# MedTech Virtual Conference Call - Fresenius

## Wednesday, 12 May 2021

**Hassan Al-Wakeel** Good afternoon or good morning, depending on your time zone. Thank you, all, for taking the time to dial into the eighth of our C-suite core series in European MedTech and services. My name is Hassan Al-Wakeel, and I head up European MedTech and services research at Barclays.

I'm very fortunate to have with me today the CEO of Fresenius SE, Stephan Sturm, and head of investor relations, Markus Georgi. Today's call will last around an hour. It will begin with some prepared remarks from Stephan followed by some questions from myself.

There will be some time at the end for any questions from the lines or via email, so if you haven't already done so, please drop me an email or a Bloomberg message with your questions, and I will happily pass these along towards the end of the call. We will also provide our key take-aways and a transcript following the call. So, Stephan, thank you so much for joining us today. The floor is all yours.

**Stephan Sturm** Thank you, Hassan. Thanks for having us. And to all the other participants, thanks for your interest in Fresenius. We were publishing our Q1 results last Thursday, and we were describing them as a good start to the year. Yes, something that we still don't want to get used to, that is a slight earnings decline, did occur, but as we all know, Q1 2020 was hardly affected by COVID, maybe, for us, it was the month of March, and there primarily China, and the first quarter in 2021 was fully affected by COVID, so it was a bit of an unfair comparison.

And against this backdrop, to still turn in organic growth and just a small negative earnings growth, I think that can truly be described as a good start to the year. And on that basis, we also felt very comfortable to reconfirm our guidance for the full year.

I'm sure, Hassan, you will get me some questions on the different businesses, but maybe in short, as far as FMC is concerned, there, as you know we are particularly hard hit by COVID, with excess mortality among our particularly fragile dialysis patients reducing the number of treatments that we can provide, also some extra cost. And therefore, earnings growth at FMC was below the group average.

At Fresenius Kabi, we had a good prior-year quarter in America, and there, given the temporary issues at our Melrose Park facility, we were showing negative EBIT growth, and that was, to quite some degree, compensated by a very good performance in the emerging markets in particular, and a steady performance in Europe.

As far as our hospital business is concerned, Helios in Germany, there we are still seeing case numbers well below the pre-COVID benchmark, but we are, to a large degree, made whole by government compensation payments. The situation in Spain is completely different, where we're tracking nicely above the pre-COVID-19 benchmark as far as the number of treatments are concerned, and where, therefore, we have shown very decent top line and earnings growth in this Q1, year on year.

Our smallest business, Vamed, was hardest hit by COVID last year, both in relative and in absolute terms. We're taking some comfort from the order book rebuilding, and with vaccinations around the world leading to a relaxation of travel restrictions, the project business within Vamed, that should also pick up over the course of the year, so also there we feel good with the full year guidance that we have provided.

So taken all together, again, a healthy start to the year. Not everything is rosy and, Hassan, I'm certain you will particularly focus on the less shiny parts of the business. Over to you, thank you.

**Hassan Al-Wakeel** Thank you, Stephan. That is not intentional. Hopefully, we can have a discussion around the different businesses, those are doing well and those that could perform better.

Maybe just before we got into a bit more of a medium-term appraisal of your business and how you think you've performed over the last five years, just following up on what you said about a good start to the year, how should we think about the rest of the year, and where do you see potential upside to guidance? If you had to say, where would you think it would be most focused, or indeed do you think that all of the businesses are levered to a potential recovery and we need to see how the year progresses?

**Stephan Sturm** Hassan, we did not leave unchanged the guidance for the group, we also chose not to amend any of our business segment guidances. So across the board, we feel good with what we were saying at the end of February. Frankly, I also have always held the view that amending guidance as part of a Q1 result is actually an indication of bad planning and therefore should be avoided. It is just not enough time elapsed to make a meaningful difference.

We are operating, we all know that, in an environment of quite some uncertainty, and also, because of that, we preferred to stay away and do some fine-tuning on the guidance.

FMC, relative to their earnings guidance for the full year, had a spectacular start. But if you look through it, and I would encourage you to read the recent transcript or listen to the call again, and then you will see that, in particular, the second quarter is going to see some setbacks, that also primarily has to do with a strong prior year, relatively strong prior year comp.

But underlying, I would, there, expect to see some improvement of the situation, in particular when it comes to excess mortality among our patients in the second half of the year.

