



Fresenius Medical Care AG (FMS)

Updated November 18th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	2.0%	Market Cap:	\$12 B
Fair Value Price:	\$16	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/17/24 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	06/03/24 ²
Dividend Yield:	3.0%	5 Year Price Target	\$19	Years Of Dividend Growth:	24 ³
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	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 November 1st, 2023, Fresenius Medical reported third quarter results for the period ending September 30th, 2023. In constant currency, quarterly revenue was up 7% while adjusted earnings-per-share fell 5%.

Revenue for Care Delivery, formerly known as Health Care Services, grew 7% organically as a decrease in dialysis days only partially offset by an improvement in value-based care, reimbursement rates, and payor mix. Care Enablement, formerly known as Health Care Products, was higher by 5% due to an increase in demand for in-center disposables, chronic treatment machines, and home hemodialysis products. Pricing also aided 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 higher by a low single-digit percentage. Previously, the company had guided towards a possible low single-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
EPS	\$1.83	\$1.73	\$1.69	\$2.03	\$2.08	\$2.46	\$2.43	\$2.70	\$1.97	\$1.21	\$1.25	\$1.45
DPS	\$0.48	\$0.53	\$0.43	\$0.43	\$0.53	\$0.55	\$0.45	\$0.72	\$0.82	\$0.71	\$0.60	\$0.70
Shares⁴	603	604	611	614	613	613	602	598	586	586	587	580

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 \$1.25 in 2023. Applying a 3% growth rate to our 2023 earnings-per-share projection leads to 2028 earnings-per-share estimate of \$1.45.

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.

¹ Estimated ex-dividend date

² Estimate dividend payment date

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.5	20.1	24.3	21.1	18.5	13.2	16.7	16.6	16.5	26.8	16.0	13.0
Avg. Yld.	1.4%	1.5%	1.1%	1.0%	1.1%	1.3%	1.8%	1.8%	2.5%	2.2%	3.0%	3.7%

Shares of Fresenius Medical have declined by \$4, or 16.7%, since our August 24th, 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 16.0 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 4.1% 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 ~2.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

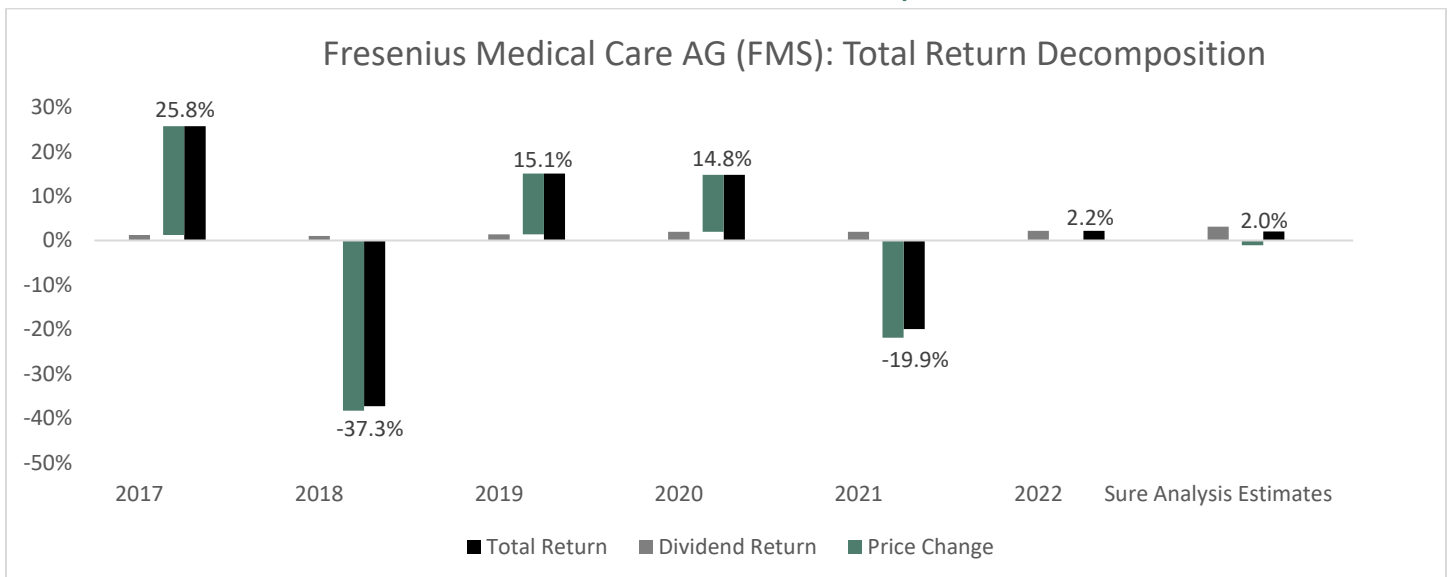
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	31%	25%	21%	26%	22%	19%	27%	42%	59%	48%	48%

