Transcript
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PRESENTATION

Markus Georgi: Thank you very much, and good morning and good afternoon, everybody. Big thank you to all of you, again, for participating in this call and spending the time to listen to our quarterly results, especially on a Friday afternoon. With me on the call today are Stephan Sturm, our CEO, and Rachel Empey, our CFO. The information presented today contains forward-looking statements that involve known and unknown risks, uncertainties, and other factors. For a description of some of these factors, please refer to **Page 2** of today's presentation.

So thank you, again, and with that, I'll hand it over to Stephan.

Stephan Sturm: Thank you, Markus. Good afternoon and good morning, a warm welcome. Thank you for joining us. As always, we appreciate your interest in Fresenius. Markus has pointed out the safe harbor language to you. So let's move right to **Page 4** and our key messages.

Fresenius has delivered a very strong quarter with dynamic sales and even stronger net income growth. Particular growth drivers have been Helios Spain and Kabi's emerging markets business, to some degree based on fairly undemanding comps. At Kabi North America, we are pleased with the slight sequential improvement. And Vamed is back to growth. In virtually all of our relevant markets, elective procedure volumes are at least gradually picking up.

We have further identified and defined initiatives under the group's cost and efficiency program and have already implemented first measures. Thus, we will see first savings already this year and remain optimistic about our target of more than €100 million of savings from 2023 onwards. More details on that in a minute.

And so we feel comfortable raising our earnings guidance to low single-digit growth despite resurfacing COVID-related uncertainty, anticipated price cuts at Kabi in China, persistent headwinds at Fresenius Medical Care, and not least, looming cost inflations. On that last point, all our businesses currently observe some inflationary effects. Especially packaging materials, logistics services, and selected medical products see significant price increases. Across our entire cost base, the effect is muted for now but may become more meaningful with very limited ability of a passthrough to our customers. However, our improved guidance incorporates what we believe is a reasonable assumption.

Back to bigger picture, we firmly expect to return to earnings growth this year, even in the high single digits for the group ex-Medical Care. And that is only the first step on the strategic roadmap we communicated in February.

Specifically on capital allocation, our stance remains unchanged from then. This year, we're focused on mitigating the COVID effect on our leverage ratio. Going forward, we are confident we can significantly delever to gain more strategic flexibility. Strategic acquisitions are bound to take a backseat for now, but in the medium to long term, larger deals, of course, remain on our agenda.

So let's move to **Page 6** and that update on our cost and efficiency program, where on the left, you see examples of defined measures within the business segments and, on the right, our overall targets for the group.

The market appears to believe that the vast majority of targeted cost savings accrue from Medical Care initiatives. We, however, expect to see contributions from all four business segments as well as from the Corporate Center. And so to be clear, an overproportional contribution to savings from FMC would be welcome, but we're definitely not relying on it. Now with a higher degree of visibility on the various initiatives, upfront expenses may be more towards the higher end of the projected order of magnitude €100 million annual average. But take it as a positive. At the same time, given that we firmly stick to our return criteria, we see upside to our €100 million annual cost savings target. And for starters, we expect low double-digit million-euro savings already this year.

Onto **Slide 7** with an update on Kabi, and there, we want to start with North America, where with the good progress of the US vaccination program, elective procedures have gradually begun to recover. They remain, however, below 2019 levels. That, in combination with intensified competition, especially for more mature molecules, has triggered mid-single-digit price declines in our base portfolio.

To differentiate ourselves, we are introducing novel ways to help our hospital customers with efficient and safe drug preparation. Our range of prefilled syringes is expanding, as is our portfolio of ready-to-administer premixed IV drugs in our FreeFlex packaging system. Our R&D efforts are increasingly focused on more complex generics, for instance, on peptides, where given higher technical barriers, we expect competition to be more benign. We are also adding value through the development of advanced RFID labels, allowing hospitals to better track sensitive drugs and improve working capital efficiency.

Onto manufacturing, we've made meaningful US capacities available to produce vaccine diluents. And whilst consistent with our purpose to offer ever better and affordable healthcare to ever more patients, it has constrained our production flexibility. However, we expect the relative importance of COVID-related products to recede over the coming months.

In early July, right after being vaccinated, I took the first opportunity for a visit to Melrose Park. There, I've satisfied myself that last year's issue was a one-off. It shouldn't have happened, and I'm sure it won't happen again. The team on the ground acted immediately. All the right steps have been taken. And we've kept the FDA informed every step of the way. Upon my due inquiry, I could not identify any remedial action we have not taken. But ultimately, that is obviously for the FDA to judge. We've learned that the agency has resumed physical inspection activity in the US, albeit with a significant backlog. We have diligently prepared ourselves and look forward to making our case ideally in the near term.

In parallel, over the course of Q2, we steadily improved our batch release schedule and are now working to both clear remaining backorders and to rebuild inventory in the sales channel. I was also encouraged by the progress we're making with our investment projects. As you know, we aim to improve the quality and reliability of supply for our customers and their patients via a higher level of automation, while further improving our cost position and adding capacity for growth.

Our two major investments projects, in Melrose Park and Wilson, North Carolina, are largely through their construction phases and have now started qualification and validation processes in advance of FDA submissions. In Grand Island, we have completed our $100 million investment in new production lines and other infrastructure improvements. That new capacity is validated and online.

In summary, not an easy quarter, still marked by COVID, but not as bad as it may appear at first glance. For now, only sequential progress, but market conditions are improving. Our homemade issues are receding. Important projects are progressing on the development, the manufacturing, and the regulatory fronts. And so we expect to return to top line and EBIT growth in North America in the second half of this year.