As far as Kabi is concerned, as I was indicating on the call, I am relatively, or fairly, optimistic that we can return to organic growth in North America in the second half of the year. At the same time, we see the initial effects of national tendering processes in China, and they are, I believe, going to prevent a continuation of what we have seen in the early months of this year.

As far as Helios is concerned, I would expect that with the penetration of vaccinations continuing, that we're going to see a bit more of a normalisation as far as elective surgery is concerned, and, a bit more to your point, to the question that you were asking, I guess I am most positively surprised about the development that we've seen at Helios in Spain, and I will watch with quite some anxiety whether that performance can be continued. And I will not only watch, I will try and help, that this performance can be extended for a bit longer.

The biggest wild card, in my mind, remains Vamed, in particular for the project business, which is notoriously lumpy and volatile. We need to see, in the second half, really whether our projections are coming together.

But all in all, again, I think it's too early to indicate where we may have a chance for a guidance upgrade, but I see a limited risk for a guidance downgrade later this year.

**Hassan Al-Wakeel** That's really helpful, Stephan, thank you. If we could take a step back, perhaps, and just talk about and maybe begin with your appraisal of business performance over the last five years, since taking the helm as CEO, what do you think went well, what didn't, and why do you think this business is set up for medium-term structural growth?

**Stephan Sturm** Yes, it's five years. I believe, to build on what I've just said, what has really worked extremely well, and at least in line with original expectations, was our Spanish hospital acquisition that we announced just after me becoming CEO in early 17, and there, truly, the expectations have been met. Maybe the one slight exception is that I had expected a bit more of nonorganic growth potential within Spain.

I know that not everybody out there is happy about us venturing into Latin America, but I can assure you that we're doing this quite consciously, knowing the risk that we're entering into. And, touch wood, so far everything has worked out extremely well also there.

So that has worked well, but staying on Helios, I think on the regulatory front in particular in Germany, there were a few disappointments, a few regulations that didn't work in our favour at all. So the carve-out of the nursing cost out of the overall DRG, that clearly has been a setback, and we had to and continue to have to work hard to find offsets for the earnings burden that was imposed on us.

Briefly on FMC, I believe also there, when I look at the acquisition front, NxStage was a good move. We were seeing the potential for home dialysis coming from quite a distance. And as we all know, COVID now has only accelerated the underlying trends that we've seen there. And that is something that I would do again, every day of the week.

Where maybe I had higher expectations, five, four, three years ago, is on the more comprehensive care models in the US. I had expected a faster, more vigilant rollout by the US government. Also, people know that from listening to all the earnings calls, I was not entirely happy with the behaviour when it came to paying us.

So there were a few disappointments along the way, but also, with most of the disappointments, there are always quite a few lessons learned that you can benefit from, going forward.

As far as Kabi is concerned, again staying on the theme of acquisitions, I have to mention Akorn. Clearly, the largest disappointment in the last five years, for me personally. I had high expectations in this acquisition. I did not expect to be betrayed.

On the other hand, as I've also said on quite a few occasions now, I take some comfort from the fact that our risk management surrounding this acquisition worked, and that our structuring of the documentation of the purchase agreement led us to exit this transaction without any meaningful financial damage.

On the contrary, coincidently with Akorn we also announced the biosimilars acquisition. I do know that there is quite some scepticism vis-à-vis this area in general, and vis-à-vis Fresenius Kabi and biosimilars as a combination specifically.

But I am satisfied, at least satisfied, maybe I'm even happy, with the progress that we have made to date. On the development front, we have, by and large, hit all the milestones that we wanted to hit.

COVID hasn't been a help when it comes to now rolling out the products into the marketplace, but I remain optimistic that the original expectations of peak sales in the high-triple-digits can be obtained.

Vamed, very briefly, what we did was we made Vamed our Fresenius Group champion of post-acute care, so we focused Helios completely on acute care and transferred the post-acute facilities to Vamed.

And I also believe that that was a good move because, on the one hand, we were able to reap the synergy benefits from a larger, post-acute operation, on the other hand, we did not have to forgo the synergy benefits in the handover of patients from Helios acute care clinics to, now, Vamed, post-acute, because those relationships did exist and were not interrupted by this corporate move.

