FRE.DE - Fresenius SE & Co KGaA Acquires Largest Private Spanish Hospital Group Quironsalud M&A Call

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PRESENTATION
Operator
Good afternoon, and welcome to the conference call of Fresenius Investor Relations, which is now starting. May I hand you over to Markus Georgi, Investor Relations. Please, go ahead.

Markus Georgi  Fresenius SE & Co KGaA - SVP, IR
Thank you, Patrick. Good morning/good afternoon to everyone, and welcome to our conference call on the acquisition of Quironsalud. With us today is Stephan.

After this call, a replay and a transcript will be available on our website. The forward-looking statement and the disclaimer are on page 2 of the presentation.

With that, I hand over to Stephan.

Stephan Sturm  Fresenius SE & Co KGaA - CEO
Thank you, Markus. Good afternoon, good morning, buenos dias and bienvenidos. Thank you for joining us today, on a strategic acquisition that we have announced last night. I'm here to provide you with a bit of background and some help as to think about the future in our hospital business.

I'll skip over the safe harbor statement on page 2 and want to lead you to the transaction highlights on slide number 3.

Quironsalud, our acquisition target, is the leading private hospital operator in the Spanish market. It is the fourth-largest hospital operator in Europe. It actually is the largest European hospital operator outside Germany.

What we find in Quironsalud is a strong and proven management team that we got to like over the course of our due diligence exercise; and that we have asked, and they have kindly committed to, an ongoing commitment to Fresenius as a Group.

Between Helios and Quironsalud we have two market leaders, in terms of size as well as in terms of quality. Therefore, the combination of the two forms the ideal platform to learn from each other, and to adopt best practice in whatever we find at the other.
Going forward, we also do expect substantial cost and revenue synergies. Given that this transaction will be largely financed with debt, it also does make a lot of sense financially. We do expect that right from the beginning this transaction is going to be highly accretive to our Group earnings and earnings per share.

And, whilst our net debt to EBITDA initially at the time of closing is expected to be ever so slightly above our target corridor of 2.5 to 3 times, we should be back within it already mid-2017.

Just because it is highly accretive to our Group earnings, and because we told you last February, when we announced our mid-term targets for the Group, that those would be adjusted for any major acquisition, it is our intention to publish new and revised mid-term targets for the Group as part of our presentation publication of our full-year 2016 results.

A snapshot on the right-hand side. You see some images of the hospitals that will -- that are about to join us in the Group. Top-right is the Fundacion Jimenez Diaz in Madrid. In the middle, you have a rendering of the new hospital in Sevilla. Bottom-right is the hospital Teknon in Barcelona.

They should give you an impression as to what the state of investment is also at these hospitals. But I'll come back to CapEx and depreciation in the later financial section of this presentation.

Over to slide 4, where I have already talked about the market position of Quironsalud in Spain.

To put a few more numbers to this, what we’re talking about is 43 hospitals across Spain; 39 outpatient centers; about 300 occupational risk prevention centers; and that all should lead to sales in 2016 to the tune of EUR2.5 billion. In total we’re talking about 6,600 beds, and 35,000 new colleagues that we can welcome to the Fresenius Group.

In case you were wondering how it’s possible to generate that much sales with so little beds, the Spanish market is different from what we have been used to in Germany, and also to many other parts of Europe. There is a quite a lot that is going on in an outpatient, rather than an inpatient, setting. I’ll come on -- come back to some of the characteristics in the Spanish market a little bit later on.

Any case, there is a substantially higher number of outpatient admissions at Quironsalud, namely 9.4 million, relative to Helios where we have approximately 3.4 million; and, at the same time, substantially lower number of inpatient admissions, approximately 320,000 relative to the 1.3 million that we’re having at Helios.

Top right, Quironsalud is also the undisputed quality leader in the Spanish market. In the frequently published rankings, typically at least four of the Quironsalud hospitals rank among the top 10, and typically also a Quironsalud hospital is leading the ranks in their particular region.

Given the number of hospitals, given the reach that Quironsalud has developed, there's also fairly substantial economies of scale. Think about that in terms of purchasing; think about that also in terms of contracting with private insurance companies. I'll come back to that later.

Footprint, revenue sources and also revenue growth, I will cover on separate slides.

Before I come onto those, I want to quickly, on page 5, make you acquainted with the corporate history of Quironsalud. I think that is important also to understand our financial projections.

What you see on slide 5 is that Quironsalud goes back to the merger between the number one hospital group in Spain at the time, IDCsalud, and the number two, Quiron, and that goes back to 2014.

