

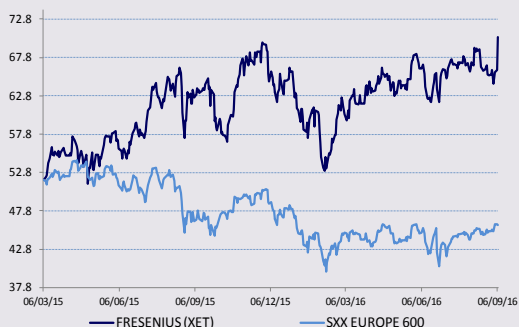
FOCUS

7th September 2016

Healthcare

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	70.4 / 53.1
Market capitalisation (EURm)	38,480
Enterprise Value (BG estimates EURm)	53,729
Avg. 6m daily volume ('000 shares)	1,068
Free Float	64.0%
3y EPS CAGR	12.6%
Gearing (12/15)	118%
Dividend yield (12/16e)	2.74%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	27,626	28,927	33,694	36,132
EBIT (EURm)	3,875	4,250	4,865	5,311
Basic EPS (EUR)	2.50	2.89	3.28	3.65
Diluted EPS (EUR)	2.62	2.97	3.38	3.74
EV/Sales	1.88x	1.86x	1.77x	1.67x
EV/EBITDA	10.4x	9.9x	9.6x	8.9x
EV/EBIT	13.4x	12.6x	12.3x	11.3x
P/E	26.9x	23.7x	20.9x	18.8x
ROCE	3.8	4.3	4.8	5.1



# Fresenius SE

¡Salud!

**Fair Value EUR78 vs. EUR73 (price EUR70.43) BUY-Top Picks**

Management's review of the growth prospect for Quirónsalud reinforce our sentiment on a perfect fit with Helios. Diluting KABI by bringing both stability and visibility to sales and earning ramps should be much appreciated in a difficult environment for the Pharmaceutical sector. Having integrated Quirónsalud in our model lift our 2017e EPS by 8.5%. We reiterate our BUY rating and raise our Fair Value from EUR73 to EUR78.

■ **Fresenius SE acquired Spain's leading hospital network, Quirónsalud, for EUR5.76bn.** This acquisition which is the largest conducted by Fresenius SE is a perfect fit into its portfolio. Indeed, it should bring both stability and visibility to the PnL at a time 1/ KABI NA long term growth might have cast doubt.

■ **The Spanish hospital Market is highly attractive** with 1/ an increased proportion of the population benefiting from a private insurance and 2/ lower hospital coverage leaving room for new projects. Quirónsalud's EUR2.7bn revenues which are expected to growth by 5% in the long term comes from both private and public payers and should offer to Fresenius a strong footprint in the country before taking a role into the consolidation of the market.

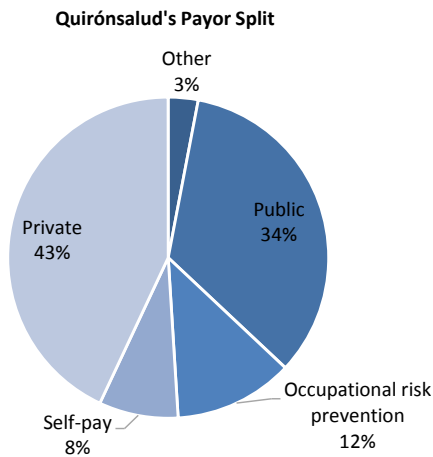
■ **On top of embedded synergies, the groups communicated on an additional EUR50m synergies** that should be reached in the mid-term. Considering 1/ comments from the CEO during the conference call and 2/ the groups excellent track record in integrating and over delivering on synergies, we do not rule out that they could go higher, further enhancing the accretion of the deal.

■ Integrating Quirónsalud to our estimates with synergies of EUR50m as a base scenario **lift our EPS by 8.5%, 10% and 10.7% in 2017e, 2018e and 2019e respectively.** We reiterate our BUY rating for Fresenius which is included in our Q3 top picks list. Our new Fair Value is increased by EUR5 to EUR78 offering an upside of 11%.