So all in all, I'd say a mixed picture, and, all in all, leading to a very disappointing share price performance and development of our earnings multiple. But you know, from the statements that we made in February, that we have growth plans and cost-reduction plans, and we are really optimistic about getting back towards accelerating our earnings growth.

**Hassan Al-Wakeel** That's helpful, Stephan, thank you. And then, if you look forward to the next few years, what, to your mind, is the single-largest opportunity at Fresenius? And what is the most significant risk?

**Stephan Sturm** There are quite a few opportunities, we named them in February, be it home dialysis, be it fertility, be it digitalisation, digital health services. But if I had to name one, then I would, again, single out biosimilars.

And as we all know, with the anticipated launch of adalimumab in the US in 2023, that is going to be the defining moment for us, to see whether the overall business plan is going to work.

We probably will only know by then whether we are going to make our mid-term targets or not. But I will also reconfirm what I had said right at the beginning, in 2017, when we announced the acquisition from Merck, and that is I am absolutely not willing to right open-ended cheques, year in, year out.

There is, and remains, an investment ceiling that we, as a company, but also I personally, feel very much bound by. And so if this does not work out, I don't expect that but in case it did not work out, then at the very least what you could expect, what you should expect, is that the approximately €150 million pre-tax earnings burden that is weighing on the business right now, that is going to fall away.

**Hassan Al-Wakeel** And risks?

**Stephan Sturm** I thought I answered that because the risk is also the biosimilars business is not going to materialise as it should. But I offered the mitigant right away. Fresenius Kabi has been the one of our business segments where I always felt it deserved the highest margin, because it also carried the highest risk.

We don't have to talk about something like Grand Island some time ago, or Melrose Park right now. This is batch manufacturing of sterile substances, and so any error occurring there can be fatal to quite a meaningful number of patients. Which is why I believe there is a risk premium in what we're doing.

Again, touch wood, we have handled these risks quite well over the past, and I do not see a reason whatsoever why that should change, but if you ask me where is the single largest area of risk in the Fresenius Group, my answer has been all along and remains batch manufacturing of sterile injectables at Fresenius Kabi.

**Hassan Al-Wakeel** That makes sense. And then, when should we expect a return to more sizeable M&A? And where do you see the largest gaps, or most significant opportunities for the portfolio? And any potential for divestitures?

**Stephan Sturm** Large M&A cannot be planned. And sometimes truly unique and nonrecurring opportunities arise, and then it requires a bold move. It's the nature of the beast that those large and unique opportunities typically cannot be foreseen. And therefore, also, right now, I do not foresee any of those.

I'm saying that, as a slight caveat, without any second thoughts, to the actual plan, and the actual plan is to delever this year and next. You know that we have a self-imposed target corridor for our leverage of 3 to 3.5 times.

We have finished 2020 at the top end of that target corridor. We know that Fresenius Medical Care has guided to a very meaningful earnings decline this year, and while that is on the net income level, it's safe to assume that it's not going to be meaningfully different on the EBITDA level. And, therefore, it may well be that we cannot generate as much free cash flow to reduce net debt, so we can offset the earnings decrease arising at FMC.

And, therefore, I need to work on the assumption that our leverage is not going to decrease this year, that we will have to create a bit more financial wiggle room over the course of next year. And that, therefore, from a position of strength, we could go beyond the small and medium-sized acquisitions that we have been doing all along, and that are, yes, part of the plan and part of the financial model. We can go beyond those, and do something that is a bit more meaningful.

Where that's going to be, frankly I am relatively agnostic. We are purely return-driven, but also factor in risks to that return, typically using what I call a risk-adjusted EVA. But let's put it that way, a further expansion into a third European hospital market is not at the very top of my wish list. I guess after we were trying to strengthen Fresenius Kabi and it wasn't to be, if I had a choice, I guess my preference would be to strengthen the Kabi business.

**Hassan Al-Wakeel** That's interesting. And then relating to this, I think you mentioned selected divestitures of hospitals as part of your cost plan, could you expand on this and the broader programme? And to what extent has the low-hanging fruit already been picked?

**Stephan Sturm** In the past, we have, on and off, say every second year, divested or closed down an underperforming hospital at Helios in Germany, where we did not see a good strategic perspective.

We did that, basically, within the earnings guidance that we had given, and all the effects were digested above the line. What that meant is that we were naturally constrained in doing bolder moves.