In China, we've seen very strong organic growth, albeit over a softish comp. Volume demand benefits from a much more normalized elective treatment activity. Pricing wise, however, we anticipate significant negative effects from national and regional tenders, impacting our growth and profitability. Whilst we have already started to adapt our processes and our cost base to an environment requiring less promotion for tender products, we have considered a meaningful residual burden in our outlook for the remainder of 2021.

Onto biosimilars, for Idacio, our adalimumab biosimilar, we received market authorization in Ecuador and in Taiwan. We expect further authorizations in other Eastern European and Latin American countries in the second half. Our US approval process, that remains on track. We have won tenders in Scotland and Wales. We're getting more traction on the tenders we had previously won in Italy and Spain. And we're generally also making progress in prescriber markets. Here, however, our progress remains hampered by a COVID-driven lack of access to prescribing doctors. But bottom line, we are competitive.

COVID continues to delay FDA's onsite inspections required for the US approval of Stimufend, our biosimilar to pegfilgrastim. We now expect an EMA inspection over the summer months and hence assume a launch in the EU early next year. We expect to launch Stimufend first in a prefilled syringe, followed by an on-body injector. As we see only few competitors in that market segment, it is probably going to be financially more meaningful. We remain on track for a late 2022 launch in the US.

A word on tocilizumab, the biosimilar to Actemra, we still expect to enter the US and the EU in 2023 with both dosage forms, subcutaneous and IV. Subcutaneous may turn out to be the more meaningful market segment for us, as we are currently assuming to lead the biosimilar competition.

In general, we feel encouraged by more and more accommodating regulation pro biosimilars. For instance, four Canadian provinces, representing about 50% of the country's population, have announced biosimilar switching policies to be implemented over the next 6 to 12 months. So should our pipeline progress as currently expected, we'll be keen and open to strengthen and deepen our biosimilar market footprint.

With that, onto Helios, and that's on **Slide 8**, starting in Germany, where whilst elective treatments remain below 2019 levels, we observe a steady upward trend. For Q2, admissions are organically about 12% below pre-pandemic levels. We have, however, seen a nice improvement in June and are trending even better now in July. Given increased vaccination levels, we expect a further recovery in the second half. But given the trends towards digital and ambulatory services, we don't believe we will recover -- fully recover to 2019 levels by the end of this year.

In the first quarter, government compensation for foregone treatments had broadly mitigated negative sales and cost effects. That broader support scheme expired end of May and hence won't be available in the second half. Whilst support for individual hospitals under the so-called Future Act, that generally remains in place until the end of the year, we are not projecting a meaningful contribution from that. Right now, Helios is treating only about 50, 5-0, COVID cases in its 86 acute care hospitals across Germany and continues to support the vaccination campaigns of various German corporates with our medical staff and our infrastructure.

Helios remains at the forefront of the noticeable trend towards digital and telemedicine services, which was further intensified during the pandemic. We have now expanded our service offering to include an exclusive center for the remote monitoring of cardiologic device patients and are planning to broaden the scope of our telemedical offering, both regionally and to other indications.

Turning to Helios Spain, where Q2 activity was nicely above pre-pandemic levels in most areas, based on a combination of pent-up demand, general market growth, and probably also a bit of extra market share. Growth was additionally fueled by a strong ORP business, a continued strong demand for digital services, as well as good contributions from our hospitals in Latin American.

For Q3 now, we sense the imminent summer break in Spain will be more pronounced than last year, given that the population generally experienced quite some hardship over the course of last year. We hence expect meaningfully reduced activity levels and a more pronounced summer dip, accentuated by the strong pent-up demand for elective treatments in Q3 last year, right after the very strict lockdown of the first COVID wave had ended. At the same time, given ongoing travel restrictions, we expect a below-normal contribution from treating international tourists. Nevertheless, all that is factored into our improved guidance for the full year.

We're pleased to announce the acquisition of a leading occupational risk prevention company in Portugal with a network of 18 centers across the country. Over and above the synergies with our Spanish ORP business, we view this as a platform to expand into a still highly fragmented market in Portugal, offering both organic growth and consolidation opportunities.

Onto an update on our fertility business, where our acquisition Eugin has been consolidated since April 1st, and despite COVID-related headwinds, financial performance is in line with our earlier expectations for Q2. The global market for fertility services also remains highly fragmented and thus presents attractive consolidation opportunities. Proof for this buy-and-build platform approach is the opening of a new fertility clinic in Italy as well as the acquisition of a reproductive care center in the US. We expect to see further attractive bolt-on acquisitions in the coming quarters.

That brings me to **Slide 9** and an update on Vamed, where the good news is Vamed is back to growth, driven by both the service and the project business. And with €713 million, Q2 order intake, the lead indicator for future growth, was truly outstanding. Key growth drivers there were a turnkey hospital project in Wiener Neustadt in Austria and two turnkey projects in Angola.

Vamed is monitoring the currently rising COVID cases in many of its relevant markets particularly closely, as it is arguably the business segment most exposed to COVID effects. But I remain optimistic they will hit their guidance.

And with that, I am pleased to hand over to you, Rachel.

Rachel Empey: Thank you, Stephan. A warm welcome to everyone. I am pleased that we delivered a very strong Q2 2021 against a soft prior-year comp but despite ongoing COVID effects.