	<b>Analyst:</b>	<b>Sector Analyst Team:</b>
	<b>Hugo Solvet</b>	Mickael Chane Du
	33(0) 1 56 68 75 57	Eric Le Berrigaud
	hsolvet@bryangarnier.com	

## Fresenius SE Major keys to Focus on

### 1. One Chart



#### ■ Building a leading European hospital network...

Having reached critical mass in the German hospital market, Fresenius SE has announced the European expansion of its hospital activities with the acquisition of Quirónsalud for EUR5.76bn. Following the merger of IDCsalud and Quirón, Spain's first and second largest hospital networks, in June 2014, Quirónsalud operates 43 hospitals, 39 outpatient centres and 300 occupational risk prevention centres, which are expected to generate sales of EUR2.5bn and EUR2.7bn in 2016e and 2017e.

#### ■ ... In the attractive Spanish market.

The country has more private insurance holders than Germany (9.4m i.e. 20% of population vs. 8.8m i.e. 11% of population) as private insurance 1) comes on top of public insurance and 2) access is easier with no annual salary threshold. This leads to lower premiums (EUR70/month vs.

EUR240/month in Spain and Germany respectively) in private insurance and hence a larger population pool likely to be treated in Quirónsalud's Spanish hospitals than in Helios' German ones.

#### ■ ... driving 5.4% and 8% sales growth in 2016e and 2017e respectively

- **Public payers (NHS).** Quirónsalud runs five long-term concession hospitals with the average expiry year for the Private Public Partnership in 2041. While the basic remuneration source for these hospitals is capitation fees for the covered area, incremental sources of revenues could be derived from attracting more patients than the number included in the coverage area (called free-choice patients). Quirónsalud's 1) reputation for delivering quality treatments to cancer and cardiovascular patients although it covers all types of medical specialty and 2) short waiting time i.e. 2 days shorter than other hospitals on average, should help the group to at least maintain its positive balance.
- **Occupational risk prevention (ORP)** for employees could help to orientate future patients to Quirónsalud hospitals
- **Self-pay** is represented by treatments not covered by NHS or HIC (dental treatment, medical tourism etc). We would highlight the fact that while the company's geographical footprint spreads across all Spain with a focus on the country's richest regions (i.e. Andalusia, Catalonia and Madrid), Quirónsalud is most likely to benefit from out-of-pocket payments from treatments.
- **Private payers (HIC).** FRE's due diligence points towards a relatively low age of private insurance holders, which should benefit long term growth. In the short term, the size of the company, which operates 38 private hospitals and 39 outpatients' centres could provide Quirónsalud increased negotiating clout.

- On top of that, we have identified further sources of growth with 1) the expansion of existing facilities and new projects with Spain's hospital bed/k inhabitants ratio being lower than in Germany (3.2 vs 8.3) and 2) the acquisition of private hospitals following the integration of Quirónsalud's existing ones. As a result, we are not ruling out the prospect of a medium term growth rate of above 5%.

### 2. One Sentence

#### *"Our conservative synergies estimates"*

On top of the EUR60-65m EBITDA margin ramp-up in terms of absolute numbers expected in 2016e and 2017e (EUR50-60m equally split between leverage on cost synergies within Quirónsalud and the previous plan and EUR10m from acquisitions), EUR50m in annual synergies should be reached within a three -year timeframe. Management provided little granularity on the split of these synergies, which should be derived from procurement (in-depth review in the upcoming weeks), cross-selling on ORP and patient's management process applicable to Helios.

### 3. One Figure

#### 8.5% EPS accretion in 2017e

FRE has a track record for integrating companies and over-delivering on synergies. Following management’s comments, we are not ruling out the possibility of even higher synergies and hence, have modeled different scenarios depending on whether they reach EUR50m or EUR75m. Other hypothesis include a 5% long term growth rate, 1.5% cost of debt and 25% tax rate.