As you would imagine, the number two and the -- the number one and the number two in a market coming together, that creates quite substantial synergy potential and we are in the middle of materializing the synergy benefits that have been well initiated already.
What you find then under the new name Quironsalud is further market consolidation. Top right, you can see some acquisitions that took place over the course of 2014, 2015 and also earlier this year. Hospitals in Madrid, Palma, Sevilla to name a few, have been added to Quironsalud’s network.

Bottom right, is a further initiative to open up a new segment within Quironsalud. That is the rapid consolidation over the course of 2015 of the occupational risk prevention segment in Spain. A number of providers have become available and Quironsalud was bold enough and far-sighted enough, I believe, to seize that opportunity and to grab the leading providers in that segment and with that the leading market share.

Going forward, this ORP segment is going to be profitable in its own right. But, we also do believe that there are quite substantial synergy benefits between occupational risk prevention and the mainstream hospital business.

I was talking about the nation-wide footprint before, and I want to get you a bit more details over on slide 6.

What you see on that map of Spain is that we are everywhere where the population is. The darker blue the shading is, the larger the number of inhabitants. The gray circles obviously demonstrate where a Quironsalud hospital is located.

You can see that we are primarily located in the large metropolitan areas of Madrid and Barcelona, but that we also have a good representation in Bilbao, Saragossa, Valencia, Sevilla, Malaga, on Majorca, as well as in the Canaries. This is where the bulk of the population, this is where the bulk of the economic wealth is located. That is where also our hospitals are.

Bottom right, you see one of the latest additions to Quironsalud’s network. It’s a newly built hospital in Mostoles, just outside the south west of Madrid.

Over to page 7, where we wanted to make you familiar with a few key characteristics of the Spanish healthcare market. The overall healthcare spending of 9%, there Spain is in very good company. But, as you also can see, there is quite some pickup potential relative to the likes of Germany and France.

For the other three characteristics, the key takeaway is that there is a much more pronounced outpatient setting in Spain than elsewhere. You have a well below average number of hospital discharges. The hospital bed density is substantially below Germany and France in particular; and that, as a consequence, the average length of stay is also substantially below other European countries.

Again, quite a lot that is taking place in a hospital setting in Germany is done in an outpatient sense in the Spanish market.

Over the page, we wanted to make you familiar with private health insurance system in Spain. To start with, at the top first the national healthcare system that is in Germany funded by social security contributions. In Spain it is tax funded. But, very importantly, everybody in Spain has this national insurance coverage. Everybody has access to a public hospital.

What then everybody can choose is access to private health insurance coverage. Access to private health insurance coverage is substantially easier than in Germany where, first of all, you need to get over a certain income threshold.

The other key difference you see at the bottom of the page. Private health insurance is substantially cheaper than what it is in Germany and, therefore, as a consequence, the penetration is substantially higher.

We do see above average growth in the Spanish population taking out private health insurance contracts. That may easily be a reflection of the perceived superior quality in private hospitals and, also, substantially shorter waiting times in private hospitals. Both, in our minds, is a consequence of the easier access to capital, and higher level of investment in those private hospitals.

Over on page 9, we’re now going to show you what the revenue breakdown at Quironsalud is. I was talking about public health insurance, and that you see in the top-right corner.
There, with 34% revenue contribution, this is primarily those public-private partnerships that Quironsalud has entered into. Those are four in Madrid; one in Barcelona. It is long-running contracts, concessions, to run and operate hospitals. Most of them run until 2041. There Quironsalud gets assigned responsibility for certain coverage areas within the Madrid and Barcelona region.

There Quironsalud gets a capitation fee for any inhabitant of that coverage area, but has the opportunity to generate incremental revenues by attracting patients from outside the coverage area that has been assigned to them.

What we have found is that there is a very steady, sustainable, net positive balance of patients that come to Quironsalud hospitals from outside their assigned coverage area relative to relatively few hospitals that are being lost to other service providers.

This is a trend that we very much expect to continue based on the right level of investment leading to shorter bed waiting times and leading to a superior medical quality. So, the public revenue is a mix of that capitation fee and activity-related reimbursements basically on a DRG level, as you know it from the German setting.

Top left, 43% of revenue is made up of privately health insured patients. As I told you, the number of those patients has grown, is expected to grow. When we look in particular at the aging of the private insurance policyholders, the majority of them are still relatively young, and will only, over time, get into the age where the propensity to hospitalizations is going to increase.

Quironsalud has contracts with all the major private insurance companies in the country, and we would very much expect that to continue going forward. Having a contractual basis with Quironsalud is actually very important for the private insurance companies in order to be in a position to sell their policies to the interested population.

Bottom right, I was talking about Quironsalud’s initiative to consolidate the occupational risk prevention market. There we’re now owning more than 300 centers across Spain and have, via contracts with corporates, around 4 million employees under contract. Our centers have performed more than 1.7 million checkups on an annual basis.

