Conversations with the C-Suite 2023 Series - Fresenius SE | Barclays | June 19, 2023

Hassan Al-Wakeel:

Good afternoon, and thank you for joining the eighth in our Conversations with the C-Suite in European Med Tech and Services. My name is Hassan Al-Wakeel and I'm head of European Med Tech and Services Research here at Barclays. Today, I am very fortunate to have with me the CEO of Fresenius SE, Michael Sen, and head of investor relations, Marcus Kyorgi.

Today's call will last approximately one hour and will consist largely of questions from myself to Michael. If you would like to ask a question, please drop me an email, my email should be on the bottom of the screen, or a Bloomberg message, as some of you have already done so, and I will happily relay your questions. So with the housekeeping out of the way, Michael, Marcus, thank you so much for your time.

Michael Sen:

Yeah, thanks for having us Hassan and hi, everybody. And thank you for also you taking the time and listening to what we're going to say.

Hassan Al-Wakeel:

Great. So Michael, could you start talking a bit about the reset at Fresenius SE, what has changed culturally at the firm, and can you give any examples of things that you've changed at the firm versus your predecessor?

Michael Sen:

Yes, thank you Hassan. I'm not so sure whether I will contrast it the vis-a-vis person, but I think the need for a reset has been more than obvious for many stakeholders. I know that many shareholders have been unhappy for the last couple of years and that is important. It has been years, so this is not any kind of incremental or only external enforced kind of trend we've been seeing. So something needed to be addressed in what then we said fundamentally. But the same was true when I took over also in terms of looking at key metrics, which I'm used to, like return metrics. And it's not rocket science when we did the math that we realized if I look at a return on invested capital and metrics like that, that well, we had a lot of room for improvement.

So that was the trigger also to dig deeper and also from an organizational health, how does your leadership feel? Is everybody happy to work for a company which in a way when we look at the share price, the share price is a function of many things more than the performance, but also the performance then it's a function of direction, decision making priorities and was everybody happy there. We did the first global engagement survey and the outcome of that one, especially let's say in the first tier, top two tier leadership circle was sobering. And one example of that is that our executives, like Marcus for example, they have not been seeing any LTI in the last couple of years. So you really want to win in the marketplace vis-a-vis competition and serving customers best and patients, then you obviously need a class A team. That was the reason why we called it reset.

By the same token, we saw a lot of opportunities starting very much on an aggregate level, we're in the healthcare sector, which by itself is a growth sector. You need to be positioned in the right kind of places. And what we did is we dug deep, saying what was the business model, what led to this decision making? And then went through a very thorough portfolio exercise. Also talking about what is the performance, and you raised the word culture. And with that we realized that the whole operating model of the group was something where group management, in a way, was the function of getting money from the markets, and in a way, I would say without direction throwing it into the company, whilst everybody has been shouting for growth and having growth in their plans, not looking at return metrics, not looking at payback metrics.

And from a portfolio quality, basically I dissected Fresenius into 28 business units because Kabi, Helios and all of that one is too much of an aggregate to talk about, the different businesses like nutrition and you will probably have questions later on intro nutrition and character nutrition and geographies. These are businesses in itself which merit a real focus and strategy all the way from how does the R&D roadmap look like to what is their operations, what is their go- to market? And by dissecting those 28 fields, it became pretty apparent that in the past there had been two very big businesses which had been catering a lot of cash returns. And that was service or care delivery in the US of Fresenius Medical Care and IV generics of Fresenius Kabi, also in the US.

Those, if you make a bubble chart are big bubble charts in terms of revenue size but have been big cash returners, yet they went through a lot of structural change. But we had also other portfolio element which are very, very nicely positioned where there should be maybe even more focus going forward. So you needed to dissect as to which business maybe needed more structural productivity, which business needs focus and investment and prioritization. That was the whole portfolio exercise.

On the performance level, the culture, and I was used to a different culture, the culture was in a very decentralized organization you submit budgets, nobody asks or challenges you on that one. And then on the way during the course of the year we add it all up and find out we are not there where we want it to be. So a performance culture, getting companies from outside in, looking at peers, looking at best in class competitors, what kind of margin do they cater, what is the profit pool of the industry? This is what we looked at and we are currently in the midst of obviously creating this performance culture by having operational platforms where we discuss on a quarterly or bimonthly basis with businesses as to where they are stacking up against the goals. And that's why we introduce this FQ, the Fresenius Financial Framework with the margins because the way we believe at the end of the day also the return can be improved is that operational businesses think in margins.

