



**RHÖN-KLINIKUM**  
AKTIENGESELLSCHAFT

# 2017 ANNUAL GENERAL MEETING OF RHÖN-KLINIKUM AG

**Speech by Stephan Holzinger**  
Chairman of the Board of Management

Frankfurt am Main | 7 June 2017

- Check against delivery -

**Dear Shareholders,  
Dear Ladies and Gentlemen,**

On behalf of my colleagues on the Board of Management, I am pleased to welcome you to the 29th Annual General Meeting of RHÖN-KLINIKUM AG.

“We can’t solve problems by using the same kind of thinking we used when we created them” – this quote from Einstein was an inspiration for me, only a few days after I assumed my office as chairman, to personally take on the dispute that had been continued for nearly a decade with the Hesse State Government and the Universities of Gießen and Marburg over what is known as the separate accounting approach, and to redouble efforts to reach an agreement. Given the considerable escalation of this dispute seen most recently in December 2016, I am pleased to inform you right at the start of my speech here that it has taken only about three months to achieve a resolution to this dispute that is very positive for the University Hospital of Gießen and Marburg (UKGM) and thus also for RHÖN-KLINIKUM AG. There are no losers under this agreement but many winners: they include first and foremost the roughly ten thousand employees of UKGM and the well over four hundred thousand patients, and of course also you as shareholders of RHÖN-KLINIKUM AG.

Specifically, we have achieved the following:

- The reimbursement contribution for UKGM will be raised for 2017 by 14.7 million euros to 72.9 million euros now. That translates into an annual percentage increase of 2.5 per cent since 2008/2009.
- As of 2018, the entire new remuneration amount of 72.9 million euros will be increased by 2.5 per cent each year – with that we will be able in future to cover the expected increases in material and personnel costs.
- The earliest possible termination notice for the agreement can be given in 2022. However, the instalment payments applicable by then would be at least 72.9 million euros or 14.7 million higher than today – which means we would revert to no lower than the existing level of cost reimbursements considered by us as far too low.
- In return, both Gießen and Marburg universities and UKGM mutually waive the old claims disputed by both sides. The overall economic assessment shows that the remuneration increases agreed in return result in a significant financial advantage for UKGM.
- UKGM moreover receives one-off government grants in the amount of 13 million euros that do not burden the depreciation/amortisation of UKGM.
- The Federal State of Hesse, as a 5 per cent co-owner of UKGM, relinquishes its demand for filling two supervisory board positions and the establishment of an ombudsman at UKGM.
- In return, UKGM will not effect any redundancies for operational reasons until the end of 2021. The practical economic impact will remain moderate since there will be no permanently defined positions and no minimum staffing requirements.
- All trainees from the technical and administrative areas with performance appraisal is ranked at a score of from one to three are given a hiring guarantee. This is also in our interest because we thereby ensure our operability given the staff reductions that will result from foreseeable retirements over the coming years.

- The UKGM undertakes to invest 100 million euros over the coming five years. However, it should be noted here that on average the amount we have invested each year to date has been much higher and that UKGM alone has invested 8 million euros each year from other government grants.
- The commitment, in return, to six new individual projects for the State and the universities make sense for us not only from a medical perspective but also economically.

Ladies and Gentlemen,

I am confident that on the basis of this agreement we will further enhance the relationship with the State Government and the two universities and will be able to work together somewhat more constructively in future. The agreement is subject to the approval by the Supervisory Board, and the voting procedure for this is currently under way.

With the now much improved framework conditions, the Board of Management at the same time also has the real expectation that everyone, whether the hospital directors, the UKGM management and also our employees, are aware of and realise their responsibility together to actually and steadfastly take advantage the opportunity given to them to bring about the further positive development of Germany's third-largest university hospital. In my view we owe nothing more and nothing less to both tax payers, contribution payers and patients. And at this juncture I think one thing needs to be stated clearly once and for all: we may and should be proud of being the only provider in Germany that can resort to the medical competence and research excellence of a university hospital. This unique advantage will become even more important as the digital transformation of the healthcare system and our Company progresses – of that I am personally convinced.

Dear Shareholders,

This is, as you know, my first Annual General Meeting as chairman of the Company's Board of Management. Please therefore allow me to make a few personal remarks as I continue my speech.

