



# Fresenius Medical Care AG (FMS)

Updated August 17<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

|                             |      |  |       |                                  |                       |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$18 | <b>5 Year CAGR Estimate:</b>               | 13.5% | <b>Market Cap:</b>               | \$11 B                |
| <b>Fair Value Price:</b>    | \$26 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | 05/12/23 <sup>1</sup> |
| <b>% Fair Value:</b>        | 70%  | <b>5 Year Valuation Multiple Estimate:</b> | 7.5%  | <b>Dividend Payment Date:</b>    | 05/26/23 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 3.9% | <b>5 Year Price Target</b>                 | \$30  | <b>Years Of Dividend Growth:</b> | 24 <sup>3</sup>       |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Buy                   |

## 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 Depository Receipts that trade on the New York Stock Exchange under the ticker FMS. Two ADR shares equals one share of the underlying company.

On July 28<sup>th</sup>, 2022, Fresenius Medical announced second quarter results for the period ending June 30<sup>th</sup>, 2022. Organic revenue was flat for the quarter. In constant currency, revenue was up 2% while adjusted operating income fell 15%.

Revenue for Health Care Services was flat organically as gains were made by acquisitions. Health Care Products grew 1% as in-center disposables were only partially offset by weaker sales of acute cardiopulmonary products. North America organic sales were down 2% (down 1% at constant currency) due to lower demand for in-center disposables and machines for chronic treatment. EMEA increased 6% (up 7% at constant currency) while Asia-Pacific was higher by 2% (up 2% at constant currency) due to strength in Health Care Services. Latin America grew 17% (up 16% at constant currency) due to strength in Health Care Services. The company ended the year with 4,163 dialysis clinics (up 0.2% sequentially) and 346K patients (up 0.6% quarter-over-quarter).

Due to global inflation and headwinds in the U.S. labor market, the company withdrew its long-term targets. Analysts expect 2022 EPS of \$1.99, down from \$2.01 previously. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.94 | \$1.83 | \$1.73 | \$1.69 | \$2.03 | \$2.08 | \$2.46 | \$2.43 | \$2.70 | \$1.97 | <b>\$1.99</b> | <b>\$2.31</b> |
| <b>DPS</b>                | \$0.44 | \$0.48 | \$0.53 | \$0.43 | \$0.43 | \$0.53 | \$0.55 | \$0.45 | \$0.72 | \$0.82 | <b>\$0.71</b> | <b>\$0.82</b> |
| <b>Shares<sup>4</sup></b> | 605    | 603    | 604    | 611    | 614    | 613    | 613    | 602    | 598    | 586    | <b>586</b>    | <b>575</b>    |

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 0.2% per year over the last decade. We are now forecasting 3% annualized earnings-per-share growth over the next five years, down from 6% previously. We anticipate that the company will deliver earnings-per-share of \$1.99 in 2022. Applying a 3% growth rate to our 2022 earnings-per-share shows a 2027 earnings-per-share estimate of \$2.31.

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.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> In local currency

<sup>4</sup> 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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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 18.1 | 18.5 | 20.1 | 24.3 | 21.1 | 18.5 | 13.2 | 16.7 | 16.6 | 16.5 | 9.0  | 13.0 |
| Avg. Yld. | 1.3% | 1.4% | 1.5% | 1.1% | 1.0% | 1.1% | 1.3% | 1.8% | 1.8% | 2.5% | 3.9% | 2.7% |

Shares of Fresenius Medical have decreased by \$13, or 42%, since our May 7<sup>th</sup>, 2022 report. The stock has traded with an average price-to-earnings ratio of 18.4 over the last decade. We are lowering our 2027 target P/E to 13 from 16 to reflect the weakness in the company's business. For context, the company is trading at a price-to-earnings ratio of 9.0 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 2027, then valuation would add 7.5% to annual returns 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 ~2.9%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