They don't think in return of capital because they run operational processes like sales process or factory, but margins is something very powerful that can gear their entire organizations towards this one. And the capital base will be more or less the task of the management board. So this is all about the performance management, the priorities on the portfolio and then it's about people. I mean I started at Kabi two years ago, and when you have people there which are with a company for 30 years, 25, 30 years, it is a great achievement, but do you really then move into being modern? Do you really have the mindset for change? And therefore speaking about cultural change, and we'll come to that one in a minute, now that we have clarified what the direction is, clarified what the goals are, clarified what the task of the group management is, namely portfolio development, performance management, talent development and obviously ESG, and then the few other governance tasks, but that maybe is, in this case, not so important.

Then it's about people. And you have seen that we've changed a lot. I think this is now what, 10 months or not even 10 months, 8 months in the job we changed, we brought in a new leader for Kabi. In the first six weeks we took a very rigorous decision, stringent but needful decision on Fresenius Medical Care. Also on the whole topic of HR and legal, this is not so much about HR and legal, but there's a new guy coming in who is very well suited for transactions. And we'll be changing people also on the first level, second level.

The momentum comes by more and more people joining the new direction, the new mental model. And what is the new direction? The new direction is, at least in short term we said structural simplification, sharpen focus and accelerate performance. Structural simplification, I've been listening to everybody, every stakeholder, a lot of investors and everybody was attacking this convoluted structure and especially Fresenius Medical Care with the KGA structure.

And I think especially within the company, it goes without saying that a couple of months ago it was unthinkable, just unthinkable that we dissolve that structure by choosing the path of deconsolidation. And that is the smartest and best and only solution because it opens all options going forward. Before that, we would not have been able to sell that stake or sell down that stake or sell the general partner structure. All of that would've been either triggering a mandatory takeover on the other side or an instant refinancing of the debt. So this deconsolidation is the smartest way. Now many people outside in the market may call it plumbing, but we have a lot of work to do to get there. 14th of July is the extraordinary general shareholders meeting to vote on this one and I'm happy to report like an hour ago or something like that. ISS disclosed their report on the agenda of the EGM and is embracing every item we have on the agenda.

So this is potentially very good news for a very big step we're about to take. And then we are about to deliver on what we've been saying, deconsolidation of medical care. Sharpen the focus is that we changed the operating model into operating companies and investment companies following a strategy out of the portfolio logic as to what is key and core. And core is every business which is in a very strong market position, has a runway for growth, has an attractive profit pool, and where we are the best owner and we can develop it further with the means we have. And thereby we came up with the strategy of therapy platforms, growing therapy platforms, which we elaborated on.

And accelerate performance obviously is the Fresenius Financial Framework with the margin bands and the ROI or ROIC target and also the NetApp EBITDA. And we opt our structural productivity because we want to embed, actually as a culture, that the best thing to grow your margin is obviously growth as in volume growth, but you also need to control your pricing and you have to attack cost inflation. And there maybe never let go of a good crisis with the whole inflation topic, we really instilled the structural productivity. If you have the topic on the cost side and you are growing in volume, that means you can work on your cost competitiveness and therefore we have this 1 billion annual cost savings until 2025. Obviously the bulk of that one also being Fresenius Medical Care. Now that I think for starters in a nutshell, Hassan, should do it and then I'd rather be open for your questions.

Hassan Al-Wakeel:

No, that makes sense. Thank you Michael. I was really interested to hear about the clarification of the direction and the goals and the tasks ahead for management and the employees. And we've seen in other companies that in itself has driven that change in culture. And we've also seen in other companies that engagement studies have improved over the course of the year based on a simple message that is filtering down the organization. So I really hope you can share those surveys over the coming years and hopefully we can see that improvement as well. The portfolio has been a focus, you've talked a bit about it Michael, and you are certainly shaking things up. When can we expect the first disposals, some of these smaller assets that you said are non core?

Michael Sen:

Yeah, I mean I absolutely can understand that you want to get the loose on that one. Look, like always in life, all of them, even if they're small, they need preparatory work. You need to sometimes carve out businesses, get the right financials together, have the documents, vendor due diligence, and then at some point in time you go out in the market with a teaser and usually you update the market once you strike. My experience has proven me and sometimes things leak, but that it is not wise to talk about transactions like that during a process. But I can understand that, how should I say, markets want to see the real sign. I can tell you we're in the midst of processing and transacting even without us commenting. But if teasers are floating in the market, they're floating in the market and it tells you we are in the midst of the process. And I

Michael Sen:

I hope without telling too much cause I don't want to spoil also dynamics that we can report on things during the course of the next couple of months, but we are processing exactly these assets and once we are able to report on that one for you, but also as you rightfully set for employees and the entire company, it is a clear token that we are serious. That's why I'm a little bit, how should I say... We're about to see a few things unfolding. FMC de-consolidation.

