that out. This is all strictly at arm's-length.

David Adlington Absolutely. We should move on to Kabi, because that's been an area… certainly when I've been talking to investors all year. Obviously, a lot of focus on the US this year, finally started to see the competition coming back into the market after several years of threat of that. As that's come back in, the impact looked like it's been larger than you anticipated.

At the start of the year, you've had to cut sales expectations a couple of times, which is the opposite of, obviously, the raises we've been used to in the previous years. So I suppose the first question is what was worse than you expected at the start of the year?

Stephan Sturm In contrast to a widespread opinion, what was not worse than we expected was the effect of one of our major competitors coming back. Because I think already at this time a year ago, in any case, as part of our Q3 call and the investor call surrounding our profit warning, early December last year, we were making it clear that we had reason to believe that that large facility was about to return to the market, and that actually also materialised.

What then was below our expectations was the volume growth. Probably also somewhat linked to that, what we did see in Q1 in particular was quite some destocking, and our analysis shows that this is largely driven by a reduced-risk perception of our large customers, and them reducing safety stock.

What has also been different from what we originally expected is the market development in opioids. I want to use the opportunity to make it very clear that when I talk about opioids for Fresenius Kabi, we are exclusively in liquids that go into the hospital channel; we are not in oral solids at all.

But there seems to be a bit of a stigma surrounding opioids, and therefore the market has contracted much more meaningfully than we expected in conjunction with our large competitor returning to the market. That has cost us sales and EBIT.

Maybe what I also would mention is that when new product launches and their contribution to sales and earnings were backend-loaded last year, they also have been this year, and the relative contribution has also been not exactly in line with what we had expected at the outset of 2019.

David Adlington Maybe just picking up on the opioid point, it sounds like you're seeing a change in prescribing practice within the hospital; is that right? It seems slightly odd. What alternatives are they using?

Stephan Sturm I think many of you are closely tracking IMS data, and there you can see very clearly that the market has contracted meaningfully, by about a third, and that there seems to be different prescribing patterns, different medical pathways when it comes to the treatment of pain. As I said, I do get the impression that there is a bit of stigma surrounding the use of opioids.

David Adlington And then, you mentioned one of the areas, maybe the new launches towards the back end of last year didn't come through quite as expected, was there anything in particular to highlight there? Was there greater competition than you expected, or just the product's just not taken off quite as you hoped?

Stephan Sturm I didn't make myself clear. I was talking about last year being back-loaded; this year, arguably, even more backend-loaded than last year. And the product launches that we had expected, not each and every one of them but in general, came a bit later, and with that delay we were seeing more than just the missing time when we could generate sales, but also a somewhat shrunk opportunity.

David Adlington Understood. And actually, that takes me onto the next question, which is your guidance still implies an improvement in growth in the fourth quarter, and obviously that's going to be driven a lot by those product launches. Have you still got anything to launch before the end of this year? And the launches that did come through a little bit later, how have they been progressing versus your expectations?

Stephan Sturm I would expect that we will see a few more product launches before the end of the year. The guidance for the full year remains unchanged, at around 15, but obviously the later we get into December, the less of an impact, or rather contribution, those product launches are going to have.

Still, the product launches and those being backend-loaded were one of the factors why we were optimistic that we could show a bit more of a healthy development in Q4, relative to the first three quarters.

David Adlington And so far this year, despite those top line headwinds, margins have actually been pretty robust; volume's been impacted by prices have held up. Would you expect to see a bit more pricing competition as we get on, with further competition coming into the market?

Stephan Sturm On the one hand, I wouldn't rule it out. On the other hand, I don't see a reason why this should be above the historical norm. The historical norm has been in the low to mid-single digits, price erosion on an annual basis at times of drug shortages.

What we have seen, occasionally, primarily in individual quarters, was price stability. Right now, given the absence of meaningful shortage situations, at least for us, we are more tracking towards the mid-single digits, but that is what I would also expect, going forward.

David Adlington And just on the sustainable margin of the US business, I know you've talked about a mid-30s sustainable margin there, maybe you could just help investors with one of the questions I face is what's the comfort around that level of margin? Is it still quite high?