And whilst there is, and must not be, a direct link between these occupational risk prevention centers and the Quironsalud hospitals, still if there is a finding as part of the checkup, we then have an ideal platform to make those patients aware of the benefits of being treated at a nearly located Quironsalud hospital.

With 8%, the smallest contribution to the overall revenue is self-pay. That is traditionally a strength of Quiron that we now also would like to roll out to the formerly IDCsalud hospitals. We would also expect some medical tourists taking advantage of the relatively low cost but high quality in our hospitals.

Having gone through the breakdown of revenues, let me tell you where going forward we do expect growth to come from, and that is shown on slide 10.

When I was showing you the key characteristics of the Spanish market, I was pointing to the fact that the healthcare expenditure per capita is well below the EU average; and that there is also quite meaningful pickup potential in the number of beds in the country. Whereas Germany arguably has already too many beds, I would still argue that in Spain there is some unfilled demand.

I was also referring to the close interaction between the inpatient and outpatient selling. What we found in our conversations with Quironsalud’s management is that they master this in an excellent fashion; and that many of the barriers between those two segments in the healthcare market, that still do exist in many countries, Germany only being one of them, are much better mastered by Quironsalud in Spain. And, that we can expect this trend to continue to drive revenue in Quironsalud also going forward.

We’re not banking on a growing number of PPP projects, at least that is not part of our projections. But what we would very much expect is that the capitation fee is going to grow at least in line with inflation; and that we can also continue to attract patients from outside the coverage area that has been assigned to us. And that, with the DRG-based reimbursement, we can grow revenue at a very attractive pace.
Given the pickup potential that we do see in the Spanish market, we would like to continue to expand our existing facilities. Do bear in mind that one of the key differentiation criteria for Quironsalud are the very short waiting times for patients. We’d like to keep it that way. That is why whatever is under way already in terms of adding to existing capacities we will gladly see through. We will also be very open to pursuing other opportunities.

The very same applies to greenfield projects, setting up new hospitals. And that also here, given the relatively low density of hospital beds relative to the population, Spain is substantially more open to greenfield projects. Whereas in Germany, basically, you don’t stand a chance to add new capacity to the market.

With all due respect that also shouldn’t be necessary given the number of hospital beds per capital that we do have. But greenfield projects have been a feature in the past and should also be a feature of growth going forward.

When I led you through Quironsalud’s corporate history, I was also referring to five hospital acquisitions in the recent past. Let me say that the Spanish private hospital market is substantially more fragmented than the German one; and that ongoing consolidation of that market should be a feature going forward.

At the same time, let me tell you, as you would expect, first and foremost, and in the near term, we will focus on the proper and sound integration of Quironsalud into Fresenius, learning from each other.

Therefore, further consolidation moves within Spain are, near term, not a proactive priority. Whereas, at the same time, we're certainly open to pursue opportunities should they be brought to us.

However, in the medium term, I would very much expect that also the Spanish market can be consolidated a bit further.

Over on page 11, with our financial outlook. You see substantial growth in particular on the right-hand side where we talk about the EBITDA. I believe it was very important to show you what the corporate history recently has been for you to understand that revenue growth, as well as EBITDA growth, is not just organic. But, that there also have been acquisitions that have made a contribution. But that, in particular, when it comes to EBITDA growth, synergies that have arisen out of the recent corporate transactions do play a role here.

When we look at EBITDA on the right-hand side, and take the 2015 actual of EUR406 million as a basis, and basically what we're talking about is EUR60 million to EUR70 million of growth towards the end of this year.

To a large degree, I'd say EUR25 million to EUR30 million round about, that is synergy projects within Quironsalud. Those are, on the one hand, about half synergy projects that date back to 2015 and [in] 2016 we're just going to get the full-year effect. About the other half is new synergy projects that have now arisen in connection with the 2016 synergies.

Given the revenue growth with, in our minds, a sufficient staffing, we have quite meaningful scope for operating leverage. Therefore, over and above the, say, EUR25 million to EUR30 million of synergies, we also have operating leverage to the same degree.

Lastly, we do see, the 2016 acquisitions contribute approximately EUR10 million.

If we then look at 2017, and our projection that we're going to generate EUR520 million to EUR550 million of EBITDA, pretty much the same characteristics do apply to the implied EBITDA growth of, say, EUR60 million to EUR70 million from midpoint to midpoint.

Synergy projects within Quironsalud dating back to the original merger between IDCsalud and Quiron, as well as synergies between the ORP acquisition targets as well as the newly acquired private hospitals, they should amount, again, to approximately EUR25 million to EUR30 million. This is primarily cost synergies; to a lesser degree revenue synergies.