Q1 was a quarter, I wouldn't call it a trend, can't be a trend yet, but it was a good data point. We want to deliver on the asset disposals. So we want to update you on where we are with the cost savings and thereby show to you the market but also to all other stakeholders that we do what we say. And on the way there will be drawbacks. This is clear, there are things outside of our control, but the more important topic is how do we deal with it? Also, are we transparent to the market, to you, but also with us as a company and do we have mitigation measures or what we do against it?

Hassan Al-Wakeel:

No, that makes a lot of sense. And I guess for the larger assets, you've been very clear as to what is an investment company, what is an operating company? And clearly there are lots of different cells, but I guess your predecessor had expanded some of the businesses outside of conventional norms. So Latin America for Helios, maybe fertility within Helios as well. Are those core businesses to your mind?

Michael Sen:

Yeah, look, without answering directly, let me tell you that everything we do now has to come from a strategic and performance logic. And that is what I... Without pinpointing at persons, but this is what I meant. We're not throwing money behind any business project or what have you, only because somebody says I'm growing because a regional expansion as well as going into a new product category means that you need follow up investments, means that you need to have a specific size, a specific relevance, a specific technological position. And you need to look at this over the course of many years with all of these parameters. And then you come to terms whether it makes sense to have endeavors like that.

I'll give you one example because this is only as a proxy. When I started, there were ideas of more regional market expansion on the hospital site. There were plans of conquering two countries in Asia. It took me a week to tell everybody they should go back to work and stop dreaming. In essence, we even got rid of these resources because this is what I meant. Entering a new market in Asia with one or two hospitals does not make sense, especially not given that is another parameter. But it is as important given the balance sheet we have because you see, you will not have the return profile, you will not have the payback and so on and so forth. And with other businesses, you mentioned a few, we could have a business which by enlarge the market is very attractive, it's a growth market, but our position is too small for us to be relevant. So it needs a lot of capital. And if we don't have that capital because we decided to put it somewhere else, that business may have a different home. And this is how I indirectly answered your question.

Hassan Al-Wakeel:

That's helpful. What about more significant potential disposals such as your stake in FMC on the other side of the de-consolidation? Could you consider stake sales solely for the purpose of de-leveraging or would you rather monetize a stake in order to invest elsewhere?

Michael Sen:

Yeah, look, in essence, this is a very good question but is also a hypothetical question. And the way I also had investor conversations in the run-up to the EGM of the FMC and his investors were invested in both companies. Again a couple of months ago it was unthinkable that we could consolidate and it's not only, which is I think the much larger thing, the cultural, the structural direction we lay out with this step. It is also the option space it creates with what we can do with the FMC stake. So once that thing goes through, we have a lot of options. All of what you said could be done.

However, and you started with what changes in the culture and I said we have not been performing for many years, the biggest topic here was getting the ducks in a row and to have all stakeholders and shareholders. We have a foundation as an anchor shareholder to get everybody aligned. And I got to say this was a very constructive dialogue. This was in getting to the FMC gig consolidation. It was not that we had a confrontational discussion or I was threatening with X, Y, Zed and even if I would, they could threaten to throw me out or what have you. The way we did it with the portfolio analysis and everything I told you and the engagement survey, they were as interested as you are in all of these data and facts and I took them along the way and they felt they were part of that decision making.

Now we got them to that point and there is some historical emotional topic also to that one, so I wouldn't want to overstretch it yet. They also know, these are all very smart people, once that thing goes through, all options are open. So I could sell down then and deliver or I could sell down and reinvest, but at the very moment or for the next foreseeable quarters, I want this company to focus on performance because one big lever for de-leveraging, obviously when we talk about net debt to EBDA, not the leveraging but on the ratio is the EBDA. And a few people can talk about do we create proceeds to do something with that one? But this is two or three people within the company. I want the entire company to focus on their margin targets, to focus on their competitors, to focus on getting into the margin as Kavi told you, and then have a plan clearly to get to the top of the margin range. And this needs to be the focus. And the same holds true for our investment company, which is called FMC.