Stephan Sturm It is, on the one hand, a relatively high margin. On the other hand, we have seen that margin, over the last decade. Again, I'm lacking a catalyst why that would all of a sudden change in a major way.

We have done major investments into the further automation, and the further quality improvement, at our manufacturing plants. We manufacture for the US in the US. We have the broadest product portfolio in the market. We are in pole position to react to any emerging shortage situation.

We have long-standing customer relationships. We have been awarded Supplier of the Year, basically by every GPO out there, not in each and every year but frequently, so our customers do know that we are a very serious supplier to them, that we have always acted very responsibly. And I do get the impression that all of our customers have a very long memory as to who helped them out in the time of need.

And I think it is a high-CAPEX, high-OPEX business. It is a volatile business. I do believe, even though to many of you the margin may look high, it is an appropriate margin to cover the operating risks inherent in that business.

David Adlington Then, one of the other questions we get asked as well is, with respect to the pipeline, there's obviously not a great deal of visibility externally. One of the data points you do give us is there are a number of products in the pipeline, I think you're on track to do 15 launches this year. How are you stacking up for going into 2020?

Stephan Sturm The historical norm was a run rate somewhere between six and ten product launches per year. We have fallen short of that in one or two years, or tracked more towards the bottom end. I think that was against the backdrop of a particularly pronounced shortage situation, when we had our hands full dealing with registrations of products that were in shortage.

Ever since, we have at least replenished our pipeline against a backdrop of a growing number of launches. Where we stand right now, we're looking at a number in the mid-50s as far as NDAs sitting in front of the FDA are concerned, and therefore I would argue that the historical run rate doesn't apply anymore. Will it be around 15 each in every year? That may be ambitious but, at the same time, I wouldn't rule it out.

David Adlington One of the things you raised on the Q3 call was your closing down the Grand Island and Melrose Park facilities for longer than usual during Q4. Maybe it's worth just recapping on why you're doing that?

Stephan Sturm We have set out with major investment activities, initiatives, already 12, 18 months ago. With the benefit of hindsight, maybe we should have done that earlier to fully capitalise on shortage situations that were around, but we are a long-term participant in that market, we continue to believe in ongoing volume growth.

And many of the arguments that I just mentioned, we believe that in order to serve the US market best, you need to have a manufacturing presence on the ground there. We believe that we should go to a higher level of automation and, for the avoidance of doubt, that is not because we want to bring down cost of manufacturing, that is, first and foremost, driven by the attempt to enhance our supplier reliability.

Whenever we, or any of our competitors, have an issue in terms of hygiene, that is driven by the human factor in the manufacturing process, and we want to reduce that further for the sake of our customers and our patients.

David Adlington And the expected shutdown I think is expected to weigh on margins to Q4. How should we be thinking of that impact on the margins, and is there something you need to do to protect margins going forward, or is there something that can actually drive margin uplift?

Stephan Sturm I'm sorry, I forgot to answer the core of your question. Yes, as part of these investment initiatives, we had foreseen some temporary shutdowns anyway, against a backdrop of us building inventory. Relative to a volume demand that is not quite up to our expectations, we decided to accelerate those plant shutdowns, bring them into Q4.

And we did that already, before. I think somebody on the Q3 call pointed to Q4 2016 as a good proxy. Whether it's going to be as pronounced, that remains to be seen, but as far as the EBIT margin in Kabi North America is concerned, in all likelihood Q4 is going to be a weak-ish quarter.

We're doing that to prepare ourselves for 2020, because we then would like to have a larger manufacturing capacity available. On the Q3 call, I was also talking about in-sourcing opportunities, against the backdrop of us being completely sold out for most of the time.

In particular in 17 and 18, we had outsourced and used partners for manufacturing, and that is now an area where we, at least gradually, want to re-insource those products which should help us quality-wise but also manufacturing cost-wise.

David Adlington That leads me directly on to my next question, which is on those products that you're looking to re-insource, are you able to give us an idea how much, in terms of sales, you're looking to bring back in-house, and maybe some idea about some margin difference on a product that's made in-house versus externally?