But given that we have underlying organic growth, you can also, and again, rely on operating leverage to the tune of EUR25 million to EUR30 million, and a further EUR10 million from acquisitions.
In 2016, that was, to pretty much the same degree, the annualization effect of 2015 synergies. Though the new contributions, in 2017, what we do find is pretty much the annualization effect of the new additions to the Group from 2016. But we have not put into our model our Greenfield projects in 2017 and also no further acquisitions in 2017. The contributions of any of those would come on top.

What you can see is that we're relying on a fairly steady margin increase, and that the EBITDA margin, from around 17% in 2015, is expected to reach towards 20% in 2017. I would argue that that is a very attractive margin level. It is actually superior to the one that we find at Helios, and it is a reflection of the very strong market position that Quironsalud commands.

I'll briefly put my CFO hat on and, on pages 12 and 13, I want to lead you through a few financial characteristics of this acquisition. What you can see is that depreciation is pretty much comparable to what we do find at Helios; it's about 4% of sales.

At the bottom of the page, you can see that also CapEx, in our minds, runs at approximately 4% of sales. We do find, after our due diligence, that all of the Quironsalud hospitals are in very good shape and that there is nothing coming out of the block that we would have to do that is of an extraordinary fashion.

A prominent feature is the amortization charge that we do expect. My caveat is that the EUR150 million that we put in here is on a very preliminary basis. The final number can only be determined after we've gone through a purchase price allocation exercise and that will take a few more months.

Look, that amortization charge is the flipside of something that, in my mind, is extremely positive: that is long-running contracts, not only the PTT concessions that I was referring to, also contracts with certain minimum revenues that Quironsalud has entered into with private insurance companies.

So just as much as that gives us planning certainty, and reduces volatility, it is, therefore, an asset in its own right that needs to be capitalized and amortized over its life. It is a non-cash charge. Next to those contracts and concessions that I was referring to, we also have the brand name that we're very fond of and that we want to preserve, absolutely, in the Spanish market. That, therefore, also needs to be capitalized and amortized.

Again, our best guess, at this point in time, is that we're talking about EUR150 million. This could easily fluctuate by 10%, or even 20%, up or down, which is why, a bit further down on that page, we gave you an earnings after tax before that amortization charge, so that you have a better feeling, not only for what the cash earnings are going to be like, but also what earnings power is before that fluctuating -- potentially fluctuating non-cash charge.

There we're thinking, in 2017, about more than EUR200 million. Why is that? Because we very much believe into our EBITDA projections. We very much think that the transaction will be predominantly debt financed. We have, and you may think that that is a conservative assumption, worked on the basis of 2% cost of debt.

I'd say, if you think about a traditional maturity schedule, 2% is actually conservative. We are keen to finance this with very long maturities. Therefore, we are prepared to pay up for those and that is why 2% has found its way into our model.

The tax rate, you should work on the basis of 25%. I was already talking about the earnings after tax. Even including the amortization charge, we will have a very meaningful accretion to our earnings and our earnings per share already from 2017 on.

Over the page, on 13, total consideration on a cash and debt-free basis, is EUR5.76 billion. If you believe, just as we do, in our EUR520 million to EUR550 million EBITDA projection for 27 -- for 2017, I'm sorry, that would equate to a 10.8 times EBITDA at the midpoint of that range.

That means that we're getting this at a quite meaningful discount to the multiple that we were paying for the Rhoen hospitals. I think, on the one hand, that is appropriate, given that we are entering into a new market.

On the other hand, with Quironsalud, we're getting a company that commands a remarkable market position, is a quality leader, has margins that are in excess of what we're seeing at Helios and, in particular, in excess of what we were acquiring at Rhoen at the time.
We’re also getting a company that, in our minds, has superior organic growth potential, relative to what we do see in the German market.

I already mentioned the vast majority of the purchase price is going to be debt financed. We have made it a point to demonstrate also to you that management’s interests are very much aligned with ours.

Therefore, we have asked Victor Madera, Quironsalud's CEO, to take EUR400 million as part of the consideration that accrues to him in the form of Fresenius shares. That is a capital increase, 6.1 million new shares approximately have been issued exclusively to him as part of a capital increase against contribution in kind. Victor has gladly accepted and has also agreed to a two-year lockup period.

Net debt to EBITDA is temporarily going to increase above our target corridor. But already, given our strong de-levering capabilities and the EBITDA generation at Quironsalud, we believe that by mid-2017 we’ll be back within the range and more towards the bottom end of the range, again, by 2018.

My last slide, on page 14, that should demonstrate to you that we are the right owners of Quironsalud, because we also do bring something to the party, so to say.