The only difference is now that this becomes a normal company and there will be normal governance, we won't deal with day-to-day operations of FMC, which we didn't do anyways or we didn't do good enough anyways. They get a clear target, which we also gave them a margin band and Helen used this also for her capital market day and then they need to deliver. Secondly on FMC, and Helen said the same thing, I believe this year we will see trough. We see signs from the market fundamentals and therefore FMC was as much part of this thorough portfolio analysis as every other business.

Also we know the business fundamentals there are great because this is the only therapy you have in late stage kidney disease. And today or tomorrow, today actually, they will issue a study on high density filtration, which again speaks for their technology as one modality or device and there is no other treatment. The fundamentals are great, yes, we have this excess mortality. I did stop calling it that one, I said this new baselining but it grow out of that one. So why would I not take that uplift of appreciation in the stock value? Then as you, an investor, and I want to see the stock going up. The only difference is I'm in essence an insider because I know the plan, I know the people. I was instrumental in putting the people there. You will see more. There's a new CFO coming at some point in time pretty soon and we will build out the team going further and then we have a strong team, we have a clear plan. Their clear priority is the operational turnaround, not any strategic bells and whistles. And then once this works then we decide what to do with the stake, keeping it, proceeding it, shifting the rest of the company. I want them to be focused on the margin.

Hassan Al-Wakeel:

No, that's really helpful. So just on this topic of leverage, I mean is the margin... Is the leverage corridor not worth reevaluating given the current rate environment? I guess outside of improving business performance, how do you expect to get to the lower end of that three to three and a half and over what timeframe? And when we sit down this time next year, hopefully we're going to be talking about that engagement study, but also do you still expect leverage to be a key focus for investors then as well?

Michael Sen:

It depends how far. I think the leverage, at least from my conversations, but you tell me if the room is full of investors, as to how much of a concern it is. In my experience and also having a lot of conversation, it is always a concern. First of all, if you are really close to the top end or close to any cliff on investment grade and non-investment grade and so on and so forth and everything else is not clear and on everything else you don't see what is the pathway to move your way out of that one. And again, FMC, if this thing goes through, opposed to the situation we have today, I at least have that as a weapon to de-leverage. So in a way it is a cash and cash equivalent which we are creating with the de-consolidation because theoretically you could sell down 2%, 3%, 5% if going gets tough if you so will. By the same token, the key lever, as I said is the EBDA.

And going forward also, when you say next time this year, this has nothing to do with net debt EBDA, but on the overall performance hopefully, which then drives let's say equity value, which at the end of the day is about earnings growth in a very capital efficient manner. This fiscal, we are having a huge chunk of refinancing, which we will probably not see to that extent in '24.

Marcus kyorgi:

Did we disclose the number?

Michael Sen:

Not in detail, but we have by enlarge two and a half billion refinancing it and this fiscal, which will not be there next fiscal. And then think about again, my margin comment. Margin is a very powerful means. But in all... I forgot that one. All our businesses are growing, they're growing organically. Organically. That is important for the company and for all stakeholders because, not with investors, but sometimes with media, people say, "Oh, that means [inaudible] is not an M and A machine anymore. We didn't say that one. Only thing we said at the very moment, if your leverage is where it is, your balance sheet is where it is, why would I think about big M and A?

But the good news is out of also the portfolio discussion, all our businesses have runway for growth. And that's why in the financial framework we also have growth bands for the individual businesses. And if they grow and only hold their margins stable, by definition you are growing you earnings. And if you take them the case of Kavi, you are growing and their growth band basically is even higher than the one of Helios because they have great businesses for great growth runways. If they're growing and expanding the margin, you get a double whammy on the earnings growth. And that was the thinking. And medical care, the same thing. If they are today at X and they want to go to their margin range of 10 to 14%, that means earnings growth and that is the logic to focus on. And then a few, the handful of assets you've been alluding to and then we create something like a cash and cash approval. And so we should be much better off than today.

Hassan Al-Wakeel:

That's very clear, Michael. Maybe we get into the individual businesses. We spent half an hour talking about the group and the structure, which is very important for investors at this point. But let's talk a bit about the drivers of... And we've received lots of questions from investors as well, so we'll take that towards the end. But if you could talk us through some of the drivers for the guidance increase or tightening at CARB for 2023 and why you chose not to raise the group guidance on the back of that. What is offsetting your optimism at CARB? Is it VaMED or is that getting worse or is it conservatism on your part?