	2017e	2018e	2019e
Synergies/year (EURm)	20	35	50
EPS accretion (in %)	8,5%	10,0%	10,7%
Synergies/year (EURm)	25	50	75
EPS accretion (in %)	9,0%	11,4%	12,8%

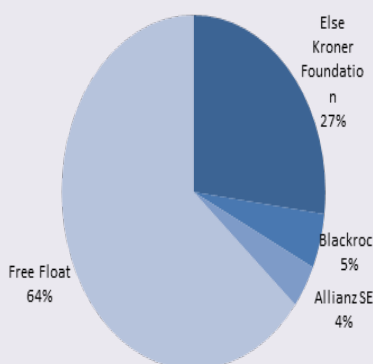
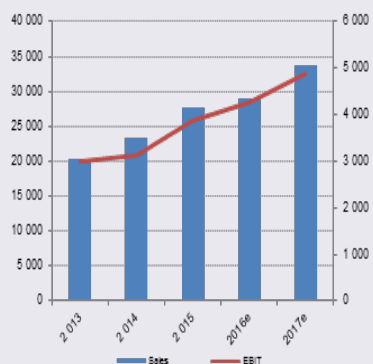
### 4. How does this acquisition impact our Investment Case

By slightly diluting KABI, Quirónsalud’s acquisition mitigates the risk that could kick in from difficulties to keep up with high margins at KABI North America (17% of Fresenius’ sales). Indeed, the continuous easing of the drug shortage situation in the US, might increase top-line pressure (-6% organic decline in Q2 2016 for KABI NA) and translate into higher than expected pressure on profitability levels. However, both our qualitative index points to management’s ability to target key IV Gx products (see below) and yesterday’s acquisition helps to rebalance the risks mentioned above by adding sustainable growth to the group.



### Next Catalysts

Period	Event	Comment
Oct. 27 <sup>th</sup>	Financials	Q3 2016 results
Nov. 15 <sup>th</sup>	BG&Co’s 4 <sup>th</sup> HC conference (Nov. 14 <sup>th</sup> -15 <sup>th</sup> )	Fresenius SE to attend our Healthcare conference
Late Feb. 2017	Financials	FY 2016 results with new mid-term targets



### Company description

Fresenius is a health care group with international operations, providing products and services for dialysis (Fresenius Medical Care), hospital and outpatient medical care. In 2014, Group sales were €23.2bn billion. The recent RHK acquisition strengthened the Group's footprint in Germany while its US are benefiting from a good sales momentum. Fresenius has more than 217,000 employees worldwide.

Simplified Profit & Loss Account (EURm)		2013	2014	2015	2016e	2017e	2018e
Revenues		20,331	23,231	27,626	28,927	33,694	36,132
Change (%)		5.4%	14.3%	18.9%	4.7%	16.5%	7.2%
Adjusted EBITDA		3,888	4,051	4,990	5,407	6,213	6,756
EBIT		2,991	3,114	3,875	4,250	4,865	5,311
Change (%)		0.3%	4.1%	24.4%	9.7%	14.5%	9.2%
Financial results		(584)	(602)	(613)	(592)	(761)	(715)
Pre-Tax profits		2,407	2,512	3,262	3,658	4,105	4,596
Exceptionals		NM	NM	NM	NM	NM	NM
Tax		(669)	(700)	(965)	(1,042)	(1,170)	(1,310)
Profits from associates		NM	NM	NM	NM	NM	NM
Minority interests		(727)	(745)	(939)	(1,034)	(1,124)	(1,270)
Net profit		1,051	1,086	1,423	1,581	1,811	2,016
Restated net profit		1,011	1,067	1,358	1,623	1,864	2,064
Change (%)		9.2%	5.5%	27.2%	19.5%	14.9%	10.7%

Cash Flow Statement (EURm)		2013	2014	2015	2016e	2017e	2018e
Operating cash flows		2,320	2,585	3,327	3,690	4,020	4,598
Change in working capital		68.0	(1,258)	(1,173)	(330)	(1,502)	(768)
Capex, net		(1,071)	(1,345)	(1,489)	(1,736)	(2,029)	(2,065)
Financial investments, net		(3,603)	(3,351)	(1,494)	(3,014)	(8,612)	(3,116)
Dividends		(491)	(582)	(920)	(1,054)	(1,224)	(1,356)
Other		NM	NM	NM	NM	NM	NM
Net debt		11,940	12,429	13,518	15,249	21,302	21,776
Free Cash flow		1,520	206	722	1,573	722	1,719