Today I would like to dwell less on the past and on recounting the events of the past year, all of which are recorded in our Annual Report. Instead, I would like to focus chiefly on the future and show you how we intend to put our Group on a permanent path for sustained success. First of all I wish to make one thing – also in view of certain misleading discussions in the media – abundantly clear: we are a thoroughly sound Company and not one in a state of crisis. We are virtually debt-free, have an equity ratio of over 75 per cent and still enjoy a very respectable amount of cash of several hundred million – arguably a unique situation unequalled among German corporate groups.

Is that now a reason to sit back and relax? Certainly not!

We are confronted with a double task: on the one hand, profitability of the operative business is unsatisfactory as I found to be the case when I took up my mandate – here the challenges causing us to lag behind our competitors have to be tackled consistently and resolutely. On the other hand, we have to lead this Company into the future with a sustainably viable business model. Many of you will perhaps now wonder whether the Company did not already face this task after the transaction with Fresenius was concluded

in February 2014. And it may be hard for us to deny that. But it is futile to dwell on it now. Or, to quote a former German chancellor candidate: “Woulda, coulda, shoulda”.

But it is also true that on the path into the future we currently also find ourselves having to struggle with the past, since part of the DNA of RHÖN-KLINIKUM, as had been entrenched for decades, was the tremendous independence enjoyed by the hospitals acquired. They were consolidated on the balance sheet quickly, but not integrated organisationally or otherwise. An overarching cooperation between the facilities was absent to a great extent. For example, for a long time purchasing advantages through a Group-wide materials management strategy were not realised, or the IT organisation was not consistently harmonised – in stark contrast to our direct competitors.

But now, where the demographic development of our society has been confronting the healthcare system with new, major challenges, where digitalisation is changing the efficiency of medical care, where the demands being placed by patients on providers like us are visibly increasing as a result of new life models, where the permanent exchange of knowledge is in demand more than ever, this old RHÖN-DNA in its current form is no longer viable for the future.

Thus, how can RHÖN-KLINIKUM AG once again move forward on a sustainable path of success? This is a question I would like to answer for you with three points:

### **Regain our operative strength**

**First**, we must improve the Company’s operative performance right here and now. I have spent a lot of time over the first three months gaining the most comprehensive picture possible, both at Group headquarters and at the sites. Here, I rely not only on memoranda and minutes, but also continue to scrutinise many areas personally. During my visits I speak often with employees – from the managing directors and medical directors, doctors and nurses, as well as service employees. And both unannounced and announced. Sometimes at night on the wards, too. I can be reached by every employee directly by e-mail for any suggestions or proposed improvements, since on this road towards making the required improvements we not only have to understand the more than 16,000 employees but also take them with us on this journey. Of course, I don’t know every single aspect of our very multifaceted Group. But during the short time I have made very important and marked experiences that have conveyed to me a clear, authentic and realistic picture of the Company.

All these discussions and consultations with my Board of Management colleagues and other senior executives are reflected in a comprehensive package of measures which the Board of Management has since adopted and which is now being steadfastly implemented by the various project groups.

Some examples:

We are addressing critical issues as a result of which we currently receive no money at all or receive it only with a considerable delay. That includes, for example, the fact that at some of our sites the documentation of our services and the related internal hospital procedures must be consistently improved so that the procedures with the Medical Review Board of

the Health Insurance Funds (MDK) are simplified for both sides. The rate of complaints of the hospital funds is much too high, and it is a scant consolation that our competitors also suffer from this trend.

In our central administration we have taken structural measures and, for example, amalgamated and downsized two divisions where this was required in view of the Company's situation. At the same time, though, we have created a new centralised Digital Transformation department to lend this eminently key future issue more exposure and to forge ahead with it more quickly with the required support by the Board of Management.

We are currently going to each site with financial and controlling experts and are questioning the administrative structures and resources wherever these appear conspicuous, and we are checking whether we have to downsize departments and capacities in isolated cases because markets and competitive situations have since changed without the prospect of any sustained improvement. At the same time, though, we are also stepping up our efforts to create new medical opportunities and to quickly expand capacities where new, profitable market opportunities specifically arise for us. Here I cite the promising field of genome medicine as one example. We are also specifically expanding our offering of psychosomatic treatments given the high demand.