Stephan Sturm David, sorry to let you down, I'm not going to be very specific here. I will leave it a double-digit million euro amount. I will not specify whether it's low, mid or high double digits. And I would, as I just said, expect an insourced, or re-insourced product, to help us margin-wise. At the very least, we should see a better distribution of overheads that do exist anyway.

David Adlington I try every year, Stephan; every year you… I wouldn't say disappoint me but you deliver as expected. On the Q3, you also mentioned you're looking at your global manufacturing footprint. Is that something we can expect a further update on in the near term?

Stephan Sturm I think you should expect an update in February. We're going through our analysis, we haven't concluded our budgeting process for next year, and there are a few manufacturing sites where we are, as we have done in the past, deliberating whether the footprint is too large, whether we should have a different scope.

Remember that, for instance, we were talking about shifting some of the enteral nutrition manufacturing from Germany to Holland and, at the same time, shifting medical devices manufacturing from that said site in Holland to the Dominican Republic. Something along these lines I would not rule out, and I think I want to provide you with a more comprehensive overview of what we're up to as part of our Q4 results.

David Adlington And then, with respect to acquisitions, is that something more along the technology side or further expanding the portfolio, or could we see something along the geographical route as well?

Stephan Sturm I am, and my friends at Kabi also are, generally open to strengthening our business across the four business lines that make Kabi, so infusion solutions, clinical nutrition, IV generics but also medical devices. We have talked about our transfusion and cell therapy business earlier this year. We have now concluded that this is and should remain an integral part of Fresenius Kabi. We want to grow it organically but, potentially, also by acquisition.

We are not so keen to acquire further manufacturing sites, as far as our injectables manufacturing is concerned, that would be contradictory to what I just said about the manufacturing capacity expansions that we're going through organically. There, I think we have a very good, high-quality set-up, but we remain keen to broaden our product portfolio by taking on individual products or small families of products.

As far as geographic expansion is concerned, we are covering, pretty much, the waterfront already. There are a few interesting markets out there where we're still operating via distributors, or where we have no presence at all, be that in Latin America, be that in Asia-Pacific, largely the emerging markets, but while we remain interested in doing that, I think there are always integrity compliance issues that need to be observed, business practices where we want to make sure that they are absolutely in sync with our standards. And also, frankly, even though I'm keen, going down further that path, the targets in my mind would be relatively small and probably won't move the needle as far as Kabi's visibility to the outside world is concerned.

David Adlington And then, in your opening comments, you mentioned that emerging markets had been doing particularly well for Kabi. Has anything particularly changed there? And what are the key drivers? And I suppose how should we be thinking about the sustainability of the growth you're seeing in emerging markets?

Stephan Sturm I think it is a pretty healthy development across the board. It is coming, first and foremost, from Asia-Pacific and, within that region, primarily from China, but also Latin America makes a very healthy contribution.

Lat-Am, we obviously have a few individual markets where we were facing a somewhat higher level of inflation. Argentina stands out most, but frankly that is a very, very small driver of the excellent top line growth for Kabi there.

The single-largest driver of that performance is our clinical nutrition business. In China, both parenteral and enteral nutrition, we continue to gain share in a growing market. I think I was talking about that in Q4 last year or Q1 this year, we have taken the decision to localise some of our manufacturing in enteral nutrition there, and making good progress, that should give us another boost by being a bit closer to the market.

At the same time, what we need to watch is pricing development in this market. So the historical norm has been that we were seeing a low-single-digit annual price erosion.

Sometimes, we didn't see any price move for as long as three years, but then a price cut by about 10%, which then resulted in the very same. But I am not entirely sure how the situation will play out for 2020 and beyond. That is an area that I'm watching fairly closely.

David Adlington And then, maybe we should just move on to biosimilars as well. You've given an update on IDACIO, which is the biosimilar of Humira. I think you've launched now in nine European countries. So far, we've seen pretty small impact. Maybe you could just give us some ideas in terms of how products are priced, what level of competition you're seeing and how we should be thinking about the ramp over the next two to three years?