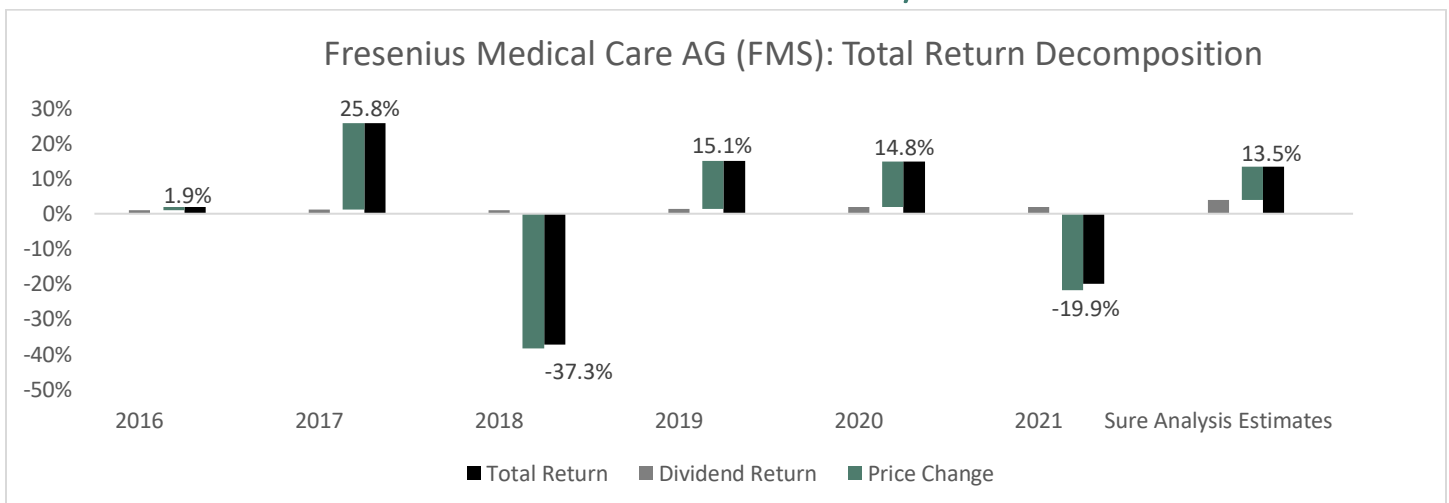
| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 23%  | 26%  | 31%  | 25%  | 21%  | 26%  | 22%  | 19%  | 27%  | 42%  | 36%  | 36%  |

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

Following second quarter results, we expect Fresenius Medical to return 13.5% per year through 2027, up from 8.8% previously. Our projected return stems from a 3% earnings growth rate, a starting yield of 3.9%, and a high single-digit contribution from multiple expansion. Fresenius Medical is experiencing difficulty in its business due to higher costs, which has caused the company to withdraw its growth targets. We have reduced our expected earnings growth rate and target valuation, but still find the stock to offer a solid risk/reward proposition at this point. For investors with a long-term view, Fresenius Medical could provide double-digit returns over the next five years, earning the stock a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 13,416 | 14,051 | 17,314 | 17,150 | 18,339 | 20,140 | 19,539 | 19,565 | 20,396 | 20,846 |
| <b>Gross Profit</b>     | 4,473  | 4,557  | 5,463  | 5,745  | 6,216  | 6,816  | 6,087  | 6,041  | 6,324  | 6,007  |
| <b>Gross Margin</b>     | 33.3%  | 32.4%  | 31.6%  | 33.5%  | 33.9%  | 33.8%  | 31.2%  | 30.9%  | 31.0%  | 28.8%  |
| <b>SG&amp;A Exp.</b>    | 2,163  | 2,291  | 2,892  | 3,272  | 3,467  | 4,120  | 3,407  | 3,394  | 3,579  | 3,663  |
| <b>D&amp;A Exp.</b>     | 586    | 623    | 765    | 719    | 776    | 833    | 932    | 1,784  | 2,040  | 1,921  |
| <b>Operating Profit</b> | 2,105  | 2,145  | 2,438  | 2,331  | 2,586  | 2,570  | 2,545  | 2,458  | 2,524  | 2,083  |
| <b>Op. Margin</b>       | 15.7%  | 15.3%  | 14.1%  | 13.6%  | 14.1%  | 12.8%  | 13.0%  | 12.6%  | 12.4%  | 10.0%  |
| <b>Net Profit</b>       | 1,154  | 1,067  | 1,143  | 1,060  | 1,266  | 1,449  | 2,340  | 1,343  | 1,330  | 1,147  |
| <b>Net Margin</b>       | 8.6%   | 7.6%   | 6.6%   | 6.2%   | 6.9%   | 7.2%   | 12.0%  | 6.9%   | 6.5%   | 5.5%   |
| <b>Free Cash Flow</b>   | 1,326  | 1,238  | 1,017  | 1,007  | 1,108  | 1,413  | 1,186  | 1,614  | 3,633  | 1,935  |
| <b>Income Tax</b>       | 588    | 569    | 638    | 627    | 692    | 502    | 603    | 450    | 572    | 417    |