Our Q2 results on **Page 11** are shown in our usual fashion, so before special items. We have booked the first one-time cost effects under the cost and efficiency program in Q2 as special items. The low double-digit million euro savings that we expect this year will not be carved out as special items. A comprehensive overview of all such special items is provided at the back of our Investor News and in the Results Center on our Website. As a reminder, our financials include COVID effects. In the backup, we are providing you with ranges based on our best estimates of the quantitative impact of the COVID pandemic, although as time passes, this becomes a more and more difficult estimation process.

So to the numbers, growth rates on the slide are, as ever, on a constant currency basis. We delivered strong sales growth of 8% in Q2. And for the half, we're at 6% growth. The good performance is primarily driven by Helios Spain and Kabi's emerging markets business, where the prior-year quarters were particularly weak. For the Group, the COVID sales effect was comparable to last year, and thus, we saw only a slight impact on our sales growth in the first half of 2021.

Then EBIT, with a decline of 4% in Q2 and 5% in the first half, as expected. The decline is driven by FMC, where the COVID-related excess mortality is weighing on the EBIT development.

Interest decreased year-on-year by 26% in constant currency to €121 million, mainly driven by successful refinancing activities, lower interest rates, and currency exchange rate effects. The Q2 run rate is a bit better than expected, mainly due to some positive one-time effects. As a result, we expect to see a somewhat higher interest expense run rate in H2 of this year, also driven by various refinancing phasing effects. Now for the full year 2021, based on current exchange rates, we now aim for net interest significantly below the prior year, mainly due to refinancing activities with some contribution to year-on-year group net income growth in constant currency.

So the group tax rate before special items reached 21.5% in Q2, a bit lower than in Q1, primarily due to some one-timers. Year-to-date, we're at a tax rate of 22.1%. For 2021, we now expect a tax rate between 22% to 23%. As I already said in Q1, we have not taken into account any effects from the potential US tax reform. Any impact this year would be considered as a special item.

Moving onto net income, where we've seen outstanding growth of 20% in Q2, leading to strong 8% growth in the first half of 2021. The absolute growth at Helios Spain stands out, where the prior-year quarter was significantly negatively impacted by COVID. The strong net income growth was additionally supported by the favorable net interest development. Although the absolute negative COVID effects on the group net income level are both below Q1 2021 and Q2 of last year, they unfortunately remain meaningful.

So let’s move to **Page 12**, which illustrates the Q2 2021 momentum at our four business segments, starting with Kabi. The company showed good 7% organic sales growth in the second quarter, leading to 5% year-to-date. The dynamics are yet again very different across the regions, as Stephan explained.

Europe, with strong 10% organic sales growth in Q2 over a soft comp, and year-to-date, we’re now at 4% organic growth. The emerging markets showed very strong 19% organic growth in Q2, in particular driven by China. Latin America continued to show very strong growth, partially driven by ongoing COVID-related demand. And as in the previous quarters, inflation-driven price increases contributed to a certain extent to top-line growth rates. With an organic decline of 6% in the US, we have seen a sequential improvement. However, we are still facing competitive pressure, fewer elective surgeries, and even though receding, the manufacturing issues at our plant in Melrose Park were also weighing on the sales development.

Over to Kabi’s EBIT, where we’ve seen a healthy increase of 7% in constant currency in Q2 and are now at 4% year-to-date. Looking at the regions, Europe, with a very strong 23% increase in Q2 over a COVID-driven soft comparable, and year-to-date, we are at 18% growth. The emerging markets, with an outstanding 50% growth in Q2, just as for the top line comparing with a weak prior-year comp. Nevertheless, year-to-date, we are at 66% growth. Over to the US, with an EBIT decline of 25% in Q2. Here, the sequential improvement is masked by significant COVID effects. The positive COVID effects in Q2 of last year were significantly higher than those in Q2 of this year. If we adjust for those COVID effects and some small negative one-timers, we have something more like a negative mid- to high single-digit percentage decline.

Over to Helios, an outstanding 14% organic sales growth in Q2 led to 9% organic growth year-to-date. In Q2, Helios Germany grew 3% organically based on a gradual recovery of elective treatments and case mix effects. As a reminder, the law to ease the financial burden for hospitals was still in place and ceased only at the end of May. Year-to-date, we’re at a reported 5% growth with an inorganic effect of 4 percentage points. We have seen exceptionally strong 38% organic sales growth at Helios Spain, driven by activity above pre-COVID levels in most areas and nice contributions from our Latin American operations. The outstanding year-on-year growth rate is obviously also due to the COVID-driven low prior-year quarter, where Helios Spain was heavily impacted by the pandemic. Excluding these effects, we would still have seen healthy double-digit growth this year. Our fertility business performed in line with our expectations, despite some COVID-related headwinds.

So moving to EBIT, with outstanding 51% constant currency growth for Fresenius Helios in Q2 and 20% growth year-to-date. At Helios Germany, EBIT increased by 3% in Q2, driven by recovering elective treatments and positive case mix effects. Helios Spain delivered outstanding growth of 174% in constant currency in Q2, over a significantly COVID-impacted prior-year quarter. Year-to-date, we are at 66% growth.

Over to Vamed, where we’ve seen a nice return to growth for sales and EBIT. COVID effects in the project and service business eased somewhat in the course of Q2. Here, we obviously have to watch the COVID situation very closely.

Let’s move onto cash flow on **Slide 13**, where we have to compare this year’s group operating cash flow of €1.451 billion with an extraordinary strong cash flow last year, which was inflated by COVID-driven positive phasing and one-time effects at Fresenius Medical Care and Kabi.