Stephan Sturm We have approvals in those nine countries, which doesn't mean that we have effectively launched. The markets are, I continue to say, more heterogeneous than many of you may think. There are pure prescription markets; at the same time, there are pure tender markets.

And even though we have an excellent product, I was not working under the assumption that any regulator in a given country would launch a tender process, just because we, at Fresenius Kabi, have now an approval in that market. So the number of markets where we're actually selling is smaller than nine.

I'm still okay with the development that we've seen so far. It's tracking in line with our original expectations. We always said that 2019 is going to be the year of approvals, the year of getting our infrastructure in place, the year of learning about competitive behaviour but also learning about our customers and the prescribers. Against that expectation, I'm fine with what I've seen so far.

2020, I would like to see a meaningfully higher revenue level, driven by us launching in more markets, us having full-year effect of sales, us participating, and ideally also winning, in individual tender situations, so we're still tracking in line with the original expectations.

But I want to remind you it won't be before 2023, according to our settlement agreement with AbbVie, when we're going to launch our IDACIO in the US. Given the size of the market, given the size of that market in the US, that is going to be a decisive moment.

David Adlington And if we think about the costs, you're spending a considerable amount on the biosimilars this year. Roughly how much are you going to be spending in 2019? And when do those costs peak, and at what point do they begin to fade, and by how much?

Stephan Sturm When we announced the acquisition in the spring of 2017, we were saying that we had imposed on us an investment ceiling of 1.4 billion euros, and I was keen to communicate that because there were too many of our longstanding investors out there who had a somewhat bad memory of our Fresenius biotech adventure.

And I was saying that the 1.4 billion would be approximately split in half, between milestone payments to Merck, who are effectively our joint venture partner, even though this is an acquisition that we've done from them, and the other half, so approximately 700 million euros, would be operating expense over the time towards break-even.

And that gives you an approximately 140, 150, 160 million annual run rate. I have always said it is very, very difficult to model that. If I had to model it, I would use equal instalments of around 150 million euros.

And the composition of that absolute amount over time is going to change. We are still pretty much in development mode, R&D costs. Then, going forward, in particular when we're getting nearer to the launch in the US, the amount of SG&A cost is going to increase.

David Adlington I'm wary of the time, so maybe we should move onto Helios. Both the German and Spanish businesses were a bit slow over the summer. Maybe you can just talk us through what happened, and were there any surprises there?

Stephan Sturm David, say that again. I couldn't hear you, I'm sorry.

David Adlington Just on Helios, both in Germany and Spain, I think both businesses were a bit slow over the summer. I know summer's always a slower period for hospital groups, but I think they came in a little bit weaker than anticipated. Is there anything there that surprised you?

Stephan Sturm David, frankly, as far as the top line is concerned, I'm more than happy with what we've seen. As I said in my opening remarks, I was very happy to see that we have shown some admissions growth in Germany. I was very happy to see that the summer break in Spain was much less pronounced than in the previous years.

Maybe what you're referring to is the EBIT weakness in Spain that doesn't fit quite with the very positive top-line development, and I was referring to extraordinary items, one-time items, and also us incurring some extra costs for temporary labour.

We were a bit surprised ourselves by the admissions growth that we are getting there, and I'm looking at this as a somewhat iterative loop, and we're going to fine-tune our set-up there, from year to year, and going to improve that.

David Adlington And then, this time last year, there were a couple of headwinds, in Germany particularly, it might be worth retouching on where we are both on the staff shortages and the proposed nursing legislation.

Stephan Sturm As far as nurse shortages are concerned, we have beaten the expectations that we have raised for ourselves. It was a stretch target of hiring 1,000 nurses over the course of 2019. We are at 1,000 already at the half-year mark and have continued to perform well in the job market. It is really testament to our image as a good employer in that market.

As far as doctors are concerned, against the backdrop of minimum case numbers, we had somewhat overdone it in Q3 last year, and had imposed voluntarily higher case numbers than stipulated by the regulator, and that created some unrest and some involuntary fluctuation that we were not keen on.