The materials ratio at the Company continues to be too high, even if there are a few peculiarities that somewhat distort a comparison with our competitors. Here, too, we are sparing no efforts, for example, to reduce what is after all a rather lavish materials catalogue.

These are all only some examples of the numerous measures, the first positive effects of which we expect to see in 2018. In addition to the required operative improvement measures, we are of course also looking at strategic issues, for example the future of work. That is because the digitalisation of the healthcare system will over time result in new professional models. We are well advised to look into this very closely already now, and also to assess this and develop solutions in good time together with the employee representatives.

### **Campus approach as blueprint for viable healthcare delivery of the future**

**Second**, the increasing demographic change of society, i.e. especially the greying of the population, as well as providing care to the rural population with the new type of excellent medical care offering, that is the starting point and the opportunity presented to our Company. We wish and indeed will seize this opportunity with our campus approach.

At the same time we have to take account of the fact that our society is undergoing a profound process of change – the fourth industrial revolution. The world as we know it is changing at a dizzying pace. Each of us can feel this, and everyone experiences it. Let us please not make the mistake of believing that the healthcare system will be spared of this. We therefore have to confront this transformation head-on and with all our determination. Our strategic plans must look beyond the horizon and must not have an outlook merely covering the next five years. We must look ahead much further: What developments will we face as a hospital Group in 10, 15 or 20 years? If we approach this transformation in the

right way, it will offer us huge opportunities – for patient care that is both better and more efficient.

In addition to digital transformation, demographic changes will also present us with formidable challenges. The number of over-80s is set to more than double by the year 2030 alone. It is true that nowadays people age “healthier” than before, i.e. stay in good physical condition longer, yet the need for medical assistance in old age is rising given the emergence of complex chronic conditions. The healthcare system therefore will have to brace itself continuously increasing numbers of sick persons in need of nursing care and for lower numbers – including their financing – to care for them. This problem is becoming acute particularly in rural regions. Here we are already feeling the first consequences. It is becoming increasingly difficult to fill replace doctors having retired from their practices. According to the National Association of Accredited Physicians (KBV), already today there are some 2,200 GP positions that are unfilled, most of them predominantly in rural areas. Specialist practices are no exception to this problem. And existing hospitals are unable to step in and fill the gap, which is their mandate under the currently existing system.

These are alarming prospects in a situation that may affect each one of us very personally. So the big question is: How can the delivery of cutting-edge medical care be secured for patients in rural regions on a sustainable basis? We will patients want and need in 2025? And how can we help them in their recovery process? Our answer to these questions is the campus approach: with this approach, we have developed an innovative strategy that offers a viable model as a solution to the problem of healthcare in rural areas – including the opportunities and possibilities offered by digitalisation and artificial intelligence. Coherent medical care on a one-stop basis without the hitherto predominant sectoral barriers.

Our approach provides for a comprehensive, geographically and structurally unified healthcare campus. On a single hospital site we closely integrate outpatient and inpatient offerings as well as numerous medical services and care offerings that hitherto were both spatially, and above all systemically separated from one another. In other words, the community-based GP and specialist with the hospital, and hospital in turn with the rehabilitation or nursing facility. Our aim is to link together all medical services that have previously existed in parallel and often widely disparate – with which to this day there has still been far too much frictional losses – in such a way that the treatment process is facilitated and optimised noticeably for patients and such patients are guided safely from one system to the other. In exactly the same way it is conceivable that on the campus a great number of additional services will be offered such as assisted living, wellness or even a hotel for relatives. And the campus is also attractive for the increasingly scarce staff in available on the healthcare market: for example, residential space is being created for staff on special terms.

For the campus approach to work and above all be operated efficiently, the use of intelligent, cognitive IT solutions and innovative communications systems will be needed to optimise patient referrals and navigation and assist doctors and nurses in their work. Our electronic patient file WebEPA<sup>+</sup>, which we are steadily rolling out throughout the Group, will likewise play a key and indispensable role in this context.

What does all of this look like in practice? Let me illustrate this using a concrete example. Late Friday afternoon a patient complains of dizziness. But his GP or community-based

specialist is no longer available, and the patient drives to the hospital directly to have his dizziness checked. Here the patient is examined and in most cases released and allowed to go home again. The problem is that the patient enters the healthcare delivery process at the wrong place in the healthcare system. Straightforward dizziness symptoms as described in our case example should be clarified primarily with community-based physicians and only in a secondary stage in the more cost-intensive hospital setting.