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 expect Fresenius Medical to have an annual return 2.0% per year through 2028, compared to our prior estimate of a loss of 3.4%. Our projected return stems from a 3% earnings growth rate and a starting yield of 3.0% that are offset by a valuation headwind. The stock has fallen since our last report, but the valuation still leaves much to be desired. 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
Revenue	14,051	17,314	17,150	18,339	20,140	19,539	19,565	20,396	20,846	20,457
Gross Profit	4,557	5,463	5,745	6,216	6,816	6,087	6,041	6,324	6,007	5,600
Gross Margin	32.4%	31.6%	33.5%	33.9%	33.8%	31.2%	30.9%	31.0%	28.8%	27.4%
SG&A Exp.	2,291	2,892	3,272	3,467	4,120	3,407	3,394	3,579	3,663	3,991
D&A Exp.	623	765	719	776	833	932	1,784	2,040	1,921	1,939
Operating Profit	2,145	2,438	2,331	2,586	2,570	2,545	2,458	2,524	2,083	1,368
Op. Margin	15.3%	14.1%	13.6%	14.1%	12.8%	13.0%	12.6%	12.4%	10.0%	6.7%
Net Profit	1,067	1,143	1,060	1,266	1,449	2,340	1,343	1,330	1,147	710
Net Margin	7.6%	6.6%	6.2%	6.9%	7.2%	12.0%	6.9%	6.5%	5.5%	3.5%
Free Cash Flow	1,238	1,017	1,007	1,108	1,413	1,186	1,614	3,633	1,935	1,522
Income Tax	569	638	627	692	502	603	450	572	417	343

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	23,120	25,381	25,365	26,961	28,823	30,019	36,893	38,976	38,911	38,343
Cash & Equivalents	683	634	549	749	1,173	2,454	1,129	1,330	1,678	1,366
Acc. Receivable	3,450	3,669	3,751	4,201	4,566	3,799	3,927	3,984	3,973	3,936
Inventories	1,097	1,116	1,341	1,414	1,549	1,678	1,863	2,331	2,307	2,462
Goodwill & Int.	12,416	13,952	13,863	14,545	15,341	14,746	17,299	17,637	17,913	18,563
Total Liabilities	13,635	15,353	14,869	15,279	15,832	15,260	22,076	23,809	23,083	21,775
Accounts Payable	667	714	781	888	885	909	936	1,018	971	999
Long-Term Debt	8,416	9,466	8,646	8,597	8,935	8,632	10,168	9,702	9,704	9,152
Total Equity	9,235	9,443	9,887	10,548	11,781	13,450	13,395	13,794	14,378	15,002
LTD/E Ratio	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
Return on Assets	4.7%	4.7%	4.2%	4.8%	5.2%	8.0%	4.0%	3.5%	2.9%	1.8%
Return on Equity	11.7%	12.2%	11.0%	12.4%	13.0%	18.6%	10.0%	9.8%	8.1%	4.8%
ROIC	6.0%	6.1%	5.5%	6.4%	6.9%	10.3%	5.6%	5.3%	4.6%	2.8%
Shares Out.	603	604	611	614	613	613	602	598	586	586
Revenue/Share	23.12	28.57	28.11	29.90	32.73	31.79	32.32	34.68	35.58	34.88
FCF/Share	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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