At Fresenius Medical Care, we saw a good cash flow despite reversing effects of the CARES Act payments. Kabi posted a Q2 cash flow of €197 million, which brings us to a good last 12 months’ cash flow margin of 14.3%. Helios with a solid cash flow of €223 million, leading to a strong last 12 months’ cash flow margin of 11%.

So for the group, the Q2 performance took the group last 12 months' margin to 12.9%. Deducting CapEx of 6.1% of sales brings us to a group free cash flow margin, bottom-right, of 6.8%.

We ended the quarter with a 3.6x net debt-to-EBITDA as a ratio. For yearend 2021, we confirm our expectation to be around the top end of the self-imposed target corridor of 3x to 3.5x, excluding special items. We are only expecting further minor M&A activities this year.

And with that, let's turn to the 2021 full year outlook, which you'll find on **Slide 15**. Our guidance includes the effects of COVID and, as usual, excludes the effects of special items, for example, the one-time effects of our cost and efficiency program. With respect to our assumptions for guidance purposes, as you know, we had projected that the burdens and constraints caused by the pandemic will further recede in the second half of this year. Now however, we have to closely monitor the rising COVID case numbers, the development of the COVID-19 virus mutations, as well as stalling vaccination progress in some of our relevant markets. Whilst the risk of renewed far-reaching containment measures in one or more of Fresenius's major markets currently appears less likely, it cannot be excluded. As a reminder, any resulting significant and direct impact on the healthcare sector without any appropriate compensation is not reflected in our guidance. There remains, of course, significant uncertainty in these and other assumptions and the potential impact on our business, for example, the inflationary pressures that Stephan alluded to earlier.

Having said that, let's turn to the 2021 outlook by business segment, starting with Kabi, where we confirm our outlook range of low to mid-single-digit percentage organic sales growth for the full year. With 5% organic sales growth year-to-date, however, the low end of that range is now less likely. In H2, we anticipate more significant price pressure from the tendering system in China. But on the other hand, we do expect a return to growth in North America.

For EBIT, with an increase of 4% year-to-date, we improve the outlook to low single-digit percentage growth. For H2, we expect a weaker EBIT in Q3 on the back of a strong comp, more pricing pressure from the tendering system in China, as well as some negative inflation effects. We do, however, project a return to growth here for the North American business during H2.

For Helios, in terms of organic sales growth, with 9% organic growth year-to-date, we improve the outlook range to mid-single-digit growth for the full year.

As far as EBIT is concerned, with an EBIT increase of 20% in constant currency at the half, we improve our full year guidance range to high single-digit percentage growth. We see much tougher comps in H2, especially in Q3, and the end of financial support for hospitals, as well as headwinds from narrowed definitions for the carve-out of nursing costs in Germany. And they also weigh on this EBIT development. Furthermore, we expect a more pronounced summer dip in Spain this year, and the cost inflation effects, especially for medical equipment, are of course not helpful.

Vamed, with an organic sales increase of 6% year-to-date, we confirm the outlook range of mid- to high single-digit percentage growth for the full year. As usual, we expect a significantly stronger Q4. We obviously need to watch the further development and the related knock-on effects of the pandemic here very closely.

And EBIT, with €12 million in the first half, we confirm our outlook of an absolute high double-digit million-euro amount for the full year.

And if we take all that together for the group, you'll find that on **Slide 16**, starting with sales. Here, we confirm our guidance of low to mid-single-digit percentage growth for the full year. With 6% constant currency growth year-to-date, the low end of that range is now, however, less likely. As I said, we see tougher comps in the second half, especially at Helios, and more negative price effects at Kabi in China.

Over to net income, where after a strong first half of the year with 8% growth in constant currency and the initial progress of our cost and efficiency program as well as some improved net interest expectations, we increase our guidance to low single-digit percentage growth.

Hence, we are not extrapolating the H1 earnings growth momentum into the second half. As Stephan said, we see some headwinds in the second half year this year, in particular headwinds at Medical Care, higher comps especially at Helios, anticipated price cuts at Kabi in China, and the risk of more meaningful cost inflation effects, as well, of course, as renewed COVID uncertainty.

So to summarize on phasing at a group net income level, we expect to see a weaker Q3, in particular due to the headwinds at Medical Care and the anticipated pronounced summer dip at Helios Spain.

In H2 this year, we will obviously continue to actively monitor any potential knock-on financial impacts of COVID, including any potential balance sheet implications.

As to the currency translation effect, if current exchange rates prevailed until the end of the year, we would see a headwind of around 2 percentage points, mainly from the US dollar, for both sales and net income.

And with that, Stephan and I are happy to take your questions.

Q&A

Operator: We are now starting the question-and-answer session.

Veronika Dubajova: Good afternoon, Rachel, Stephan. Thank you for taking my questions. I have two, one big picture and one a little bit nitty-gritty. I apologize for that.

But just kind of big picture, would love to hear an update, Stephan, from you on where we are in terms of the strategic review that you're undergoing for the business. And I guess encouraging to see that the cost savings seem like they might be progressing a little bit better than you had hoped. But just curious if that's changing at all your thinking on the structure of the group and when you might address that.

And then my sort of detailed question is probably more for Rachel. But, Rachel, just trying to reconcile the pricing pressure in China that you're seeing with the really strong rest of the world margin that you delivered in Kabi. Would love to understand kind of the pluses and minuses and any guidance you can give us on what that looks like as we move into the second half of the year. Thanks, guys.

