



Fresenius Medical Care AG (FMS)

Updated November 3rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	7.4%	Market Cap:	\$20 billion
Fair Value Price:	\$33	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	5/24/2022 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	6/7/2022
Dividend Yield:	2.4%	5 Year Price Target	\$44	Years Of Dividend Growth:	24 ²
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	12% ³

Overview & Current Events

Fresenius Medical Care AG is a diversified healthcare corporation focused on products and services related to renal (kidney) diseases. The company's services include kidney dialysis, clinical laboratory testing, and kidney diagnostic procedures. Fresenius Medical is headquartered in Germany. United States investors can initiate an ownership stake in Fresenius Medical through American Depositary Receipts that trade on the New York Stock Exchange under the ticker FMS. Two ADR shares equals one share of the underlying company.

On 11/2/2021, Fresenius Medical announced third quarter earnings results for the period ending 9/30/2021. Organic growth was once again a 1% increase from the prior year. In constant currency, revenue grew 1% for the quarter while adjusted operating income fell 19%. This was an improvement from a 31% decline in adjusted operating income from Q2 2021.

Revenue for Health Care Services again grew 1% organically as gains in the product business were once again partially offset by COVID-19 related weakness. Health Care Product was flat on an organic basis as positive exchange rates and higher sales of machines for chronic treatment were offset by lower demand of in-center disposables and dialysis products. North America organic growth was up 1% (up 1% at constant currency). Contributions from acquisitions helped to offset COVID-19 related impacts on business. EMEA sales were down 2% (down 2% at constant currency) due to inflationary pressure while Asia-Pacific grew 2% (up 3% at constant currency) on higher elective procedures. Latin America reversed recent declines and was up 12% (up 13% at constant currency) due to acquisitions and higher sales of in-center disposables. The company ended the quarter with 4,151 clinics (up 0.6% sequentially) and 345K patients (down 0.3%).

Analysts expect 2021 EPS of \$2.04, down from \$2.17 and \$2.20 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.76	\$1.94	\$1.83	\$1.73	\$1.69	\$2.03	\$2.08	\$2.46	\$2.43	\$2.70	\$2.04	\$2.73
DPS	\$0.46	\$0.44	\$0.48	\$0.53	\$0.43	\$0.43	\$0.53	\$0.55	\$0.45	\$0.72	\$0.82	\$1.10
Shares⁴	600	605	603	604	611	614	613	613	602	598	586	575

Although Fresenius Medical has lofty forward-looking growth targets, it has been unable to achieve strong growth historically, compounding its adjusted earnings-per-share at 4.9% per year over the last decade. We are forecasting 6% annualized earnings-per-share growth over the next 5 years as we believe the company's guidance implies faster growth ahead. A combination of the increase in revenue, clinic expansion in China, and share repurchases will lead to growth in the coming years. We anticipate that the company will deliver earnings-per-share of \$2.04 in 2021. Applying a 6% growth rate to our 2021 earnings-per-share shows a 2026 earnings-per-share estimate of \$2.73.

¹ Estimated ex-dividend date

² In local currency

³ In local currency

⁴ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Fresenius Medical Care has not prioritized growing its dividend payments in the past. However, the company has increased its dividend for 24 years in local currency. We forecast the dividend will grow in line with earnings-per-share.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	19.5	18.1	18.5	20.1	24.3	21.1	18.5	13.2	16.7	16.6	16.7	16.0
Avg. Yld.	1.3%	1.3%	1.4%	1.5%	1.1%	1.0%	1.1%	1.3%	1.8%	1.8%	2.4%	2.5%

Shares of Fresenius Medical are lower by \$5, or 12.8%, since our 8/1/2021 update. The stock has traded at an average price-to-earnings ratio of 18.7 over the last decade. We are maintaining our 2026 target P/E of 16. For context, the company is trading at a price-to-earnings ratio of 16.7 today based off of earnings-per-share estimates for the current year. If the company's P/E ratio were to reach our target by 2026, then valuation would reduce annual returns by 0.8% over this period of time.

Income investors should note that the German government imposes a 26.375% withholding tax on dividend payments made to international investors. This reduces Fresenius Medical's net dividend yield to 1.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