We would very much treat our new colleagues with the respect that they deserve, given that they are market leaders as well, in terms of size and quality. We are of the firm view that it is quite a lot that we can learn from them; just as much as there are quite a few areas where Quironsalud can learn from us at Helios.

So on the right-hand side, those tools that Helios has developed, and has proven over time, in particular the peer and management reviews on the medical quality side, as well as on the commercial side, where always best practice practitioners in hospitals do visit other hospitals and alert them to improvement potential. That is something that we have the intention of making our friends at Quironsalud acquainted with.

Also, the IQM methodology where Helios is the founding member and where, in a standardized fashion, we measure complication rates; mortality rates; medical quality, in particular, is something that we would like to introduce Quironsalud to.

As you can imagine, given the combined purchasing volume between Quironsalud and Helios, we do believe that there are advantages to be capitalized on, when it comes to procurement. That is something that we’re going to do a deep dive in the coming weeks and months.

Where Quironsalud has particular strengths, that are the three bubbles that you see on the left-hand side. I was referring to the average length of stay in Spain, being well below that of the EU and that of Germany. Quironsalud excels here in particular and is about two days better than the Spanish average. We do believe that there are some quite processes that we can learn from and that ideally we could adopt at our Helios hospitals in Germany.

Same applies to being more patient and customer-friendly when it comes to reducing waiting periods. That starts with electronic processes already when the patient is at home. But goes also into the hospital where a patient just gets substantially more and better information than we furnish them with today. Here, again, there is quite a lot that we believe that we can import from Spain.

Also when it comes to new means of electronic communication with our patients, there is a very well-developed app that Quironsalud has in operation, and that we will test to its adaptability to our German system.

Lastly, I want to alert you to the fact that Spain is the most popular tourist country for Germans. There are about 10 million German tourists every year that come to Spain. There is a very meaningful number of German immigrants that live permanently in Spain.

We do know, from our market research, that quite a lot of them travel back to Germany, because, up until now at least, they feel more comfortable there, in particular, given certain language barrier.
We do have in mind to capitalize on that potential, those of the immigrants as well as for the tourists. We would like you make sure that there is better German-speaking capability, in particular, in the touristic areas, where Quironsalud has hospitals.

All in all, our conservative estimate is that those incremental synergies, and they are not reflected into our 2017 projections at all, will, in the medium term, amount to EUR50 million per annum, pre-tax.

I'm asking for your understanding that we have not broken them down any further. It remains to be seen where those synergies will actually accrue, whether more on the Quironsalud or more on the Helios side. I promise we're going to provide you with an update on this in the not too distant future.

That concludes my prepared remarks. I hope what has come across is my, is our, enthusiasm for this transaction. I think there is quite a lot that can be done to improve each other's operations.

We already have a history of learning from each other as part of the Rhoen integration. We will do just the same, if not a better job, when it comes now to integrating Quironsalud into Helios and Fresenius.

Thank you for now. I'll be happy to answer your questions now. Thank you.

QUESTIONS AND ANSWERS

Operator

Veronika Dubajova - Goldman Sachs - Analyst
I have two. The first one is just on the Quironsalud business. To what extent does the profitability vary by revenue stream to revenue stream?

As you think about those different businesses that you have, would you expect the contribution from those to be similar by, let's say, 2020? Or is your expectation that private health will grow significantly faster than PPP? Any color you can give on that, that would be really helpful.

Then I have one follow-up after that.

Stephan Sturm - Fresenius SE & Co KGaA - CEO
Thank you, Veronika. The profitability does vary between the individual business lines. I was referring to the fact that the occupational risk prevention is profitable in its own right. But the margin that we do find there, is below the average of the Group globally, as you would expect, because the value added there is also the lowest.

As the same time, I would expect, as I was referring to, that this segment is going to grow, potentially, at an above average rate going forward. Given also that we have synergy potentials between these ORPs and our hospitals.

Again, it will come down to where we're actually going to account for those synergy revenues.

Maybe surprisingly, revenues from the public side are more profitable than those from the private side. In particular those extra, we call them free choice, patients that we can attract are fairly profitable. Therefore, it is by no means that maybe conventional wisdom would tell you that private segment is more profitable than the public one.
Growth potential, organically, I was referring to it, in my mind, is slightly superior to what we do have in mind in Germany. I would say that between those public and/or private there are nuances, in terms of the growth potential. Arguably, private will show a bit higher growth than public.

Veronika Dubajova - Goldman Sachs - Analyst

Excellent, thank you. My second question is just to what extent are you thinking of this going forward to in a medium term as a platform for further acquisitions within Spain as opposed to a platform for expansion into, let's say, Portugal or Latin America. Is that something at all that you considered and thought about in the medium to long term?