Stephan Sturm: Thanks, Veronika. And I'll give Rachel a bit of time to look that up.

And therefore, let me take a brief step back. And when we announced the plan to review the group structure in February and also over the course of Q2, whenever I've had interactions with investors, I have received fairly mixed feedback, to put it mildly, on these plans.

And the way I'm looking at it is that the sell side seems to be more upbeat on it than the buy side. I'd say there is an inverse correlation between the size of an institutional account and the appetite for us doing something in that regard. And most generally, the feedback has been, "The group structure has served you well. Please focus on return to earnings growth, and you're going to be fine."

Having said that, I still stick to what I was saying in February and that we will be diligently working away and that there are no limitations to thinking. And against that backdrop, what we have done, what we continue to do is to think about a variety of scenarios as to what could be alternatives. And when we do that, we always take a close look as to what do we gain? And that is from a P&L perspective typically not that much. Much rather, how much do we lose? And therefore, what is the threshold against we're up -- what we're up against? What do we need to gain as part of a potentially revised group structure? And at the same time, we're looking at precedent transactions and really want to find out whether the shareholder value that has been created in many, maybe even most of them, is really sustainable. And therefore, to come to a rational analysis, is it -- are we really realistically creating shareholder value with a potential revision?

That's going to take us a little longer because, as you will appreciate for now, we're truly focused on getting our cost and efficiency program going. Yes, we're encouraged by the initial steps, the initial findings. But therefore, that strategic review, I wouldn't say it's taking a backseat, but bear with us. I don't think you're going to be surprised. And my timeline really foresees me getting back to in a more structured fashion next February as part of the Q4 release.

And by now, I believe Rachel has the answer for you.

Rachel Empey: Hi, Veronika. Thank you for your question. Yes, a nitty-gritty question, but I think I can give you two or three points to think about on it. I think, firstly, it is a very strong performance in the emerging markets overall, not just in the quarter, but I think cumulatively also if you look for the half year.

Yes, you are right. We do see the first impacts on propofol of the tendering process in China. But nevertheless, actually, if you look more broadly at the performance in China but also in the rest of the emerging markets and even the rest of the world, actually, the underlying performance was a very strong quarter. And there were two or three things going on.

In general, we see a product mix effect. That means, partially driven by COVID just because some of the COVID-related products and demands that we see in some regions happen to have a higher margin than the average portfolio. But also, just without COVID effects, we happen to be seeing a mix of countries and products that are coming through with a very good margin. It means that those mix effects in the quarter are finally offsetting the pressure that we see on the pricing on propofol in China.

You know that we make estimates of how the business is running, stripping out COVID effects from the year before and also from this year. And when I look at that, the underlying business is driving very healthy growth on the top line, also on the bottom line, and also with a very healthy margin in Q2. So I think it speaks, again, to the diversification across the regions and also the diversifications across the product portfolio. You will have noticed that we saw some very healthy and tasty growth across the product portfolio in the first half year. Particularly when you look also at IV outside of North America, that was a very healthy underlying growth.

So the answer to your question is to do with COVID effects and COVID mix effects, but also other product and regional effects. And your point in terms of margin evolution, I do anticipate, as we go into the second half year and we do begin to see that further price pressure in China because of that second tender that we both discussed in our prepared remarks, I do anticipate that, both for China and for the emerging markets, we will see some impact not only on sales and absolute EBIT, but also some dilution to the very strong margin that we've seen in Q2.

Veronika, I hope that helps to give you a feel.

Veronika Dubajova: That's very helpful. Thanks, Rachel. And if I can just squeeze in a quick follow up, Stephan, just on -- in your prepared remarks, I think you made a comment about how you don't expect FMC to be an overproportionate contributor to the savings that you're looking for. Can you just clarify what that means precisely, just to make sure that we all understand it?

Stephan Sturm: Pick your metric, Veronika, but I think both when you look at sales, EBIT, cash flow, workforce, FMC stands out as the largest group business. But if we -- just for the minorities, what I wanted to convey is we are not relying on Medical Care to deliver under the program. We have very solid plans for the rest of the business, for the other businesses and for corporate center as well. And therefore, you're going to see a ramp up of savings from next year on, on the back of, frankly, a bit of an earlier start than I had original anticipated.

Veronika Dubajova: Understood. Thank you, guys.

Tom Jones: Thank you for taking my two questions, though I do confess the second one has a couple of subparts. The first one, Stephan, you mentioned in your prepared remarks that you expect some tailwind in North America from some refilling of the inventory within the channel. I was just wondering, firstly, if you could perhaps maybe just give us some qualitative, if not quantitative, idea of the magnitude of that potential tailwind and, secondly, also explain it because I'm somewhat baffled if this industry is as competitive as we're led to believe, why is there a kind of gap in the inventory channel? Why haven't your competitors filled that hole while you've been suffering from some reduced production?

And then the second question was on cost inflation. I was wondering if you just broadly could give us some ideas of where the key areas of risk for you lie. And then the sort of bigger picture question relating to cost inflation is, is cost inflation necessarily such a bad thing? And I ask that question because you are a very efficient, very cost effective, very well invested and continuing to be well invested manufacturer. Many of your competitors must be operating on thinner margins with less efficient setups. And a bit of input price pressure could potentially make life much, much more difficult for them than it will for you, giving you some opportunity to gain share in the coming years as we move into a more inflationary environment. So I just wonder if you could potentially comment on that latter statement and give us your perspective on it.