Now, I don't want to leave you with the wrong impression, that we have a meaningful number of [unclear] in our German hospital portfolio, that is absolutely not the case, but if you think back how Helios Germany has grown, a very nice, sustainable, organic growth, but in particular acquisitions, and there not so much when it comes to the large move, privatisations, but rather the acquisition of already-privatised hospital portfolios.

So we were acquiring, over the years, Humaine, Damp, last but not least also more than 40 hospitals from Rhoen. And as you would expect, when you do such a portfolio transaction and you are keen on getting the entire portfolio, there are a few [unclear] that you need to swallow along the way.

And that is what we've done. We've tried to develop them, to improve the financial performance, but in some instances they were just part of the portfolio where we still don't see a perspective.

And that is now something that we're taking on with a bit more vigour. I wouldn't have done it if it hasn't been for Fresenius Medical Care's profit warning. That was the catalyst for a larger cost-reduction and efficiency-improvement programme.

But when you do that at one end of the house, it would even be a bit of a shame, and at least it would raise quite a lot of question marks why we are not embracing the very same idea also in other businesses, and therefore, from Fresenius Helios, in my mind, that is an opportunity to accelerate a cleaning up of the portfolio that we would have done over the years anyway, where we again will look very much at what can be gained relative to what needs to be invested.

But given that, in those instances, we would be primarily looking at book losses relative to what is on our books and what can be obtained from a potential buyer, and relative to sustainable earnings improvement, I believe that the typical benchmark that we said we would apply, namely a return on the investment within two years, that can be stretched a bit more.

**Hassan Al-Wakeel** Thank you. And hopefully, we'll go into Helios in a bit more detail, but I'd just like to follow up on that point, in terms of your current spread of hospitals and the spread of profitability, and whether there are a decent number of outliers, if that's the case, and where you think medium-term profitability could be for this business, after you potentially optimise some of the operations and hopefully start to see some stronger growth and operational leverage benefits. I know you've had targets for the German business historically, so I'd just love to know where you think medium-term profitability could sit.

**Stephan Sturm** We were focusing, originally, on the EBITDA margin, then, thereafter, on EBIT margin. Our targets were in the low-teens. Given all the regulatory steps that I mentioned that have come in between, something in the mid-teens, frankly also in the low-teens from today's perspective, does not appear realistic.

I can say that we have a fairly wide spread of profitability between individual hospitals. There is a certain correlation between size and profitability, the larger hospitals typically perform better. There are a few, and I would say low-single-digit, that are lossmaking.

Out of these, there are a few where we still have reason to believe that performance can be meaningfully improved, so I really want to leave you with the thought, when we're talking and thinking about a portfolio restructuring, this is really only a minor part of Helios' overall portfolio.

But, at the same time, if we could find a way to further develop, potentially under somebody else's ownership, lossmaking hospitals, it could have… I wouldn't say immaterial but at least a notable effect on the EBIT margin, going forward.

**Hassan Al-Wakeel** Perfect, that's very clear. If we talk a little bit about Kabi, I'd love to get your thoughts on the changes in leadership here, and what you think Michael will bring to the franchise.

I think on the earnings call you mentioned a desire in particular to drive Kabi's margin back to levels that you're used to. I wonder if this relates, in a large part, to Melrose Park and, if it does, how avoidable was Melrose Park and what is being done differently today?

**Stephan Sturm** From my perspective, Michael is a very experienced, highly-reputed, very solid general manager. Yes, he has a healthcare background, coming from Siemens, but as far as the inner parts of Kabi's portfolio, or liquid portfolio, are concerned, he is very keen to learn. And in the first weeks, I have already been able to observe him learning very rapidly.

I want to reiterate what I was saying on the earnings call, that is it would be wrong just to see a corporate portfolio manager in Michael. Yes, he has some experience both at Siemens and at E.ON in corporate restructurings, but there is, in my mind, much more to him than just that.

I would expect him to help us drive Kabi's margin. And one key, very clearly, is our North American business, where we enjoy the highest margins not only within Fresenius Kabi but within the group as a whole. And those need to be supported, solidified, ideally enhanced.

I would also very much look at him, when it comes to the initial rollout of our biosimilars portfolio into the various marketplaces, but then, under the assumption that we can demonstrate to us, and to all of you, that we have truly mastered this initial challenge, then also help us broaden the platform that we have started to build.