I'll get back into the queue after that.

Stephan Sturm - Fresenius SE & Co KGaA - CEO

Veronica, I think you expect the answer that you're getting now and that is we're conservative people at Fresenius and, therefore, one step at a time.

This is the largest acquisition in the Company's history and we'd be reckless, I believe if we already thought ahead of next major steps, now that we have just announced this acquisition.

The very clear focus is going to be on a sound and proper integration, and making sure that the projections that we have put in front of you will also materialize. That is also why I was talking about consolidation within Spain only as something that we're going to take on, say, in the medium term at least proactively.

I want to make sure that we get this right. Many of you will know that for quite a while I've been a bit skeptical about cross border synergies. I have been utterly convinced in the meantime. I hope that does come across.

Therefore, once my expectations have been met, I'd also be generally open to look ahead and to look elsewhere. But, frankly, I'm not going to waste energy on this until we have really made real our expectations here.

Veronika Dubajova - Goldman Sachs - Analyst

Understood. Perfectly clear. Thank you very much.

Operator

Julien Dormois, Exane.

Julien Dormois - Exane BNP Paribas - Analyst

I basically have one question which relates to the tariff negotiation that you're going to face in Spain going forward. I was just looking for a bit more understanding about how the tariffs will evolve between the private segment, the public segment and maybe also the self-pay? Whether you -- how we're going to deal with that especially coming from the German background where we used to look only at the headline figure published every year, so just looking for a bit more understanding on this one.
Stephan Sturm - Fresenius SE & Co KGaA - CEO

Julien, we’ve got to differentiate between the public and the private sector for public we have a long-running concession.

In those PPPs it basically foresees an inflation adjustment, but also an adjustment for any additional services, additional service that we may take on in the hospital. In the past there is a history that we can get a reimbursement or revenue growth that goes beyond the inflation.

We would expect that for private price increases are going to be at a not too dissimilar level to what we’re used to in Germany. Conservatively, I would say, 2% to 3% per annum.

Again, I would say that Quironsalud is in a fairly favorable negotiating position vis-a-vis the private insurance companies. And, that the experience that we’ve made in the recent past points to a fairly steady increase, given their negotiation abilities.

Julien Dormois - Exane BNP Paribas - Analyst

Okay. Maybe just as a follow-up, in the recent years you have indicated the kind of organic growth that has been delivered by Quironsalud. Any chance you can give us a sense of how the volume and the price have been within that 5%?

Stephan Sturm - Fresenius SE & Co KGaA - CEO

It is about an even split between those two, with minor fluctuations.

Julien Dormois - Exane BNP Paribas - Analyst

Okay. Thank you very much.

Operator

Tom Jones, Berenberg.

Tom Jones - Berenberg - Analyst

I have two. The first is, maybe if I just put my credit analyst hat on for a minute, when you talked about wanting long maturities for the debt package. You’ve historically sort of gone for seven-year debt, plus or minus a year or two, with your past acquisitions.

If I look at the price you paid and the potential cash flows from this deal it looks to me like the amortization period for this entire acquisition might be a little bit longer than that.

When you say long, are you typically talking about the same long that you have used in the past or would you perhaps push out to 10-year or maybe even 15-year debt with this transaction, if that’s available for you?

And then, following on from the duration question, as regards this incremental indebtedness and your existing indebtedness does this push you close, and by close perhaps I mean within say 10%, on any particular ratio, to the covenants on any of your existing debt package, or do you have a bigger headroom on the remaining debt?

And then I have a kind of follow-up question that I’ll come back to.
Stephan Sturm - Fresenius SE & Co KGaA - CEO

Thank you, Tom, and I was not aware that also you were wearing two hats.

Traditionally, you’re right; the majority of our debt was in a five to seven-year time frame. I’m also looking to five and seven-year debt as part of the financing now.

But as much as I can, I want to get, given the very favorable interest environment now, get into 10-year. And, given our recently reached investment grade status, potentially also 15-year debt.

That is at least the plan. Whether we are going to get meaningful demand for something like this in the 15-year maturity that remains to be seen.

We will, obviously, be a bit price-sensitive. But, at the same time, I think 15-year debt in the current interest rate environment to refinance such a project is a good idea. That is why specifically I said 2% as the average cost of debt may sound conservative to you. I have been optimistic of our ability also to take on meaningful portions of 10-year and 15-year debt.

Tom Jones - Berenberg - Analyst

Sure. Then on the covenants?

Stephan Sturm - Fresenius SE & Co KGaA - CEO

Very meaningful headroom and don’t think that this constrains us in pursuing anything else that we would like to pursue.