Balance Sheet (EURm)		2013	2014	2015	2016e	2017e	2018e
Tangible fixed assets		5,082	6,776	7,428	7,980	8,633	9,226
Intangibles assets		16,067	21,314	23,033	24,338	30,949	32,026
Cash & equivalents		864	1,175	1,044	250	(5,803)	(6,277)
current assets		7,972	10,028	10,917	10,442	5,677	5,861
Other assets		3,637	1,779	1,792	1,792	1,792	1,792
Total assets		32,758	39,897	43,170	44,552	47,051	48,905
L & ST Debt		17,896	21,753	22,444	22,130	22,747	22,538
Others liabilities		1,130	1,980	1,776	1,776	1,776	1,776
Shareholders' funds		13,732	16,164	18,950	20,646	22,528	24,591
Total Liabilities		19,026	23,733	24,220	23,906	24,523	24,314
Capital employed		26,735	32,793	35,761	37,315	39,039	40,699

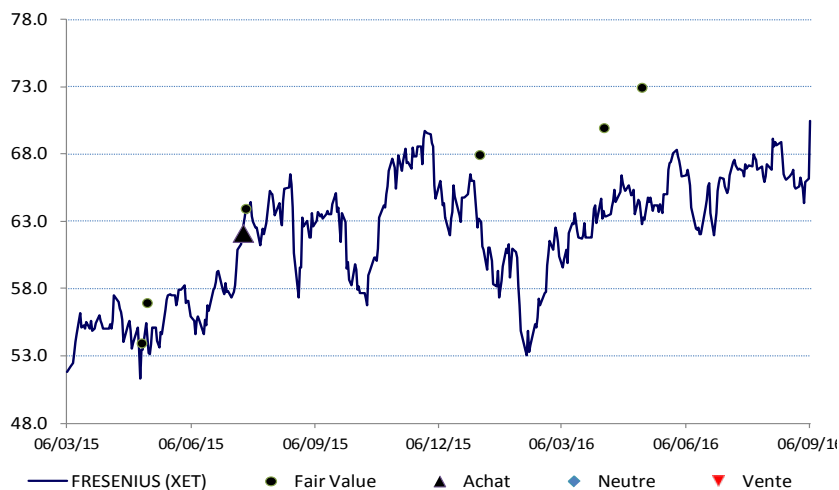
Ratios		2013	2014	2015	2016e	2017e	2018e
Operating margin		14.71	13.40	14.03	14.69	14.44	14.70
Tax rate		27.79	27.87	29.59	28.50	28.50	28.50
Net margin		4.97	4.59	4.91	5.61	5.53	5.71
ROE (after tax)		7.36	6.60	7.16	7.86	8.27	8.39
ROCE (after tax)		3.78	3.25	3.80	4.35	4.77	5.07
Gearing		130	135	118	107	101	91.65
Pay out ratio		66.27	65.33	67.70	66.59	67.53	67.15
Number of shares, diluted		536	540	544	546	552	552

Data per Share (EUR)		2013	2014	2015	2016e	2017e	2018e
EPS		1.89	1.97	2.50	2.89	3.28	3.65
Restated EPS		1.96	2.01	2.62	2.97	3.38	3.74
% change		8.5%	2.5%	30.1%	13.6%	13.6%	10.7%
BVPS		25.62	29.91	34.84	37.80	40.79	44.53
Operating cash flows		4.33	4.78	6.12	6.76	7.28	8.33
FCF		2.84	0.38	1.33	2.88	1.31	3.11
Net dividend		1.25	1.29	1.69	1.93	2.21	2.45

Source: Company Data; Bryan, Garnier & Co ests.

# Price Chart and Rating History

## Fresenius SE



### Ratings

Date	Ratings	Price
14/07/15	BUY	EUR57.35
18/12/14	NEUTRAL	EUR41.7
15/05/12	BUY	EUR29.37

### Target Price

Date	Target price
04/05/16	EUR73
06/04/16	EUR70
05/01/16	EUR68
16/07/15	EUR64
14/07/15	EUR62
04/05/15	EUR57
30/04/15	EUR54
18/12/14	EUR42
26/02/14	EUR40
07/01/14	EUR41.25
26/11/13	EUR39.27
17/09/13	EUR36.96



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### Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

### Distribution of stock ratings

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NEUTRAL ratings 33.3%

SELL ratings 11.3%

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## BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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