But as far as major and ground-breaking revamp of the Kabi business, I would be generally open for it but I would be surprised if it occurred. And I don't expect it. We have no intention to further increase the complexity of Fresenius Kabi, but at the same time, I believe with the business lines that we're in, the generics, the biosimilars, the nutrition to name the largest ones, we are very nicely set up and that there is no reason to cut that in any way or form.

**Hassan Al-Wakeel** And on Melrose Park?

**Stephan Sturm** With the benefit of hindsight, every mistake could have been avoided. But isn't that something that can be attributed to a single manager? No, absolutely not. And therefore, it should not be mistaken as the reason for the supervisory board to ask Michael to join us as Kabi's CEO.

We had good processes in place, and again with the benefit of hindsight we should have overseen those processes being adhered to with even more vigour. We have now intensified this as part of the mitigation plan, and I feel very good about that, when it comes to presenting it to the FDA at some point in time.

Those things shouldn't happen, must not happen, but they do happen, occasionally. I think good management proves themselves by the way they deal with those very, very unfortunate events. And with the reaction of Kabi's management after we had identified the issues, I am absolutely satisfied with.

**Hassan Al-Wakeel** And when it comes to Melrose Park, given the lapse in time here, is it less likely that anything adverse and significant will come of it?

**Stephan Sturm** Hassan, that is a leading question, where I could easily set myself up for trouble. The minute I'm saying it is becoming less likely every day and the FDA reaches out to us, I look extremely stupid. So what I will say is that there was an initial interaction with the FDA. We have, as you know, self-reported the non-compliant behaviour. We have self-reported our mitigation plan. This is now already going back quite some time.

We would hope and expect that with a physical inspection by the FDA, the matter can be resolved. I'm trying not to sound presumptuous or arrogant. I know that there were errors made, but again I feel that the way that we have dealt with the errors once they were detected, there is nothing to complain about. And that is what I would like to tell the FDA.

**Hassan Al-Wakeel** No, that makes sense. And just on this point, an investor is asking would a potential guidance change at some point in the year be dependent on resolution on Melrose?

**Stephan Sturm** I find that extremely unlikely, because what I have said, just to reiterate for the benefit of all of you, is that the day-to-day operation at Melrose Park continues unabated. And that when we had some manufacturing issues, in particular in Q4 and, to some degree, also in Q1, we are now pretty much back to full capacity.

And what I cannot rule out is that the FDA chooses to hand us a warning letter, and that the consequence of such a warning letter would be, in all likelihood, that there would be an embargo on new product approvals coming out of the Melrose Park facility.

And just because I wanted to avoid such a situation, I was telling the street, as part of our Q4 call in February, that the assumption underlying our guidance for the full year was zero new product launches out of Melrose Park.

Now, it depends obviously on whether there's going to be a warning letter and how severe the sanctions would be. I remain arguably more optimistic than the street on this one. Again, I cannot rule out a warning letter but, in my mind, it is by no means a given. Is it conceivable that there are sanctions that reach into 2022? Yes. Is it likely? From my perspective, no.

**Hassan Al-Wakeel** Perfect, that's really useful. If we talk a bit about the competitive landscape in the US IV generic market, what are the key drivers to this intensifying, to your mind? And are we passed the point where Pfizer is having the most considerable impact, and is it mainly elective surgery volumes not being where they should be that's driving the pricing pressure at the moment?

**Stephan Sturm** When you look back in time, then frankly the relative market shares of the key competitors are pretty much where they used to be before there were the events at the McPherson facility. We have, relative to that, gained one or two points. There are others that have shed one or two points but, by and large, the situation is relatively unchanged.

What we have seen is a small, relatively small, number of smaller competitors, in particular coming out of Asia, that have used a relatively small product portfolio to raise pricing challenges, and that have made lives for the incumbents, here and there, a bit more difficult.

And that has been compounded by the COVID situation where, Hassam, as you say we have seen a lack of elective surgery volumes, hence a lack of volume demand for those drugs that are primarily used for these elective surgery procedures, and where, therefore, for most of the market participants, we are looking at a suboptimal utilisation of their manufacturing capacities.

And it shouldn't be a major surprise, and we have seen it before, that against this backdrop individual competitors feel compelled to become a bit more aggressive on price to make up for this with an improved capability utilisation. So typically, at times of shortage, we obviously see prices move up. And the opposite is also true.