Michael Sen:

Yeah, thanks for that question because that gives me the opportunity to clarify. I think we've been very transparent in our

Michael Sen:

Q1 as to what we think about Valmet. And you started your conversation with "what did you see or what is changing in the culture?" And everything. Valmet was, or is already today, labeled as an investment company.

I also learned when I took the job, yes we have 72% or something like that, but we don't have a domination agreement so we can only govern that by a board and there are two minority shareholders. That is exactly the theme which I've heard on the FMC side, but on many other things, convoluted structure. How will you be able to govern it with FMC? I think we found a solution there. Valmet in essence also, let's say not a straightforward structure and having issues. Having issues to the extent that I also publicly said, "Group had to step in." I collated the task force also here to really get to the bottom of things.

And I said in Q1, we're looking at probably not everything, but many things like vetting the business model, looking at projects at businesses and also looking at people. And we said we are going to update you to Q2. We are working on that one. The Q1 performance was very disappointing, so was actually Q4 last year. So we need to get to the bottom of it. What is the root cause? And the root cause also because it's also a complex business model.

They have project business where you have [inaudible], and thank God I also have some infrastructure background. So you talk about percentage of completion and all these kind of stuff. And you need to look at the risk of the backlog and do you have, for example, contract clauses if you run into a inflationary environment, which we have seen in the last couple of quarters. But on the other hand, you visit with the customer. You are a general contractor. You know that you need to work your way through this stuff because that determines the risk embedded in that one. And since we have not finished that exercise, it would've been premature. I would've loved to, let's say with Kabi because Kabi and videos being the core, to narrow something on the group side. That was the initial thinking.

But then it happened what happened. And everything I can tell the market but every stakeholder we also have to be very adamant of addressing that one and clearing that one and getting that one out of our way. That was the reason. That was not that I hedged on the group side. This doesn't make sense if they have a capital market day and everybody goes in there.

I mean, you saw basically also the Kabi team, as much as they liked it, a little bit frustrated. They have been working on that one. It's not only about the capital market. They have been crafting a plan which will guide them for the next couple of years to up the margin. And they would've loved... Talking what I said. People like to be in a winning team to also ride that wave and maybe being even the cause of that wave. But it's different. We're going to address it. We're going to be very stringent on that one and then update you on that.

Hassan Al-Wakeel:

That makes sense. I guess given the size of the order book in the business and that some of these orders may not be executed, given legacy pricing that is unprofitable, should we expect any material write-downs in this business? Have you taken any write-downs thus far?

Michael Sen:

We took write-downs in Q4 already and Q4 for year end closing because year end usually... This is actually where it started. I took over in October. Sera by the way is month earlier. Sera also sits on the board of Valmet and he's the co-chair. So how should I say?

We have been seeing signs already in Q4. Even with the structure we looked a little deeper. We had to take what we had to take there. Now we need to look deeper. And in a way it's not only the order book. You need to go through the, let's say the balance sheet on what is capitalized. For example, pre-acquisition costs on product side as much as when you did not strike a deal yet. You capitalize these costs and then we need to match against the status of the negotiation.

On the other hand, you have the clinic's business, the rehabilitation business. Is it maybe necessary to be in every country? Where the margin performance is subpar? These are the questions we are currently asking all the way, starting with the business model as such. Going also the individual projects and items and then we'll come up with stuff. If we have to then adjust, we need to adjust. But first of all, let us go to the facts.

Hassan Al-Wakeel:

Sure. Okay. Let's move on to Kabi. I'm getting a question here from an investor. Particularly on the IV portion of the business. Since late 2022, the IMS data that tracks Kabi's US injectable generics business has finally inflected after some period of declines. Do you think we're past the worst and the business has finally stabilized and is back to sustainable growth?

Michael Sen:

Yeah, I think we answered that one at the capital market day when we talked about the IV. Don't forget IV generics and solutions.

So the entire goal... I'm not trying to evade the question but bring it into a larger context. The entire goal of the carbon capital market day is to show to the market that we have different businesses in there. They all come together kind of like in a go-to-market model, but they are distinct. Nutrition, IV generics and fluids, Biopharma and MedTech.

So it's much more than in the past, where maybe the focus was on IV generics US-only because I get it. You get the best data there. You get IMS, IQVIA data so you can compare and contrast directly. But by doing that, you may get an important data point but it's not the full data point. Because we also have the solution business and so on and so forth.