It is for this reason that the RHÖN campus approach is aimed at the consistent integration between outpatient and inpatient care. There, the patient mentioned in the example above will no longer end up in the emergency ward directly but will reach a centralised point of contact in the atrium through a car park tied in directly to the campus. Here, he can then speak with specially trained case managers. It is at this first point of entry to the campus that the digital anamnesis is performed and the accompanying medical records are recorded in the electronic patient file system WebEPA<sup>+</sup>. It is here that it is decided where the patient will be directed next. Will he be treated as an outpatient right away or admitted as an inpatient? Both the scenario in which the patient is “parked” in a hospital bed over the weekend without a diagnosis and that in which he is sent home without anything having been done are avoided – the treatment process is already significantly more efficient already in this early phase.

All that sounds quite simple and yet also like wishful thinking because the healthcare system is complicated, with each professional group looking to their own interests and cooperating with one another not nearly enough. We are implementing the campus model right now for the first time as a prototype in Bad Neustadt: our new building in Bad Neustadt will be put into service in 2019. A few weeks ago we held our topping out ceremony there.

But things are not to stop there. We want to market and expand the campus approach as a model for an efficient and viable healthcare delivery in rural areas. That is because the problems in rural regions are nearly identical everywhere: a greying population, rural exodus, doctor’s practices that are closed and cannot be filled again.

That said, in other regions a new campus can be established on a “greenfield” site like in Bad Neustadt, or an existing hospital complex can be gradually converted to a campus model as is planned in Frankfurt (Oder) by 2021. And of course, other models and mixed forms are conceivable, depending on the particular situation and giving due regard to special regional characteristics. What is common to all of these scenarios is the approach being taken to remove sectoral barriers, to offer services from a single source, to put the focus on patients and to ensure healthcare delivery in rural regions in the long term.

In the context of a differentiated phase model, we have examined all of the some 400 districts in Germany in terms of feasibility of the campus approach and are currently focusing on a half dozen of additional locations that we are now subjecting to a thoroughgoing review. This may be a long path, but I am convinced that the approach will be implemented in additional municipalities and districts in the medium term, whatever the specific structural, logistical and legal form might be. Politicians are also currently looking at the future viability of our approach. Federal Health Minister Hermann Gröhe will visit us at our Campus Bad Neustadt campus in a few weeks.

## **Digitalisation: Determined but measured**

Ladies and Gentlemen,

This modern, innovative and viable campus approach is inseparable bound up the use of efficient IT systems and cognitive intelligence. And of course we will not only use these in our campus model but also introduce them gradually at all other sites of RHÖN-KLINIKUM AG. But with the launch of the Bad Neustadt Campus we have an unprecedented level of digital structures and expertise at the beginning.

On an international comparison, Germany now lags far behind in terms of the digitalisation of its healthcare sector. Nothing reveals this more than the disaster of the electronic health card which has been under development for over 15 years at the cost of billions and now may well be mentioned together in the same breath as the Berlin Airport when it comes to national projects with a cringe factor. We can and will no longer wait for politicians to act. It is therefore for us to actively shape and forge ahead with the digital transformation of our Company.

In this context, the opportunities for us are immense: Digitalisation combined with the use of cognitive systems will at once speed up and organise our internal processes. It will help ensure that anamnesis processes are faster and more secure, that our services are correctly recorded and documented and that doctors can make more precise diagnoses, to name just a few examples. At the same time, though, we recognise that particularly with cognitive systems a genuine hype has emerged that is not always reflective of the actual performance of certain systems. For us what this means is that we want to and will steadfastly further pursue this path to which there is no alternative, but with measure and not with an investment watering can. We will consistently use and quickly introduce at all sites what makes sense already today and actually produces the intended result. Right now we are in the process of negotiating industrial partnership schemes in the field of digital technologies and cognitive systems after closely sounding out the market over the past months for various areas of focus and tasks. What we have learned is that we can do some things ourselves, will develop other things together with partners, and where necessary also simply purchase third-party technologies.