We had said, at the time, that we were confident that we could refill those vacancies over the coming quarters, and, by and large, by the end of Q3 this year, I would say we have refilled them. Obviously, in a large organisation with a five-digit number of doctors, there is always going to be some fluctuation, always going to be some vacancies, but as far as the phenomenon that hurt us in Q3 is concerned, that should be behind us.

What we had said at the Q3 call last year was that we do expect that once a vacancy is refilled that it would take us three to four quarters to broadly recapture the patient potential that we had lost at the interim. And so, we are in that period now, and should actually see a bit more patient growth over the course of 2020, against that backdrop.

David Adlington And the nursing legislation, minimum nursing numbers legislation?

Stephan Sturm That has not been a major factor for us, but against the backdrop of the carve-out of nursing costs from the DRG, as from the first of January 2020, we felt we are well advised to take on more nurses. As I just said, we have done a pretty good job in expanding our workforce there, and feel well prepared.

As far as the impact of that carve-out is concerned, I want to reiterate what I have been saying over the course of this year, and what I was reiterating as part of the Q3 call, and that is the gross effect of that is a foregone EBIT in the high double-digits million euros, that we have some pretty good ideas how to further mitigate the effect, and therefore that the net effect would probably be about half that.

And that, in line with the DRG inflator growth, and also a few other initiatives that we're going through, I continue to work on the assumption that 2020's EBIT is going to be at around the 2019 level. Let me be clear, I'm talking about Helios Germany, Germany only.

David Adlington And maybe across all of the Helios group, when I speak to other hospital groups across the world, one of the recurrent themes and moans is the availability of nurses and how that's feeding through into wage inflation. Is that something you're also seeing?

Stephan Sturm We're not seeing anything extraordinary in Germany at the moment, and frankly, given that nursing cost is going to be reimbursed, it is less of my concerns. As far as the Spanish market for nurses is concerned, yes, we're starting to see a bit of tension there and a bit of growing wage inflation, but that is something that I believe we will be able to manage.

David Adlington And then, on the Q3 call, one of the things that slightly surprised me was you talked about come consolidation potential opportunities in Germany. I think that would be the first in a fairly long time. Are you able to give us any more colour on that? Is that coming from the public or the private side?

Stephan Sturm Frankly, both, and also it's coming from the private, not-for-profit side. And there have been newspaper reports, they are pretty public, across the country, where individual hospitals or small chains of hospitals had to go into an insolvency process, which is why I was very deliberately consciously talking about a consolidation rather than acquisition opportunity.

I have said, and continue to believe, that we should not use any of these opportunities to venture into regions that we do not capture already now, but where it does make sense to complement a cluster, i.e. everywhere where it is near a small group of Helios hospital, those are situations that we should look at. From my vantage point, this is the early impacts of the imposition of minimum case numbers.

David Adlington And obviously, when you acquired Quirónsalud, that was hopefully going to be used as a platform for further consolidation of what is a pretty fragmented market still. Those assets, I don't think, have really come through as expected. Do you still expect to see consolidation within Spain?

Stephan Sturm When I am absolutely thrilled about Quirónsalud's operating and organic performance, the one area of mild disappointment is the lack of consolidation opportunities in Spain. There, as you rightly say, against the backdrop of a highly fragmented market, we had expected to see more processes.

I am not under the impression that we have lost out as part of selling processes, that we haven't bid sufficiently aggressively; it is, much rather, my impression that there are no selling processes in the market, at least not as many as I'd hoped. Is that going to change? I would hope so but I can't guarantee it. If it changes, we're going to be ready to take a close look at any of the opportunities that arise.

David Adlington And one of the things I do get asked about is the acquisitions you made in Latin America, which raised a few eyebrows of investors I speak to. Maybe you could talk us through that? Is that the first step in building a wider South American franchise? And how comfortable are you with managing that business, both geographically that far away but also EM exposure?

Stephan Sturm I am comfortable with it. I have been there, I have taken a close look at the businesses myself. I like what I see. What people do need to remember is just before we acquired Quirónsalud, as Helios, they themselves had an expansion strategy into Latin America. As part of the Quirónsalud acquisition, we actually inherited the leading hospital in Peru, where we also, with the use of synergies, have grown EBIT threefold in a fairly short period of time.