Tom Jones - Berenberg - Analyst

Okay, perfect; that’s very clear. Then the follow-up question I guess is a bit more general about the Spanish market.

If I look at what’s happened in Spain over the last two to three years, the market for Spanish hospitals has been relatively well offered. If we look at the price you’ve paid, I don’t think anyone would agree that you paid an eye-watering price. It looks a fairly reasonable or even a very good price, which sort of begs the question as to why in your eyes do you think the Spanish market has been better offered than perhaps other markets around Europe?

And in I guess the context of that question is, where do the main operating risks lie in Spain, is it political, is it volume, is it pricing; maybe some just incremental color on the risk side of the equation, which I’m sure you’ve considered in great detail?

Stephan Sturm - Fresenius SE & Co KGaA - CEO

Tom, I do believe that we have paid, on the one hand, a full and attractive price. At the same time, I don’t think that we have paid for the synergies that we’re going to bring to the party. Therefore, in combination I do think that, both strategically and financially, it does make a ton of sense.

I’m not sure whether Spain has been better or worse offered in the past. The risk factors that we have looked at, are those PPP concessions. We after our diligence came away with the fact that in our minds they substantially -- they offer substantially more up than downside.

We have looked at payment terms, i.e., working capital development. When you think about the target of around 40 days for Helios, obviously that is something in Spain that is on a completely different level. There we are well into the triple digits.
At the same time, we do see quite substantial stability on that level. Given the ongoing recovery of the Spanish economy, we have little to no doubt that in -- at the end of the day, we're also going to get paid. That applies to the regions as well as to the private hospital operators.

We have looked at our competitive position. We have looked in particular at barriers to entry, given that I was referring to a substantially lower level of regulation. But still do believe that the franchise of Quironsalud, its attractiveness to the medical professionals, is a quite meaningful barrier to entry. And, that therefore this rather -- this relatively lower level of regulation rather, provides opportunities for us than risks.

We obviously spent quite some time on understanding where those past synergy projects were coming from, what the level is of really making good on prior commitments, and went away satisfied that there is actually a history of rather over, than under achievement.

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**Tom Jones - Berenberg - Analyst**

Perfect. Then very quickly a follow-up more generally. In the past you've not stripped amortization of acquired intangibles out of your EPS number and published a separate number. Is that something you may do in the future or something we should expect at the -- well, whenever you post the closure of this deal?

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**Stephan Sturm - Fresenius SE & Co KGaA - CEO**

Tom, this is rather meant to be a help, a guidance at this early stage of the transaction. I want to come back to a statement that I made a while ago, but on numerous occasions, and that is that we don't want to be a below the line company.

I guess the focus will remain on a fully-loaded earnings number. But I reserve the right to inform you, from time to time, about the level of the amortization charge. But, frankly, implicitly you will also find that as part of our cash flow statement.

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**Tom Jones - Berenberg - Analyst**

Great, that's very helpful, I'll get back in the queue.

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**Stephan Sturm - Fresenius SE & Co KGaA - CEO**

Thank you.

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**Operator**

Michael Jungling, Morgan Stanley.

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**Michael Jungling - Morgan Stanley - Analyst**

Three questions. Firstly, why did you decide to allocate capital towards hospitals rather than entering another area of medical devices? I think currently there's a number of assets potentially for sales, so therefore you had a choice between those two segments.

Question number two is on tax, can you highlight what the carry-forward tax losses that can be utilized? And how does it actually impact the 25% tax rate that you've guided to in the presentation?

And then the last question is just on return on invested capital, what is your ROIC outlook for this asset? And would you have done the deal if the interest rates were higher, rather than being currently sort of at all-time lows? Thank you.
Stephan Sturm - Fresenius SE & Co KGaA - CEO

Thank you, Michael. To your first question, you know that we’re keen to grow all of the four businesses that Fresenius is currently active in.

You heard my answer to Tom’s question about financial flexibility and the covenants. Therefore, my, not flippant but considered answer, is the one doesn’t rule out the other.

Just because we have now gone for a strengthening of our hospital business, which frankly has been flagged for almost two years now as a potential plan, that doesn’t mean that we are not keen on further expanding also our product business.

What I have said in the past, also in the recent past about our long-term and strategic ambition to get also for Kabi to a more even footing geographically. That remains absolutely true.

There are a few usable tax-loss carry forwards, they will be -- they have been well researched, and have found to be valid. Again, they don’t have a meaningful effect on the 25% ongoing tax rate that I have guided you to, for modeling purposes that is truly the number that I use.

From a ROIC perspective, this transaction also does make a ton of sense. I have very rarely seen an acquisition where already in year one we have the chance to earn our WACC. I guess that, yes, we truly stand that chance, and that in the not too distant future this transaction will be accretive to the Group ROIC.

