



# Fresenius Medical Care AG (FMS)

Updated August 24<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$24	<b>5 Year CAGR Estimate:</b>	-3.4%	<b>Market Cap:</b>	\$14.1 B
<b>Fair Value Price:</b>	\$15	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	05/17/24 <sup>1</sup>
<b>% Fair Value:</b>	165%	<b>5 Year Valuation Multiple Estimate:</b>	-9.5%	<b>Dividend Payment Date:</b>	06/03/24 <sup>2</sup>
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$17	<b>Years Of Dividend Growth:</b>	24 <sup>3</sup>
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Sell

## 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 May 9<sup>th</sup>, 2023, Fresenius Medical reported first quarter results for the period ending March 31<sup>st</sup>, 2023. In constant currency, quarterly revenue was up 6% while earnings-per-share fell 4%.

Revenue for Care Delivery, formerly known as Health Care Services, grew 6% organically as North America returned to growth due to strength in the care business and higher reimbursement rates. Care Enablement, formerly known as Health Care Products, improved 6% as demand improved for machines for chronic treatment, critical care products, and home products. Higher prices also contributed to results.

Fresenius Medical provided an updated outlook for 2023 as well, with the company still expecting revenue to grow at a low to mid-single-digit percentage. Earnings-per-share are now projected to be flat or decline by as much as a high single-digit. Previously, the company had guided towards a possible low double-digit EPS decline. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.83	\$1.73	\$1.69	\$2.03	\$2.08	\$2.46	\$2.43	\$2.70	\$1.97	\$1.21	<b>\$1.12</b>	<b>\$1.30</b>
<b>DPS</b>	\$0.48	\$0.53	\$0.43	\$0.43	\$0.53	\$0.55	\$0.45	\$0.72	\$0.82	\$0.71	<b>\$0.60</b>	<b>\$0.70</b>
<b>Shares<sup>4</sup></b>	603	604	611	614	613	613	602	598	586	586	<b>587</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 reaffirm our earnings-per-share growth target of 3% for the next five years, down from 6% previously. We anticipate that the company will deliver earnings-per-share of \$1.12 in 2023. Applying a 3% growth rate to our 2023 earnings-per-share projection leads to 2028 earnings-per-share estimate of \$1.30.

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> Estimate 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	18.5	20.1	24.3	21.1	18.5	13.2	16.7	16.6	16.5	26.8	<b>21.4</b>	<b>13.0</b>
<b>Avg. Yld.</b>	1.4%	1.5%	1.1%	1.0%	1.1%	1.3%	1.8%	1.8%	2.5%	2.2%	<b>2.5%</b>	<b>4.1%</b>

Shares of Fresenius Medical have increased by \$2, or 9.1%, since our May 27<sup>th</sup>, 2023 report. The stock has traded with an average price-to-earnings ratio of 19.2 over the last decade. We are reaffirming our 2028 target P/E of 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 21.4 today based off earnings-per-share estimates for the current year. If the company's P/E ratio were to reach our target by 2028, then valuation would be an 9.5% headwind to annual returns over this period.

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

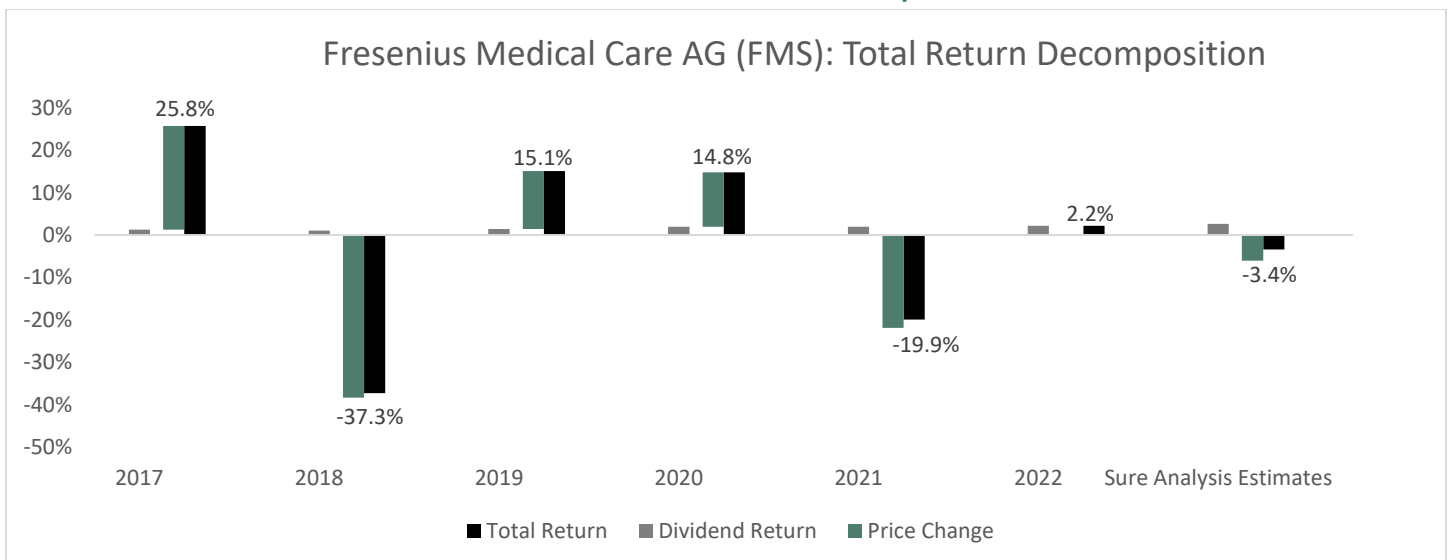
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	26%	31%	25%	21%	26%	22%	19%	27%	42%	59%	<b>54%</b>	<b>54%</b>