And so, I have no reason to doubt that this is an area where we can continue to grow pretty healthily. At the same time, using round numbers, I would say that, as far as our German hospital business is concerned, we are at 6 billion euros of revenues; as far as the Spanish business is concerned, we are at three, and I am hard-pressed to see our Latin American business go beyond half a billion of revenues.

I can't see us getting close to a billion euros in revenues, so relative size, Latin America is still more of an afterthought. And in any case, what we're doing opportunistically in Latin America does not replace the general aim, given the positive performance that we're seeing in Spain and given the synergies that we're seeing between Quirónsalud and Helios, to look for another European market.

David Adlington And that takes me very nicely to my last question, which is, again, that other European market, I think you mentioned a third and possibly even a fourth European country. Is that something that's on the near-term agenda? And is there any particular catalyst that we should be expecting for such a move?

Stephan Sturm I am acutely aware that as part of the Q3 call I was talking about a third and a fourth country, but at the same time, nobody should believe that we are looking at a variety of different European opportunities at the same time. I just wanted to express that given the positive synergies between Spain and Germany, we should actually try and continue that story, and I didn't want to rule out that, at the end of the day, we may even look at more than just three European countries.

If you recall, when we announced the Quirónsalud acquisition in the fall of 2016, I was saying, as a matter of priority, that Quirónsalud was meant to deliver their business plan and integrate themselves into Helios and Fresenius; we have ticked that box.

I wanted them, thereafter, to go about synergies, and ideally to go about Spanish consolidation. Synergies, yes; intra-Spanish consolidation, not yet. And I said that, ideally, from 2019 onwards, we would start to take a look at a third European country, with a view to potentially doing a transaction if something suitable came along in 2020.

In general, I want to stick to that timeline, even though, with the issues we were facing in Germany last year, that probably held us back for two, three quarters, and therefore this could easily slip into 21 as well.

David Adlington That's great. That's all from my side. Operator, can we open up the call, the lines, for questions, please?

Operator Absolutely. As a reminder, if you'd like to ask a question, please press star one on your telephone keypad, or click on the flag icon if you're listening to the call online. At this stage, we have no questions registered.

David Adlington I've got a few that have come on email, but actually some of them have already been asked as we've gone through the call, so I'll try and pass them out. Yes, this is definitely a new one. For Kabi US, what visibility do you have on the business from here? Do you expect to post growth next year, and could you put a range on that, either low-single-digit, mid-single-digit or high-single-digit?

Stephan Sturm Too early to say. We're watching the market as we speak. We want to give a guidance that is reliable. We want to deliver on our commitments, and therefore we will only venture a guidance next February.

David Adlington We sort of touched on this but I'll ask it for the fullness. On the biosimilars, how much will you spend in 2019, and how will this change in 2020? Will it be roughly similar, or could we see it increase further?

Stephan Sturm Approximately 150 million, and that's my best guess also for 2020.

David Adlington And then, finally, those South American hospitals coming up again, the South American hospital seem like a distraction. Why have you entered the markets here, and do plan you make any additional acquisitions? How do you really get any synergies with your European hospital?

Stephan Sturm They don't distract me. As far as I can see, they don't distract Helios and Quirónsalud management. It is a high-growth area with pent-up demand, volume demand, because of the under-penetration of the countries that we're looking at with hospitals and hospital beds. And therefore, if you're selective, as far as reimbursement is concerned, this can be a very good business model.

As far as bringing proven processes into these countries, also as far as combining purchasing volumes, there are clear synergies to be had. And on that basis, again, opportunistically I am absolutely happy with that venture.

David Adlington Great, that takes us to the end of the questions, and almost to the top of the hour, so, Stephan, thank you very much for joining us today. As always, very comprehensive, very clear, and we hope to see you all in San Francisco. There is one more call left this series, Richard's hosting that with Merck next week, but for everyone's time today, thank you very much, and we'll speak to you all soon. Thanks very much.

Stephan Sturm Thank you for your interest in Fresenius. I'll see many of you soon. Thank you, David. All the best.