Since October 2016 we have, for example in our hospitals in Frankfurt (Oder) and Bad Berka, introduced our product, the electronic patient file WebEPA<sup>+</sup> – with resoundingly positive feedback: more than 90 per cent of all patients agree to make available their doctor's letters, findings, diagnoses and therapies in a secure communication platform. This platform gives doctor's practices, medical care centres and hospitals a simple and easy way to exchange all important treatment data with one another – more securely and easier than a fax or e-mail. Redundant examinations are avoided, all information is available to everyone at all times, is not overlooked or forgotten in a diagnosis and patients do not have to lug their files from A to B all the time. We are thus taking the next step towards a more efficient and secure exchange of information between doctors – in the best interests of patients. We are convinced that patients, who also value the convenience of state-of-the-art digital technologies, will remain loyal to our Company.

The electronic patient file – together with our centralised data archive – is a very important building block on the path to this Company's digital transformation. Huge amounts of data from our patients and the continuous feed-in of medical studies, professional guidelines and other publications are key to the ongoing process of learning and acquisition of



cognitive systems that in future will potentiate and perfect medical knowledge in a way no single physician can or will ever be able to do in future.

The Company's intelligence and amounts of data growing from this can prospectively generate far more enterprise value than all the output we are currently achieving at hospitals locally or than the value represented by our real estate holdings. It is therefore important for us today to make the right investments to an above-average extent both in conventional IT infrastructure and in digitalisation. In this regard we will not be able at all times to answer the question as to an immediate, directly calculable return – currently nobody can do that. But electrical lighting was not invented by constantly improving candles either. That is why what is required, in addition to investments, is quite frankly the courage to take embark on this path now. And that is what we have done. Let me make a remark at this juncture: In this context it appears downright grotesque for presumably high-quality media to repeatedly suggest the wrong picture that RHÖN-KLINIKUM AG allegedly could not at all afford its digital transformation. Right now we are talking about a single-digit million amount – this, mind you, set against a cash reserve of currently some 300 million euros.

And it is also important to me to clarify that digital transformation gives us many opportunities, and will once again turn today's RHÖN-KLINIKUM AG into the pioneer of the sector. But: the human factor, being close to and having the trust of our doctors and nursing staff, will also be indispensable in future. We cannot and will not lose sight of the human presence and personal discussions – for all the enthusiasm for this new technology. We will not replace any doctors or nurses with it, but by assisting them with digital tools make them even stronger in the interests of patients.

## **Overview of financial year 2016**

Ladies and Gentlemen,

After these word of introduction I would like to present to you the key points of the past financial year. We treated over 813,000 patients, an increase of roughly six per cent compared with the previous year. We generated total revenues of 1.18 billion euros; earnings before interest, tax, depreciation and amortisation, or EBITDA, stands at 156.9 million euros. Consolidated profit amounts to 58.6 million euros.

Formally, we have thus met the targets for financial year 2016. But in actual fact we were able to achieve this result only by writing back provisions – as already in previous years – to a considerable extent, this time in the amount of roughly 42 million euros. To put it plainly, that means that without the write-back of provisions EBITDA would have been much lower, namely 114.9 million euros. And it is precisely this amount that defines the actual value of our operative performance because has not been diluted by external factors. We thus have an EBITDA margin of under ten per cent, which is well below our standards and well behind that of our competitors.

Based on the result achieved, the Board of Management and the Supervisory Board at today's Annual General Meeting thus propose distributing from the net distributable profit a dividend of 0.35 euros per non-par share. Based on the current number of shares (roughly 67 million) that translates into a dividend total of around 23.4 million euros.

Even if the actual operating result cannot be satisfactory, there were a number of positive developments at our hospitals over the past financial year.

At **Zentralklinik Bad Berka**, which, by the way, has been part of the Group now for 25 years, the radiopharmacy has been put into service. A new MIR offers a significantly higher resolution and thus a leap in the quality of diagnosis and therapy. Moreover, the hospitals in Bad Berka, as in Frankfurt (Oder), will be the first to gradually roll out our electronic patient file WebEPA<sup>+</sup>.

**At Klinikum Frankfurt (Oder)**, the new optional service ward was opened with around 20 beds, offering for patients an outstanding, hotel-like ambient. Within the scope of the extensive construction works at this site, the foundations were laid for the neonatal ward, the palliative ward as well as new laboratory rooms. With a view to demographic trends, continuous work is being done to further develop geriatric care.