Right now, our observation, we are looking at a price erosion more towards the lower end of that low-to-mid-single-digit price erosion, i.e. rather more towards the mid-single-digits. But at the same time, I would not be surprised at all if, at the same time, when we see a resurgence of elected procedures and we see more volume demand, we would also see that price erosion recede more into the direction of the low single-digits.

**Hassan Al-Wakeel** And then, if we think medium term when it comes to the US market within IV generics, how do you think about the bolus of new drugs? When does this start to slow, and should this trigger further diversification of your business?

**Stephan Sturm** If we take a step back, my view on the US injectable generics market is that it should grow because of population growth, because of austerity measures and a few other factors, volume-wise, in the mid-single-digits.

You just heard me talk about the low-single-digit price erosion that I would expect to be sustainable, so that for a steady portfolio revenue growth should be expected in the low single-digits.

Our observation and expectation would be that we can add to this, by new product launches, something to the order of the low-single-digits, so that for the injectable generics as a whole, we should be able to generate mid-single-digit revenue growth.

That is before the other parts of the overall Kabi portfolio that we're working on, so the infusion solutions, the infusion pumps, the, last but not least, biosimilars. And we have added the biosimilars to our portfolio because we saw that there may be an end to new generic launches.

But frankly, relative to our earlier expectations, that is longer-drawn-out, and we are still looking at a very meaningful number of ANDAs that we have filed with the FDA, and now stepped up our structural guidance for new product launches to something that is more in the mid-teens. But given where we are right now, I would expect that new product launches can make such a contribution for at least another two to three years.

**Hassan Al-Wakeel** That's helpful. Maybe a final one on Kabi before we talk about Helios for the remainder of the time that we have. Nutrition is probably a business that's overshadowed by a lot of discussion around North America. I'd love to get your take on the differentiation of this business and the medium-term opportunities, and why you feel that it may not be as appreciated as it should.

**Stephan Sturm** You are right, I feel it is underappreciated, which is why I would like to spend an investor education session in particular on clinical nutrition probably later this year. Let's see what the new Kabi CEO has to say about that. If not this year, then next.

Anyway, what we need to differentiate is parenteral and enteral nutrition. Parenteral nutrition for the more severely ill patients, nutrients that go into the bloodstream, enteral nutrition that is taken in by the patient in the conventional way.

We are the only company on the planet that does both. I believe it gives us some advantages, in particular when it comes to the treatment plan for a patient, and for him or her ideally getting better over time, and with a better handover from parenteral to enteral nutrition over time.

We have a very good and broad product portfolio in that regard, and that has really afforded us substantial organic growth rates over the recent past. Our clinical nutrition business has been the growth star in Kabi's portfolio. But I will add to that that we are particularly strong in clinical nutrition in the emerging markets, and first and foremost in China. So the underlying volume growth that we're seeing in these markets, that helps, primarily, the clinical nutrition business.

As far as the parenteral nutrition business is concerned, we very much believe that it should be seen as an investment by our hospital customers. When this is all going to be about shortening the length of stay for a patient to make your assets turn more rapidly, then parenteral nutrition can really facilitate that. And when hospitals that are reimbursed under DRG, where we quickly get that math, and that is what is a good driver of that underlying volume growth.

At the same time, when you are looking at enteral nutrition, the observation is that this is increasingly growing out of a hospital setting, that reimbursement by health insurance companies is increasingly at risk, that this is turning, increasingly, into a self-pay product area, where we, against the backdrop of this, has very successfully ventured out of our home turf in the hospital, more into pharmacies and drug stores.

We are not going to go into supermarkets. We still will have that very scientific medical approach, but with the experience we have had in outside-hospital channels, we feel reassured that this can also be rolled out into other countries.

**Hassan Al-Wakeel** That's really extensive, thank you. And I look forward to that teaching session. Maybe just in the final few minutes that we've got on Helios, it'd be great to get a bit of an update on where elective procedures are across the platforms, and how prepared you are for the backlog in elective procedures over the course of the next few quarters, and whether you're introducing longer hours and things like that.

**Stephan Sturm** As I said in the intro, the story is quite different between Germany and Spain, and Latin America is tracking quite closely with the Spanish environment. In Germany, we're still tracking, say, 10% to 15% as an average across the portfolio below the 2019 pre-COVID benchmark, and yes, we're seeing a gradual recovery but, at least as far as our models are concerned, we do not foresee us to be back at the pre-COVID levels also at the end of this year.

