Fresenius Medical Care AG & Co. KGaA

FY23 feedback from analyst meeting

Maintain Rating: UNDERPERFORM | PO: 29.00 EUR | Price: 35.62 EUR

Focus on Care Enablement, as mgmt. reiterates '25 targets

Fresenius Medical Care hosted an analyst meeting following their FY23 results, with Helen Giza, the CEO, and Martin Fischer, the CFO. Though we had already seen questions on the call (see our feedback note here), the key topic of the analyst meeting was the levers to improve Care Enablement margins. Management reiterated their ambition to reach 8-12% by 2025 (vs 2.1% in FY23). This improvement should be supported by 1) pricing of contracts, 2) better procurement and 3) footprint optimisation.

(Re)negotiation of contracts takes times

Care Enablement now includes indexation clauses in its new contracts to ensure inflation (and deflation) are passed through. While this should help reduce the headwind from cost inflation (€100-150m guided for 2024), we think it could take several quarters to show in the results. Indeed, this process started a couple of years ago but contracts usually last 5-7 years and indexation clauses cannot be added to existing contracts. In 2023, Care Enablement recorded c€100m of benefits from pricing (+3%), but the benefits were offset by transactional headwinds (majority of the cost base is in the US/Europe while products are shipped globally). Management expects a L-MSD increase in price in 2024 and c€50m of transactional headwinds.

FME25: footprint rationalisation & cost centralisation

In the 8-12% margin guidance, management expects FME25 to bring +6.5% alone (on top of the 2022 margin of 1.9%). Before launching its FME25 program, Fresenius Medical Care had localised its production and procurement processes due to its geographic-focused structure. They have now re-centralised and globalised procurement and contracting, in order to optimise their cost structure and lower their vulnerability to supply chain issues. We also understand that the newly appointed CFO is working on rationalising the footprint, which today includes >40 production sites (e.g., moving the Californian production site to Industrial Reynosa in Mexico).

BofA remains cautious on the turnaround trajectory

Management reiterated their 2025 guidance, for the group (10-14%) and each division (Care Delivery, 10-14%, Care Enablement 8-12%). Our biggest concern remains on Care Enablement's turnaround, where we see limited pricing (L-MSD in 2024), continuous transactional pressure and cost inflation. We sit 1.7% below low end of the guide in 2025 (6.3% vs guide 8-12%) as we think improving measures will take time to translate into better profitability (i.e., re-negotiation of contracts, indexation clauses, footprint rationalisation, etc.). We maintain Underperform.

22 February 2024

Equity

Marianne Bulot >>
Research Analyst
MLI (UK)
marianne.bulot@bofa.com

Julien Ouaddour >>
Research Analyst
MLI (UK)
julien.ouaddour@bofa.com

Monica Zhuang >>
Research Analyst
MLI (UK)
monica.zhuang@bofa.com

Stock Data

Price (Common / ADR)	35.62 EUR / 19.32 USD
Price Objective	29.00 EUR / 15.00 USD
Date Established	21-Feb-2024 / 21-Feb-2024
Investment Opinion	B-3-8 / B-3-8
52-Week Range	30.16 EUR-49.62 EUR
Market Value (mn)	10,451 EUR
Shares Outstanding (mn)	293.4 / 586.8
Average Daily Value (mn)	15.49 USD
Free Float	67.8%
BofA Ticker / Exchange	FMCQF / GER
BofA Ticker / Exchange	FMS / NYS
Bloomberg / Reuters	FME GY / FMEG.DE
ROE (2024E)	5.8%
Net Dbt to Eqty (Dec-2023A)	71.8%
ESGMeter™	High

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L-MSD: low to mid-single digit

Price objective basis & risk

Fresenius Medical Care AG & Co. KGaA (FMCQF / FMS)
To derive our PO of €29 (ADR $15, using a 1.09 FX rate), we take avg of 3 methodologies P/E (€31, c11x), EV/EBITDA (€34, c7x) and DCF (€23, c1% terminal growth rate). Assumptions:

P/E (€31, c11x): We apply a 50% discount to our sector multiple, with an additional 10% above the historical discount (40%) to reflect a lower growth profile vs history. We expect FMC to deliver lower growth and margin expansion vs our MedTech sector, forecasting a c2% sales CAGR in 2023-25E vs our sector avg of c6%.

EV/EBITDA (€34, c7x): We apply a 50% discount to our sector EV/EBITDA multiple, given FMC's lower 2023-25E CAGR in EBITDA of 6% vs MedTech sector at 13%. FMC has traded at avg discount of c50% over past 5 years.