So for IV generics and fluids, what we said or what Mark, who's running the business, said it is growing in the 1-2% globally. And if you remember, Hassan, the arrow for the global margin was kind of flattish. If you really took a ruler, maybe there was a small gray but kind of flat. So that is what I meant. With the logic, even if you grow, but especially when you grow and this is the huge business. It's 50% of the portfolio. If it grows by 1- 2% or 3% and the margin is stable, you grow in earnings. What we've seen in the last, let's say quarter, two quarters, in the US was compared to what the investor has been referring to was an improvement. But we also said we still need to work on that. And it is always also a function of going forward on how your pipeline looks like.

That was the big question about launches at that time. How your, let's call it "innovation," looks like. Do you have different containers or different formularies to cater? This is all stuff you can't read out of the IMS and IQVIA data. Therefore this is what we said. The US is a growth market. We said we are covering roughly 85% of the patent expires, by and large, in total. And we feel very comfortable... And still drug shortage in the US.

But on the other hand, quarter by quarter it can be volatile in a sense. Drug shortage doesn't mean that the next day, in your full supply chain you are able to cater exactly that drug. And this is where I believe, well the team at Kabi believes, we can get better in this whole demand-supply planning. Short answer is, to that period of comparison, yes. Can we take a ruler? A lot of work but the by and large answering via the global business, we said how this business is going to perform.

Hassan Al-Wakeel:

Are volumes and pricing improving at all? I think pricing was probably towards the upper end of the low to mid single digit decline over last year.

Michael Sen:

Yeah. I know volume did definitely on the pricing. That's why I said we got to look quarter by quarter. This was a quarter if you hit it where molecules were in shortage or what the market is in demand for, then you obviously can do stuff with pricing. And therefore on a larger context, because quite often we get asked, "there are all these other companies trying to eat your lunch in IV generics in the US." It is important that you have a relevance in your portfolio, because you talk on your customer base vis-a-vis GPOs. And what we have seen is what really is important is the ability to deliver. And that's what I also meant to be more agile on the demand supply plan.

Hassan Al-Wakeel:

Yeah. Okay. And then what about margins? Margins have obviously moved a lot, right? From mid-thirties to low twenties. And margins when you benchmark versus some peers, they do look inferior to say Hikma. Granted, they do different things. But what explains that move to you and when you benchmark... You talked a lot about competitive benchmarking. How do you think Kabi sits versus peers today?

Michael Sen:

Yeah, we benchmark and therefore you need to go in brackets. You look have to look under the hood. What is the makeup of the business? And I get this comparison with especially that one company, the 30 or what have you, something which also we catered in the past. I don't know how and where and who accounted for what. What we have today is this end-to-end global P and L view of IV Generics and Fluids we did not have in the past. We had great numbers for the US. And the whole R and D and production costs, or pre-production costs, were sitting somewhere else. So first of all, you need to put all the costs where they belong. I don't know what other companies label as "operating income" or "special operating income" before special items. I don't have no clue about it. At the end of the day, you need to look at bottom line and then this is what it counts.

Now obviously our makeup is that we also have the IV fluids. The IV fluids is compared to the mirror generics piece. It is obviously dilutive from a margin perspective vis-a-vis the generics piece. But the IV fluids is a very important piece to contract with the customer. To have a full portfolio of offering with the customer. Offer a full suite because you need the fluids also as to get as a means to an end to get it into the body. And you are a much relevant player there. And empirically the IV fluids are much more stable, as in performance.

And then again, it's not saying that we do not see margin improvement potential, let's say, in specific geographies. Other companies have a different mix. Maybe they, from a global point of view, are more exposed to the US. We have a global share, so we have growth and volume also in other geographies. And I believe, or [phonetic] Ker Luigi believes probably, that in other geographies we can improve the margin whilst in the US it is a tougher race. And therefore it is, more or less, try to hold the performance which you have. And that's why, again on the global piece, he was saying, or Mark was saying, "Growth and margin stable until 2026."

So this is how I would say it. And then again, it is a function again of how innovative are you? Innovation in a sense of how much launches do you have. But do you have other items as well, like containers and formularies? That is the whole topic about the [inaudible] orange book.

Hassan Al-Wakeel:

Yeah. I'm getting a question from an investor on the IV solutions business. Do you still plan to enter the US market? If so, what's the timeline? And given pricing headwinds on existing players such as Baxter and ICU medical, how do you think about the NPV for IV Solutions?

Michael Sen:

Yeah, for NPV, I don't see. But I guess the question is on the specific investment we have. Because we invested in the US, at the Wilson plant in North Carolina, which is I think a couple of months away from opening, going online if you so wish. How should I say? That the money is spent.