So taken the other way round, and maybe as a reassuring message, we do not need that backlog to capitalise to make our guidance. We believe that quite a few patients that were meant to go undergo elective surgery, in the meantime, have passed away. Others have turned to an ambulatory setting, and others will have found other ways to deal with their disease.

And therefore, we are not overly optimistic at all when it comes to a backlog materialising. But, Hassan, I would guarantee I would love to have that problem, and if it arose, that's my guarantee now, we would find a solution for it. Because there is still quite some room when it comes to shortening the length of stay. There is quite some talk in the German market right now that we are going about trimming our workforce, in particular when it comes to the doctors.

I used the word fine-tuning in the earnings call last week, so this is by no means a radical move and nowhere near the lack of volume demand that we are experiencing right now, again, as I mentioned, 10% to 15%, and therefore we will still have some reserves to deal with any temporary pent-up demand. However, we're not relying on that.

In Spain, you will have seen, from the graphs that we were showing in the earnings call, that for the first month this year we tended to track about 10% above the pre-COVID levels. There is some backlog, pent-up demand contained in that outperformance. This is above what we would expect otherwise, as a normal growth rate, and therefore I am working on the assumption, and we have modelled, that this is not sustainable and we're going to see a return, a bit later this year, to more normal levels.

We have also, there, some capacity reserves that we can use. And again, we are about treating patients if patients show up at our hospitals. We will find a way to treat them, rest assured.

**Hassan Al-Wakeel** Great. If I can end on two questions around Helios, so first what is your view on the regulatory environment? And we've obviously seen some pressure here, historically, and I wonder if you think it should at least stabilise, given the support the private sector has provided?

And then finally, in terms of your assessment of synergies, now you're a few years into the acquisition of Quirónsalud, which is clearly going very well, how do you assess the synergies between hospital platforms, and how significant are these?

**Stephan Sturm** I am comfortable with the regulatory environment in Spain and in Latin America. I would say sceptical, but I am frequently, constantly monitoring any regulatory move in Germany. And I believe that, yes, Hassan, thank you for pointing out we have made an over-proportionate contribution to combatting COVID, private hospitals as a sector but Helios, very clearly, has been no exception, and that has been widely recognised.

At the same time, we have to observe that aiming for profits in the hospital sector, for large parts of the German population, is still something that they view very sceptically. And so we need to watch carefully what the new government or any new Chancellor in this fall is about to do.

I would be surprised if it was major steps, but at the same time, I would also be surprised if it was steps that would strengthen the room or widen the room for profit-generation among private hospital operators. I guess I have a fairly sober view.

Now, on the bright side though, the answer to your second question, and that is the cross-border synergies, which we were very sceptical about. But over time, I have come to learn, we have come to learn and I specifically because I was among the largest sceptics, that those synergies truly exist and that they can be realised.

And it ranges from a more stringent approach to data-driven analysis that then improves or gets us to a more homogenous treatment regimen with superior medical outcomes. That is something that our Spanish colleagues, by and large, have learned from Helios in Germany.

But on the other hand, the German colleagues have learned quite a lot about the ambulatory setting, and in particular the interface between treating patients in a stationary and ambulatory setting.

And with that vast experience at Quirónsalud, I believe we won't have fared as well as we have done and as well as we are going to do at Helios Germany, going forward. Both sides, Germany and Spain, have been able to reap synergy benefits when it comes to material cost and benefits on the purchasing front.

And therefore, even if the regulatory environment for Helios Germany did not improve, Helios Germany is a very strong, inner-core part of a larger hospital business where, from their knowledge base and from their purchasing volumes, synergy benefits can be had, and therefore I am very fond of the German hospital business.

**Hassan Al-Wakeel** Brilliant, thank you very much. In the interest of time, I think we should leave it there. That was a really insightful session, and I really appreciate your time, Stephan.

**Stephan Sturm** Hassan, thank you for your questions. I hope my answers were instructive, and I look forward to our next participation in your call series. Thank you.

**Hassan Al-Wakeel** Thank you very much. And thank you all for joining. Our next call is on Monday with the CEO of Siemens Healthineers. I hope you can all join, and stay safe. Thank you.

**Stephan Sturm** Thank you. All the best, bye-bye.