Stephan Sturm: Thank you, Tom. On the first one, as you know, we were interrupting our batch release schedule out of Melrose Park in Q3 with an effect on Q4 and Q1. And whilst we were doing this, as you know, back orders were building. And also, inventories at wholesalers and at our end customers were reduced. And this is now about getting it back to a normal level, where frankly, some of our customers and the wholesalers actually demand sort of a minimum safety buffer stock being available. And only on that basis, they will go to really asking for our products.

Why is it not more competitive? Because there are contracts under which we are operating. And they are honored for a certain period of time. And therefore, it is good that we're now returning to a more normal situation, as far as the batch releases are concerned.

On your second point, on cost inflation, I think we're both right. The difference is only in time horizon. And what Rachel and I are indicating that, in the short term, given that we are bound by quite a lot of contracts, not only at Kabi for generic drugs. But also, just think about hospital reimbursement rates. That as a matter of fact is not -- are not areas where we can easily if at all pass through cost inflation to our end customers or payers.

But at the -- and therefore, in the near term, there is a bit of a risk, given a lack of passthrough ability, that there is going to be a bit of a margin squeeze. Again, we believe that we have very properly reflected that in our outlook for the year. Structurally, for the medium to long term, Tom, I will also agree with you. I believe that we will be in many -- most of our businesses in a much better position to cope with any longer-lasting inflation effects than our competitors. And therefore, on a relative basis, we should be winners.

At the same time, I guess we all share a certain skepticism about how long that current inflation spike's going to last. I at least would like to believe that it is only an interim phase that we're going through. And that is not going to make a difference on the competitive -- vis-à-vis our competitors.

Rachel Empey: And, Tom, you asked specifically what areas or examples do we see inflationary pressure. Clearly, I can name you a few. I think it's probably not a surprise. I'm sure you're seeing it reported from many of the other businesses you follow. I think, particularly, from a production perspective, logistics costs and everything associated with supply chain are seeing particular inflationary pressures. The classic PPE, personal protective equipment, and associated products, also many raw materials are seeing somewhat inflated cost increases, some medical supplies. And clearly, in some markets, we begin to see some inflationary pressure on wages and salaries. But in many markets, we do have longstanding agreements that are in place that help to protect us from that, at least in the short to medium term, just to give you a flavor to help you with the thought process.

Tom Jones: Cool. That's very clear. And just one cheeky follow up, if I can. On the medical supplies question, we're all medtech analysts on this call, and most of us would be quite surprised to hear about cost inflation on the medical product side. So is there any more detail you can give us on that?

Stephan Sturm: Think about PPE for starters, where we still haven't seen a normalization.

Tom Jones: Okay. Perfect.

Stephan Sturm: Thank you, Tom.

Tom Jones: Super.

Michael Jüngling: Thank you, and good evening. I have two questions. The first question is around German elective procedure trends. Where are we compared to pre-COVID levels? In the past, you gave us a very sort of nice chart, and one could sort of see optically where you stood. That's sort of missing I think in this slide deck, so therefore, the question around, where is this procedure number relative to pre-COVID levels? And is there a segment that is growing more nicely? Is it hips and knees, cardio, or perhaps another segment?

The other thing I wanted to ask, Stephan, is -- and you probably won't like this question, but I think it's important. If I look at FMC over the past 5 years, it probably has been a little bit more of a headwind than a tailwind for you in terms of providing the right guidance.

And hence, the question is, what does FMC actually provide or the benefit to when it comes to the next 5 years for Fresenius? And if investors did indeed want to own FMC, why could they not do that on their own without Fresenius as help? I know it's a tough question, but I thought it's a question that I pass on from some of the people that we talk to. Thank you.

Stephan Sturm: Michael, Rachel's going to help you with your first question, and I'll think about your tough one.

Rachel Empey: Hi, Michael. Stephan made a brief comment on it in his prepared remarks, but let me try to talk a little bit more to the patient numbers. I think you asked specifically in Germany, but I'll take the opportunity to comment on Spain at the same time because we do see some different trends between those two markets. In Spain, in most areas, we are seeing patient numbers above the 2019 levels, clearly some catchup effects here, if you like. But as we also mentioned in our prepared remarks, we are expecting to see a somewhat marked dip as we go into Q3 and the holiday season.

That is in contrast to Germany. We've seen a gradual improvement in elective procedures this year, specifically as we've gone through Q2 and in the first weeks that we've now seen in Q3. We reported organically 12% fewer admissions in Q2 in comparison to the corresponding period from 2019. But the exit rate in June was a significant improvement on that. And we continue to see step-by-step improvements as we go through July.

We don't expect to come fully back to the 2019 levels because of the accelerated trends that we've observed towards outpatient care and digital services. And as you know, we very early and proactively, even before the pandemic, were entering into building our capabilities in that area. So we clearly expect to be picking up those patients that, say, elsewhere, if you're comparing the acute care admissions, gradual improvement, but we don't expect to come fully back to the 2019 levels. I hope that helps, Michael. And hopefully, Stephan has had some time to think about your second question.

Stephan Sturm: Michael, I don't want to bore you with history, but obviously, dialysis is a legacy business for Fresenius, and we have always viewed dialysis, both products and services, as inner core. And frankly, if it weren't for that particular situation, and you know the background to it, that FMC is separately listed and that we only command a 32% stake, I don't think there would be that many questions that you and I are receiving. But I don't mind the question at all. And it goes back to what I was saying in February that the setup with four businesses, FMC happening to be the largest one, gets us more scale, gets us more critical mass, gets us more weight, gets us a higher level of attractiveness in the debt markets, gets us advantages on the interest, on the tax front. It gets us also operating synergies between, in particular, Kabi and FMC. And therefore, there is something that we would have to give up if we decided to revise the structure.