DCF (€23, c1% terminal growth rate): We use DCF to capture the long-term value of FMC. We assume an 8% WACC using a risk-free rate of 3.4% and market risk premium of 7%, adjusted beta of 0.9x and terminal growth rate of c1%.

Upside risks: 1) better reimbursement levels and higher share of commercial payers in FMC's mix, 2) low patients' penetration and drug compliance with GLP-1, 3) market share gains and better execution, 4) acceleration of home haemodialysis, and 5) weakness in the EUR/USD. Downside risks: 1) reduction in reimbursement levels and smaller share of commercial payers in mix, 2) medical innovation removing the need for dialysis' treatment, 3) quality issues and product recalls, 4) inability to pass on inflation costs and 5) deterioration in USD against EUR.

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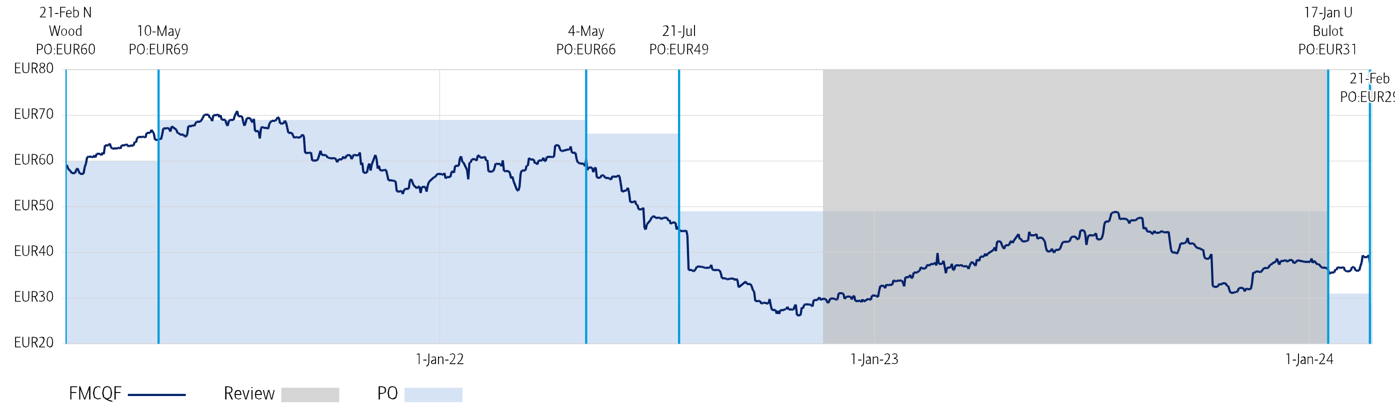
Important Disclosures

Fresenius Medical (FMCQF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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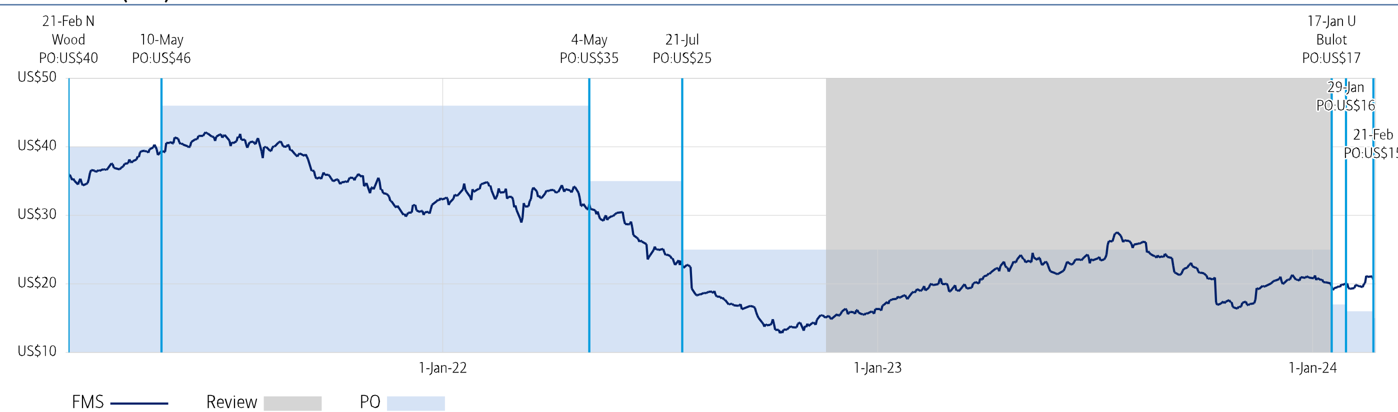
Fresenius Medical (FMS) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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