At the **University Hospital of Gießen**, the new laboratory line was put into service during the past financial year. At the **University Hospital of Marburg**, extensive construction measures were carried out, such as the modernisation of operation theatres as well as the thorough refurbishment of the entrance area. The innovative particle therapy facility at the Marburg Ion Beam Therapy Centre (MIT) recorded its first full year of operation in 2016. The medical expectations of this facility for cancer treatment, which is unique worldwide, have been fully met. The task at hand now is to use the facility jointly with our partner, the University Hospital of Heidelberg, for additional medical indications and to further develop it commercially. In this regard we have already had detailed talks.

Just before the end of financial year 2016, the stock exchange Deutsche Börse informed us that we – as expected – would no longer be listed in the exchange segment M-DAX but henceforth in the S-DAX. The main reason for that was the change in our shareholder structure resulting in the number of freely available shares being considerably reduced. This decision by Deutsche Börse has only a small impact on us since we continue to be an exchange listed company with corresponding transparency obligations. Starting from the end of 2016 and continuing until today's Annual General Meeting, the main shareholders of our Company further increased their shareholding considerably and thus in turn correspondingly reduced the total number of freely tradable shares or free float. As at key date of this Annual General Meeting, our shareholders B. Braun Melsungen AG and Asklepios each hold 25 per cent of the shares and thus have a blocking minority. Mr. Eugen Münch including the company HCM SE currently holds 11.5 per cent of the shares in the Company, but has options to acquire additional voting rights of nearly six per cent until August and November 2017, respectively. Mrs. Ingeborg Münch currently holds 5.4 per cent of the shares.

The three anchor shareholders have thus significantly increased their interest over the past months. I interpret this as evidence of the trust they put in our corporate strategy and as an acknowledgement of the future prospects of RHÖN-KLINIKUM AG.

## **Performance in financial year 2017 to date**

Ladies and Gentlemen,

The first three months of the current financial year were also marked by the reorganisation of the Board of Management and the redistribution of responsibilities.

In the first quarter of the current financial year, we treated over 212,000 patients at our facilities. Revenues for this period stand at 300.1 million euros, earnings before interest, taxes and depreciation/amortisation (EBITDA) amount to 25.5 million euros.

From the very outset, our Company has operated in a regulatory environment which to a decisive extent predefines the key points of our work. However, in the near future we see that the further increasing interventions of the German legislature will have a disproportionately adverse impact particularly on our medical service offering. A particularly burdening effect comes from the lower remuneration for cardiological and specialist orthopaedic services – which is an important part of the services provided by us at almost all our facilities – as well as the newly introduced fixed cost digression discount that has replaced the previously applicable discount on surplus service volumes.

It is becoming increasingly clear that politicians – given the still roughly 2,000 hospitals, many of which are objectively too small and hardly or not at all economically viable – are unfortunately shrinking from urgently needed market shake-outs and instead prefer to further tighten regulation further. This is frequently done by no longer remunerating the work performed or by not remunerating it to a sufficient extent. As a provider of university-based medical care, we suffer disproportionately from such intervention, since given the severity and complexity of the conditions treated and the cost associated with them we are particularly hard-hit by the revenue shortfalls. We therefore assume, irrespective of the demand for medical services that is rising in principle, that the requirements of the legislature will put a noticeable drag on our business in the short and medium term.

Against this backdrop, we expect for the current financial year 2017 revenues in the range of between 1.20 billion euros and 1.23 billion euros. For EBITDA, we expect a level of between 85 million euros and 105 million euros in 2017. This includes negative effects in the double-digit million euro range.

## **Outlook**

Ladies and Gentlemen,

The faster the pace of technological advances, the shorter the survival period of large companies is – that is empirically proven.

We at RHÖN-KLINIKUM have the right size following the Fresenius/Helios transaction to successfully cope with the huge transformation lying ahead as a result of digital transformation.

We at RHÖN-KLINIKUM, with the campus approach and our model role in the digitalisation, ourselves hold the answers for continuing to proactively shape the German healthcare sector for further decades to come.

As the success in the resolution of the dispute – which many thought irreconcilable – relating to the issue of separate accounting shows: at RHÖN-KLINIKUM, things move. And by that I mean in the forward direction. I appeal to you to accompany and support the Board of Management on the path described. Together we will do this!

Thank you.