But given that this is the one part of the group structure that is so obvious when it comes to a potential revision, I think, if we at the end of the day decided that we wanted to go for a change, then it probably wouldn't be without also affecting our position in Fresenius Medical Care. So in short, I want to refer you back to what I was saying in February. I was -- also want to refer you to what I was just answering to Veronika. It is a very diligent and thorough analysis that we're going through, open ended. And bear with me, bear with us until in all likelihood February, please.

Michael Jüngling: Okay. And maybe I can -- thank you for that, Stephan. And maybe I can ask Rachel a follow up on the elective procedures. Rachel, you didn't comment on whether there was a certain segment, like hips and knees or cardio or which is recovering the faster and areas which are not recovering so fast.

Rachel Empey: I think, in general, Michael, what I would say is that, as I mentioned in my prepared remarks, we do see a case mix positive in our results. And what that means is, in general, of the cases we have, we are seeing the more serious cases and somewhat fewer of the very simple straightforward cases. But that is very consistent with what I said about the trend towards outpatient and digital. Those are the cases that are most easily done in those outpatient or even in some way addressed through a digital setting.

I would say, within what we are seeing, within the hospital, there is not a very marked move of one particular type of procedure or another. In fact, we even see regional differences within Germany. So I think it's difficult to be able to draw some kind of conclusion other than, in general, the more difficult, more complex cases, which you would anticipate because they can't really be put off for as long as something which is maybe a much more straightforward and, to some extent, more elective procedure. I hope that helps.

Michael Jüngling: That's very useful. Thank you.

Christoph Gretler: Yes, thank you, operator. Good afternoon, Stephan, Rachel. Thanks for giving me the opportunity. I have two questions. The first is on peptide manufacturing. I think I heard you the first time talked about that. So I'm always very curious if you start a new topic. So could you maybe elaborate on your intention on that in particular? I've done some work on that, and it looks very capital intense business, have a concentrated industry. So is there -- what's the strategy there potentially kind of to get into, and would it be organically or --- and focused on generics? That would be my first question.

Stephan Sturm: Thank you, Christoph. It is too early to go into detail, but I wanted to flag the item as something that we're looking for. Yes, organic development, I agree with you, capital intensive, but we have quite a few of the prerequisites already built across our network. It's only going to be generic. We want to -- we are actively searching for areas to differentiate ourselves. As I said, concentrated, that is the flipside of me saying higher technical barriers and therefore a potentially more benign competitive environment. Do not expect anything in the very near term, but it is part of our investment plans for '22 and '23.

Christoph Gretler: Okay. That's interesting. And the second question is on this Kabi emerging markets margin. I -- in my model, which dates back quite a few years now, I've never come anywhere close to this type of margin you generated here in the second quarter. I understand kind of the China situation coming up, etc. But to what degree kind of is this kind of a real margin and a sustainable margin at this level? So should we expect this absent the China effect to come back to more normal level, or has it -- has something changed really structurally, or is it, as Rachel, maybe I understand -- understood correctly, tried to explain in the very temporary situation with all these kind of COVID-related products.

Rachel Empey: Christoph, I would say more the temporary than the clearly sustainable. I clearly won't reiterate everything I said in answer to Veronika's question, but of course, we do have some degree of operating leverage, even within the Kabi emerging markets business. And if you look at an EBIT growth of 50% in the quarter and a top line growth of 20% -- or 19% or 20% in the quarter, then clearly just that pure volume effect that you get within a business with clearly some significant fixed costs clearly naturally helps you in terms of supporting the margin on top of all of the other effects I mentioned earlier in terms of COVID-related product mix and region mix-related effects.

At the same time, I think we were quite clear in our prepared remarks. We are expecting quite some price pressure coming from the two tender activities that have happened in China already accelerating as we go through the year as that is rolled out. And clearly, that will have a dilutionary effect on the margin. And of course, I don't expect to continue to have the underlying volume activity that drives quite those remarkable double-digit growth numbers and up to 50% EBIT growth numbers on a sustainable basis. And that will naturally dilute the margin from where we are as you reverse that operating leverage effect that I described from the true volumes that we're driving at the moment. So clearly, don't get me wrong, I'm very pleased with the performance in Q2, but there are quite some special effects going on there. And we need to reflect that risk that we're flagging in China and, over time, some return to normality in terms of activity levels.

Christoph Gretler: Great. I appreciate your comments. Have a great weekend later on.

Stephan Sturm: Thank you, Christoph.

Oliver Metzger: Yes, hi. Good afternoon. It's Oliver, last time from Commerzbank. So first question is on the biosimilar business. So you indicated several tender wins. Could you give us an indication about the pricing of these tenders? Do you see in general increasing pricing pressure, or how do you evaluate the environment?

The second question is on Helios. It's also more a follow up on Michael's question. So could you elaborate about the shift towards ambulatory procedures? So corona has triggered stronger moves. You said that it's -- you see a certain degree of sustainability. But how do you think about the overall impact on the bottom line? Ambulatory in general is leaner, so but you still face the risk of a certain degree of underutilization if the shift is too strong. So also in this context, how fast can you adapt basically the capacities in your hospitals to address the shift?