## Balance Sheet Metrics

| Year                          | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 22,326 | 23,120 | 25,381 | 25,365 | 26,961 | 28,823 | 30,019 | 36,893 | 38,976 | 38,911 |
| <b>Cash &amp; Equivalents</b> | 688    | 683    | 634    | 549    | 749    | 1,173  | 2,454  | 1,129  | 1,330  | 1,678  |
| <b>Acc. Receivable</b>        | 3,019  | 3,450  | 3,669  | 3,751  | 4,201  | 4,566  | 3,799  | 3,927  | 3,984  | 3,973  |
| <b>Inventories</b>            | 1,037  | 1,097  | 1,116  | 1,341  | 1,414  | 1,549  | 1,678  | 1,863  | 2,331  | 2,307  |
| <b>Goodwill &amp; Int.</b>    | 12,132 | 12,416 | 13,952 | 13,863 | 14,545 | 15,341 | 14,746 | 17,299 | 17,637 | 17,913 |
| <b>Total Liabilities</b>      | 13,119 | 13,635 | 15,353 | 14,869 | 15,279 | 15,832 | 15,260 | 22,076 | 23,809 | 23,083 |
| <b>Accounts Payable</b>       | 746    | 667    | 714    | 781    | 888    | 885    | 909    | 936    | 1,018  | 971    |
| <b>Long-Term Debt</b>         | 8,298  | 8,416  | 9,466  | 8,646  | 8,597  | 8,935  | 8,632  | 10,168 | 9,702  | 9,704  |
| <b>Total Equity</b>           | 8,938  | 9,235  | 9,443  | 9,887  | 10,548 | 11,781 | 13,450 | 13,395 | 13,794 | 14,378 |
| <b>LTD/E Ratio</b>            | 0.93   | 0.91   | 1.00   | 0.87   | 0.82   | 0.76   | 0.64   | 0.76   | 0.70   | 0.67   |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 5.5%  | 4.7%  | 4.7%  | 4.2%  | 4.8%  | 5.2%  | 8.0%  | 4.0%  | 3.5%  | 2.9%  |
| <b>Return on Equity</b> | 13.7% | 11.7% | 12.2% | 11.0% | 12.4% | 13.0% | 18.6% | 10.0% | 9.8%  | 8.1%  |
| <b>ROIC</b>             | 7.0%  | 6.0%  | 6.1%  | 5.5%  | 6.4%  | 6.9%  | 10.3% | 5.6%  | 5.3%  | 4.6%  |
| <b>Shares Out.</b>      | 605   | 603   | 604   | 611   | 614   | 613   | 613   | 602   | 598   | 586   |
| <b>Revenue/Share</b>    | 21.87 | 23.12 | 28.57 | 28.11 | 29.90 | 32.73 | 31.79 | 32.32 | 34.68 | 35.58 |
| <b>FCF/Share</b>        | 2.16  | 2.04  | 1.68  | 1.65  | 1.81  | 2.30  | 1.93  | 2.67  | 6.18  | 3.30  |

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

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