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 have a negative return of -3.4% per year through 2028, compared to -2% previously. Our projected return stems from a 3% earnings growth rate and a starting yield of 2.5% that are more than offset by a valuation headwind. The stock has had rallied over our last three reports, which has resulted in shares trading with a premium multiple. As a result, we continue to view shares of the company as a sell due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	14,051	17,314	17,150	18,339	20,140	19,539	19,565	20,396	20,846	20,457
<b>Gross Profit</b>	4,557	5,463	5,745	6,216	6,816	6,087	6,041	6,324	6,007	5,600
<b>Gross Margin</b>	32.4%	31.6%	33.5%	33.9%	33.8%	31.2%	30.9%	31.0%	28.8%	27.4%
<b>SG&amp;A Exp.</b>	2,291	2,892	3,272	3,467	4,120	3,407	3,394	3,579	3,663	3,991
<b>D&amp;A Exp.</b>	623	765	719	776	833	932	1,784	2,040	1,921	1,939
<b>Operating Profit</b>	2,145	2,438	2,331	2,586	2,570	2,545	2,458	2,524	2,083	1,368
<b>Op. Margin</b>	15.3%	14.1%	13.6%	14.1%	12.8%	13.0%	12.6%	12.4%	10.0%	6.7%
<b>Net Profit</b>	1,067	1,143	1,060	1,266	1,449	2,340	1,343	1,330	1,147	710
<b>Net Margin</b>	7.6%	6.6%	6.2%	6.9%	7.2%	12.0%	6.9%	6.5%	5.5%	3.5%
<b>Free Cash Flow</b>	1,238	1,017	1,007	1,108	1,413	1,186	1,614	3,633	1,935	1,522
<b>Income Tax</b>	569	638	627	692	502	603	450	572	417	343

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	23,120	25,381	25,365	26,961	28,823	30,019	36,893	38,976	38,911	38,343
<b>Cash &amp; Equivalents</b>	683	634	549	749	1,173	2,454	1,129	1,330	1,678	1,366
<b>Acc. Receivable</b>	3,450	3,669	3,751	4,201	4,566	3,799	3,927	3,984	3,973	3,936
<b>Inventories</b>	1,097	1,116	1,341	1,414	1,549	1,678	1,863	2,331	2,307	2,462
<b>Goodwill &amp; Int.</b>	12,416	13,952	13,863	14,545	15,341	14,746	17,299	17,637	17,913	18,563
<b>Total Liabilities</b>	13,635	15,353	14,869	15,279	15,832	15,260	22,076	23,809	23,083	21,775
<b>Accounts Payable</b>	667	714	781	888	885	909	936	1,018	971	999
<b>Long-Term Debt</b>	8,416	9,466	8,646	8,597	8,935	8,632	10,168	9,702	9,704	9,152
<b>Total Equity</b>	9,235	9,443	9,887	10,548	11,781	13,450	13,395	13,794	14,378	15,002
<b>LTD/E Ratio</b>	0.91	1.00	0.87	0.82	0.76	0.64	0.76	0.70	0.67	0.61

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.7%	4.7%	4.2%	4.8%	5.2%	8.0%	4.0%	3.5%	2.9%	1.8%
<b>Return on Equity</b>	11.7%	12.2%	11.0%	12.4%	13.0%	18.6%	10.0%	9.8%	8.1%	4.8%
<b>ROIC</b>	6.0%	6.1%	5.5%	6.4%	6.9%	10.3%	5.6%	5.3%	4.6%	2.8%
<b>Shares Out.</b>	603	604	611	614	613	613	602	598	586	586
<b>Revenue/Share</b>	23.12	28.57	28.11	29.90	32.73	31.79	32.32	34.68	35.58	34.88
<b>FCF/Share</b>	2.04	1.68	1.65	1.81	2.30	1.93	2.67	6.18	3.30	2.60

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

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