Stephan Sturm: Thank you, Oliver. On -- let me start by saying that the tender markets are obviously only a part of the overall European environment and that biosimilars environment that we're operating in. The larger markets happen to be prescriber markets, promotion markets. We're also seeing increasingly a hybrid model, where you prequalify under a tender, and when you are -- when you made it under the chosen few, you are then down to promoting your particular product, but from a substantially reduced field of competitors. I'm saying that because the price development that we're observing is markedly different between tender markets and prescriber/promotion markets. In the tender markets, yes, we are seeing an ongoing price erosion, where we would, however, expect a stabilization at the very latest over the course of next year. In the prescriber markets, we continue to observe relative price stability.

As far as the ambulatory segment of our German hospital market is concerned, at least for the time being, the profitability is at a lower level, which shouldn't come as a surprise because, also, the capital employed in that part of the segment is meaningfully lower. So if this were to gain further traction, I would expect that we would be looking at a dilution of the EBIT margin, but at the same time, we would also be looking at reduced CapEx budgets.

What we're missing for the time being is also the critical mass in this operation, like we're commanding it in the stationary hospital segment. We continue to be on a growth path there and would very much expect that, over time, we can add to our profitability just by scale benefits.

As part of our cost efficiency program, we have alluded to the fact that we are also reviewing our hospital portfolio, in particular, with a view to how secure -- how positive is a future for an individual hospital? And that in our minds is very much driven by its size, but also by the competitive environment in the population are that they're operating in. And therefore, it is in particular those smaller hospitals where we also see growing competition from the ambulatory side where we're looking for strategic alternatives.

Oliver Metzger: Okay. That was helpful. Thank you.

Stephan Sturm: Thank you, Oliver.

James Vane-Tempest: Hi, thanks, everyone, for taking my questions. Just have two, if I can, please. How much of the net income guidance upgrade is due to including cost savings versus changes in the underlying business?

And my second question's just on Kabi. It's very helpful the information you've given about efficiency programs. I'm just wondering, how much further optimization can you do in your production network? And should we think about reducing complexity of the portfolio as essentially removing less profitable products?

And can you also confirm for Kabi how many launches you've done in the first half versus your full year target? Thank you.

Rachel Empey: James, Rachel. I think the first question is very clearly mine. I think both Stephan and I mentioned in our speeches that we are expecting a low double-digit million euro absolute amount of cost and efficiency savings in 2021. So given the size of our numbers and our net income guidance, I think you can translate that into something that is akin to up to 1 percentage point of growth.

The other clear explanations I wanted to reiterated is, clearly, we have a very good performance at the half year. I think we've talked about some of the areas of strength that we've seen in terms of the performance in the businesses, particularly Kabi emerging markets and Quirónsalud. And the other contributing factor for optimism is clearly that we have a somewhat improved expectation around interest, which is also supporting our view in upgrading the net income guidance today.

And then Stephan will address your questions on Kabi.

Stephan Sturm: Thank you, James. And your third question first, I want to confirm we have seven launches year-to-date relative to our unchanged target of the low to mid-teens. And we believe that we are well on track relative to that target.

The -- your question about manufacturing efficiencies, well, first and foremost, what we've done with our CapEx project was primarily quality driven, which is why I was so disturbed, and it's an irony that the effects that we were seeing in last year actually took place in Melrose Park. But I take it that this is something that happens across the industry from time to time. And we simply want to minimize the probability, the risk of something like this happening to us going forward. We really want to differentiate ourselves by making our supply more reliable. I know it's a bit ironic that I'm talking about this against the backdrop of the Melrose Park event, but in a sense, it is also a confirmation of what we had gone about. And I would feel much less comfortable if we hadn't started this effort.

We want to continue along the lines of automation, a higher level of hygiene. And therefore, supply quality and reliability is in the foreground. Reducing manufacturing cost is a well-wanted side effect. If we -- if our assumptions with regard to structural volume growth in this market are accurate, we're going to come to a situation where, after a bit of a lead time, we can also fill the capacities that we have now put in place. And that would get us into a formidable cost position.

For the time being, '22, '23, what we have to take into account is a somewhat increased depreciation charge. But we are doing obviously these investments at least for the medium if not for the long term. Observing the various regulatory agencies across the globe, we believe that we're leading the way here and that we are extremely well prepared for some of the higher-quality requirements that I can already see on the horizon.

James Vane-Tempest: That's great. Thank you.

Stephan Sturm: Thank you, James. That concludes today’s conference call. Frankly, we are very pleased with our Q2 result, with the result in the first half. We are clearly back to growth, in particular in the group excluding Fresenius Medical Care. That is what we wanted to accomplish. And we have made good progress relative to this target.

Obviously, the uncertainty surrounding COVID is a bit larger right now than what I had originally hoped for. And therefore, we have added a bit of caution to our outlook for the rest of the year.

There are a few structural constraints, headwinds that we have also alerted you to. At the same time, I am encouraged by the progress that we’re making with our cost and efficiency program. And that is going to help us to see those off or at least partially compensate them.

We have made progress when it comes to further growth initiatives across all of our businesses. The acquisitions that we’ve done at Helios are off to a very good start. And therefore, we look with quite some confidence into the second half of the year.

Your questions about the group structure are well noted. And you please take away that we are diligently working away on this, open minded in general, and will provide you with an update at the latest as part of our Q4 results presentation.

Whoever has not been on holiday yet, have a good few days off. And I’m sure that the IR team, Rachel, and I will get a chance to talk to you personally later over the course of this third quarter. All the best.