And that is a little bit the curse in brackets of the history when you go four or five years back, where the IV generics market in the US grew differently and differently also for us. And at that time another competitor was out of market. But yet, capacity is needed also in the US. Because we still have drug shortage here and there. Now the solution, if I would only think of solution as such solution in itself, only in essence selling water with ingredients, you would probably see me more worried. The point is, is it an element of a larger package? That's why I said at the go-to market, it all comes together. We don't offer solutions only, we offer IV generics and solutions. We offer the pump and

Michael Sen:

... And solutions, or solutions and pumps. We did not have a large volume pump in the past. When I started at Kabi, the investment was also on its way already. But the folks already told me, "Okay, we don't have a large volume pump. It may be getting iffy once that thing is going online. At least it's much harder to sell, and then we may have to do price consistency, so on and so forth." Now, we have a large volume pump now. Does it mean that we don't have to fight? Yes, we do. But it is, in the go-to market model, a full package, full portfolio positioning, vis-a-vis the customer, which we're trying to do.

Hassan Al-Wakeel:

Right. Could you talk a bit about China VVP? How many drugs are on the list today, and how many more do you expect to be on in the next six to 12 months, and whether this should have any meaningful impact on the clinical nutrition business as well?

Michael Sen:

Yeah. I mean, it is interesting. Actually tonight I'm flying to Berlin. And you may have read currently in Germany there's the Chinese German government consultation, so the Chinese government is here in Germany. And I will have also the opportunity tomorrow to meet government officials in Berlin. And we also going to have this... I plan if I get a spot, really don't know, to also talk about that one. I think we need to concede or recognize that the Chinese market is changing the whole model of procuring specific drugs and also nutrition topics, which is the VVP national and regional based procurement. This will not change. So we got, I think three-

Marcus kyorgi:

We have two so far.

Michael Sen:

Two so far. One, I think, got extended. This was a little bit in Q1 where I told you the third one didn't come because of their lockdown, and the COVID, and it was still pushed out. But it's the question of time when it'll come. And the next one will also come again. But that doesn't mean that there is not a market left and right. We were in China. If I would compare, let's say, the breadth of our portfolio in terms of molecules, if I would compare that with the US it's a tiny fraction which we cater today in China. So there are a lot more molecules one could cater. And you have to go along with a volume based procurement and look for other businesses and pockets where there is still a promotion business.

Then on the nutrition side, we did quite well on the parenteral nutrition with especially our three chamber bag and we made an investment in China. This is what I will also mention. We did investments there and yes, Kabiven is also part as the parenteral nutrition is also part of the volume-based procurement. But then what is a way to maybe mitigate that? We are currently working on a different formulary [inaudible] to Kabiven. Which has different, let's say, therapy elements and a different formulary. Which may or may not be then outside of the volume based procurement. And if other competitors are at least for a time not as fast as to getting there, then it doesn't make sense to have volume based procurement, because if you have one or two people who can cater that one, then you don't get the auction dynamics in there.

The second thing is the whole on the enteral side, which is a smaller piece of the market. But on the enteral side you have this whole dynamics of food for special medical purposes, where we also made an investment in Bushey. And [inaudible] was in China last week. I talked to him this morning, said very interesting, also very positive conversations with, let's say, the officials in Bushey. And the food for special medical purposes is basically, yes, it is prescribed. It is prescribed, it has regulatory hurdles. In the hospital, once the patient leaves the hospital, it is an out-of-pocket item. And this is also a growing market where we are very well positioned and don't believe that too many other players are as good positioned as we are there.

Baking everything into that one. Oh, the other way around. All of these items are baked also, again, in the global outlook. Basically, you have received from the nutrition piece at the capital market day, where they said you're going to grow in top line, and they're going to work on expanding the margin. This is both of the arrows at the gradient at the upwards ticking slope. And all these China effects are baked in into this assumption.

Hassan Al-Wakeel:

Perfect. Maybe let's talk a bit more about nutrition in the final few minutes that we have. You are really the only scale player in both parenteral nutrition and enteral nutrition. What benefits do you derive from that and what synergies do you think you have as a result of being in both businesses?