The answer whether I would have done this also at higher interest rate levels is absolutely, yes, because we have done transactions at similar ROIC’s also in the past at a higher investment -- at a higher interest rate level.

Frankly, Michael, also intellectually in my mind, high interest rates are always going hand in hand with higher inflation. Therefore, high interest rate would also lead us to higher revenue growth.

So, in a nutshell -- we can discuss that separately. But in a nutshell the answer is yes, absolutely.

Michael Jungling - Morgan Stanley - Analyst

Thank you. A brief follow-up. Are there any meaningful minority interests that Quiron has in the P&L?

Stephan Sturm - Fresenius SE & Co KGaA - CEO

Quite a few. In total, not meaningful.

Michael Jungling - Morgan Stanley - Analyst

Great. Thank you.

Operator

Jamie Clark, BofA Merrill Lynch.
Three questions please. Firstly, does Quironsalud own all of its properties or does it lease any of them?

Secondly, was this a competitive process and there are a number of bidders?

And thirdly, the founder’s locked up in terms of its Fresenius shares for the first two years. Is he remaining -- has he given any other commitment to remain with the business in a management role beyond that or is he remaining there at all? Thank you.

Thank you. The vast majority of the real estate is owned. As far as we know, there was a bilateral process; at least, we are not aware of any competing bidder.

Victor Madera, we would very much like him and expect him to stay on indefinitely. It's just that we need to put a timeframe on the lock-up agreement and there we have gone for two years. That should be seen independently of his management role.

Thank you.

Hans, good to talk to you. In the private segment, I can confirm that there is no capitation fee, but it is a DRG-like fee for service.

Your second question, we’re talking about the private insurance and why it is so cheap. It is a -- that's your third question; better remind me of your second one in a minute.
It is a different system and whereas -- if you go back to that slide that I briefly went over, whereas in Germany you get a completely alternative private insurance, the private insurance in Spain has to be seen complementary to your basic public coverage.

So you have typically very short maturities. It is very easy to switch. Many of the services are still being covered by public insurance; so, in particular, the drugs. Therefore, it is a different system and that explains the price differential and the easier access.

With that access -- or, excuse me, with that private insurance you get access to not only your doctor of choice directly, but also to private hospitals. That is something that has become of a growing importance, because, frankly, our observation for Spain is just the very same as for Germany. Public hospitals are under-invested and it is -- it just feels better and it has become increasingly popular to be treated at private hospitals.

Your second question, Hans, remind me.

Hans Bostrom - Credit Suisse - Analyst
That was what the impact of coming out of the economic crisis has been, in terms of your revenue, your volumes, or price for that matter on that private business. Has there been a noticeable acceleration, because of economic factors?

Stephan Sturm - Fresenius SE & Co KGaA - CEO
It has gone slightly up but, frankly, not very meaningful. I would say just as much as the economy comes -- well, we would continue to portray the hospital business as something that is very non-cyclical.

We would also argue that at the very same time when the overall economy is faltering, public -- excuse me, private health insurance becomes even more popular. So a bit of that negative correlation we have found in the past.

As to your fourth -- in any case, it's not meaningful.

As to your fourth question, I can't give you market shares for particular regions. What I can tell you and that is testament to something that I said earlier about the fragmentation of the Spanish hospital market is that Quironsalud's share of the private hospital market, as a whole, is a mere 14%. Remember, Helios's share in Germany's private market is above 30%.

Hans Bostrom - Credit Suisse - Analyst
And can I just confirm that Spain is purely -- still a purely private-to-private market? So there are no public patients in the private hospitals at all.

Stephan Sturm - Fresenius SE & Co KGaA - CEO
With the exception of emergencies, that is true.

Hans Bostrom - Credit Suisse - Analyst
Okay, great. Thank you very much.

Stephan Sturm - Fresenius SE & Co KGaA - CEO
Thank you.
Operator
Okay, as there are no further questions, I’d like to pass the call back to Mr. Markus Georgi for any closing remarks or statements.

Markus Georgi - Fresenius SE & Co KGaA - SVP, IR
Many thanks for your attention and joining today’s conference call. If there are any more questions, please do not hesitate to contact the IR team. Thank you and goodbye.

Stephan Sturm - Fresenius SE & Co KGaA - CEO
I hope our enthusiasm has come across. We’re very excited about this. We’ll be on the road the next days and hope to see many of you and can go into more detail. But also, as Markus just said, give us a call, and we’ll try and help you out.

Thank you for now. Have a good day. Bye, bye.

Operator
We want to thank presenters and all the participants for taking part in this conference call today. Goodbye.

Editor
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