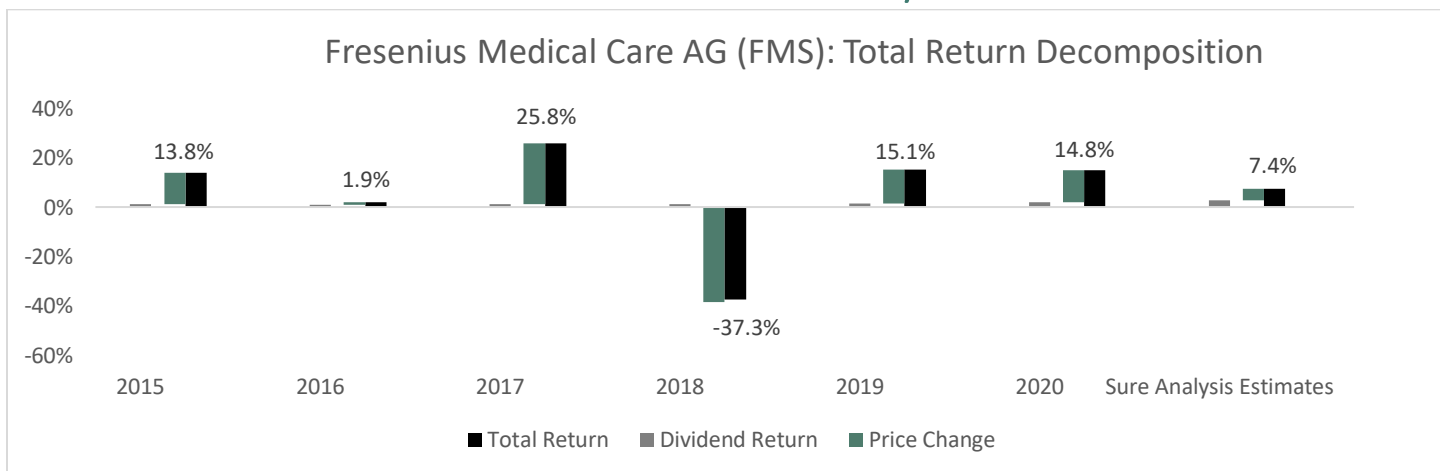
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	23%	26%	31%	25%	21%	26%	22%	19%	27%	40%	40%

A key competitive advantage for Fresenius Medical is its lineup of kidney dialysis and diagnostic products. The company is a global leader in the area of dialysis and has more facilities worldwide than any other company in this sector. Fresenius Medical serves as a one-stop shop for customers requiring dialysis related treatments. Fresenius Medical managed to increase earnings-per-share during the last recession. The company's products make it so that patients' can control their kidney failure, making it likely that the company will perform well recessions.

Final Thoughts & Recommendation

After third quarter results, we continue to expect Fresenius Medical to return 7.4% per year through 2026, up from 5.7% previously. Our projected return stems from a 6% earnings growth rate and starting yield of 2.4% that are offset by a slight headwind from multiple compression. As with prior quarters, COVID-19 still remains a headwind in certain areas, but the company did see a pickup in elective procedures in several areas. We have lowered our 2026 price target \$2 to \$44 due to EPS estimates for the year. We rate Fresenius Medical as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13,523	13,416	14,051	17,314	17,150	18,339	20,140	19,539	19,565	20,396
Gross Profit	4,467	4,473	4,557	5,463	5,745	6,216	6,816	6,087	6,041	6,324
Gross Margin	33.0%	33.3%	32.4%	31.6%	33.5%	33.9%	33.8%	31.2%	30.9%	31.0%
SG&A Exp.	2,154	2,163	2,291	2,892	3,272	3,467	4,120	3,407	3,426	3,614
D&A Exp.	600	586	623	765	719	776	833	932	1,784	2,040
Operating Profit	2,194	2,105	2,145	2,438	2,331	2,586	2,570	2,545	2,426	2,489
Op. Margin	16.2%	15.7%	15.3%	14.1%	13.6%	14.1%	12.8%	13.0%	12.4%	12.2%
Net Profit	1,152	1,154	1,067	1,143	1,060	1,266	1,449	2,340	1,343	1,330
Net Margin	8.5%	8.6%	7.6%	6.6%	6.2%	6.9%	7.2%	12.0%	6.9%	6.5%
Free Cash Flow	913	1,326	1,238	1,017	1,007	1,108	1,413	1,186	1,614	3,633
Income Tax	647	588	569	638	627	692	502	603	450	572

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	19,521	22,326	23,120	25,381	25,365	26,961	28,823	30,019	36,893	38,976
Cash & Equivalents	457	688	683	634	549	749	1,173	2,454	1,129	1,330
Acc. Receivable	3,096	3,019	3,450	3,669	3,751	4,201	4,566	3,799	3,927	3,984
Inventories	967	1,037	1,097	1,116	1,341	1,414	1,549	1,678	1,863	2,331
Goodwill & Int.	9,867	12,132	12,416	13,952	13,863	14,545	15,341	14,746	17,268	17,637
Total Liabilities	11,465	13,119	13,635	15,353	14,869	15,279	15,832	15,260	22,076	23,809
Accounts Payable	541	622	543	573	628	608	708	734	803	900
Long-Term Debt	7,200	8,298	8,416	9,466	8,646	8,597	8,935	8,632	10,168	9,702
Total Equity	7,892	8,938	9,235	9,443	9,887	10,548	11,781	13,450	13,395	13,794
D/E Ratio	0.91	0.93	0.91	1.00	0.87	0.82	0.76	0.64	0.76	0.70

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.3%	5.5%	4.7%	4.7%	4.2%	4.8%	5.2%	8.0%	4.0%	3.5%
Return on Equity	15.1%	13.7%	11.7%	12.2%	11.0%	12.4%	13.0%	18.6%	10.0%	9.8%
ROIC	8.2%	7.0%	6.0%	6.1%	5.5%	6.4%	6.9%	10.3%	5.6%	5.3%
Shares Out.	600	605	603	604	611	614	613	613	602	598
Revenue/Share	22.18	21.86	23.07	28.58	28.09	29.93	32.77	31.80	32.31	34.65
FCF/Share	1.50	2.16	2.03	1.68	1.65	1.81	2.30	1.93	2.67	6.17

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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