Michael Sen:

Yeah. Well, at the end of the day where I would say, and this is what I mentioned at the capital market day because it was a Kabi day. But if I look at Kabi, what are they good at and where do they drive their core competencies. And when you also derive the strategy around core competencies, it is about formularies on both ends, on the enteral and parenteral. It is on the production to bring down the unit costs to be very competitive. And then it comes together at the patient journey. Because the parenteral nutrition is obviously, very much focused on the hospital side. On the hospital, again, it's parenteral nutrition, enteral nutrition, IV fluids, pumps and everything. This is what I meant. It comes together at the go-to market. Yet you have to drive them as individual vertical businesses because of a pump has a different software logic than an IV generics, which has no software logic. But it comes together at the go to market and on the nutrition side it comes together on the patient journey.

And what do you get prescribed as a patient? What are you used to when you have your stay in the hospital? Then on the parenteral side, you also go more on the home care, which is growing. So you need compounding know-how. And then obviously, you go then into maybe depending on the disease pattern. You need to have the enteral nutrition maybe. And there it all comes together on the patient journey. If you start in the hospital giving that one, the patient goes home having the same brand, having the same formulary. And on both the scientific clinical work which is being done to show.

That's why I very much love the nutrition business and people sometimes ask me, what is your one catalyst? We don't have that one catalyst and it's definitely not only biosimilars as in the past. We have so many. The nutrition business is so big and we are creating more and more scientific clinical evidence that using, applying nutrition on the patient's disease journey, leads to better clinical outcome. May be oncology, may be after a stroke, or whatsoever. And therefore, if you come from that patient journey, it makes sense also to have those two.

Hassan Al-Wakeel:

Why aren't you going after enter intro in the US in the near future, I guess, particularly given the [inaudible]

Michael Sen:

Because of our balance sheet. No, look at on the enteral side in the US, it's hardly... I mean, you can grow a business if you have a dock point. You have to [inaudible]. You can go into a different geography, and can do a land and expand kind of thing. Didn't make sense on the hospital side. That was one of the examples I gave you. Going into Asia doesn't make sense. On the nutrition side it could make more sense because we already have go-to market infrastructure there. We have Salesforce and the contracting with the GPOs. But there's hardly anything to build up on as in the product side.

So the only way to do this is to go by inorganic way. The inorganic way, on the other hand, as much as I love the nutrition business, everybody who also owns a nutrition business, they also love it, because it's a very attractive business. And given the balance sheet we have, the focus now is on that one. On the parenteral it's a little different. On the parenteral, because the channel is much closer to pushing a three chamber bag with the lipids we have into the channel with the customer we have, so we're making the first inroads there. We have the lipids in the market now. Now the next wave is coming. We're coming with amino assets and the like, and pushing that into the channel we have, and hopefully, grow the business more than what we used to see in the US on the nutrition side, which as you rightfully say, is parenteral nutrition.

Hassan Al-Wakeel:

Excellent. Michael, maybe just to end off. You've been meeting investors recently. What do you think is the most underappreciated part of the equity story at Fresenius?

Michael Sen:

Look, I did have the privilege to talk to, and let me say a few. I would love to talk to many more. Many, many more. And the way my management team and myself we want to do it is, I won't complain and moan about us being underappreciated. We have a clear plan out there. Measure us against the plan, measure us against delivery. And that's why I like that you started, not only what is the margin in the next quarter, but from the bigger picture, because I believe getting to the value, which is in a way, I believe, trapped in Fresenius, is starting really also big and comprehensive. You mentioned the word culture. I gave you a few examples. We want to show you proof points. One is coming, which is the FMC deconsolidation. I would not underestimate that. Next things will come. And then we will deliver. If there's something in our way, we will be very transparent with you.

We want to work on performance, on advancing patient care as we call it. And if we do that right, then the performance should be right. And if we communicate with you, if we are transparent with you, if we have to earn the trust. And I get it that if you have been... I've had bad surprises for a long period of time and it's not only performance, but also you do what you say, and then you do something different, and then you want to have a minority investor or not or what have you. The direction here is clear. And you can measure us against that one. And then you decide whether we execute and implement what we've been saying. Whether we put our money where our mouth is. Our incentive system is also changing. It will be a huge return focus on that one. The market saw that I was buying shares. I will do probably again going forward and then you take it from there.

Hassan Al-Wakeel:

Excellent. Thank you both for a really insightful session. Thank you all for joining. As a reminder, we're hosting the management team of Siemens Healthineers, your old ex-colleagues, Michael, tomorrow. And we hope you can all join. Thanks again.

Michael Sen:

One last question. Thank you.

Marcus kyorgi:

Thanks, Hassan. All the best.

Hassan Al-Wakeel:

Thank you.