MOODY'S
RATINGS

# Rating Action: Moody's Ratings changes Fresenius Medical Care AG's outlook to stable, affirms Baa3 ratings

17 May 2024

Frankfurt am Main, May 17, 2024 -- Moody's Ratings (Moody's) has today affirmed Fresenius Medical Care AG's (FME or the company) Baa3 long-term issuer rating. Moody's also affirmed FME's Baa3 backed senior unsecured, the (P)Baa3 backed senior unsecured MTN program and the Baa3 senior unsecured revolving credit facility (RCF) ratings. Concurrently, Moody's affirmed Fresenius Medical Care US Finance III, Inc.'s and Fresenius Medical Care US Finance II, Inc's Baa3 backed senior unsecured ratings. The outlook on FME, Fresenius Medical Care US Finance III, Inc. and Fresenius Medical Care US Finance II, Inc changed to stable from negative.

RATINGS RATIONALE

Today's change in outlook to stable from negative reflects the company's progress in restoring credit metrics and commitment to maintain its investment grade rating.

Following the significant weakening of its operating metrics since 2021, FME's cost improvement program has supported margin improvements and we expect further increase of Moody's adjusted EBITA-margin towards 12% in the next 12-18 months from 10% in 2023. Additionally, FME has executed divestments of non-core, lower margin assets, predominantly outside of the US, and we expect the company to use the proceeds to reduce gross debt which will support deleveraging.

In terms of operating performance, we believe that the company will be able to maintain organic revenue growth in low-single digit in percentage terms driven by ongoing volume recovery in dialysis treatments along the fundamental growth drivers leading to higher population requiring such treatments as well as the company's focus on growth areas such as value-based care and home dialysis. Within its product segment, we expect FME to achieve higher profitability from optimizing its production footprint as well as pricing initiatives. The one-time costs related to the cost improvement program will nevertheless continue to weigh negatively on the company's profitability until end of 2025, while the ongoing high inflation inherently poses downside risks to our base case.

FME remains being cash generative with expected Moody's adjusted free cash flow/debt of 3-5% despite high dividend payments and expected capital expenditures of around €850 million annually.

Including the gross debt repayment with the proceeds from its divestments, we expect FME's debt/EBITDA (Moody's adjusted) to reduce below 4.0x in the next 12-18 months from 4.2x as per LTM March 2024, a level commensurate with the Baa3 rating category.

More general, FME's rating remains supported by (1) its strong defensive business profile, underpinned by its large absolute scale and the recurring nature of its revenue stream as patients receive lifesaving dialysis treatment typically two to three times a week; (2) a strong market position as a leading vertically integrated provider of dialysis products and services globally; (3) expectation of growing number of dialysis patients globally, driven by aging population and an increase in lifestyle diseases, such as high blood pressure and diabetes, which progressively impair the kidneys' ability to function over time; and (4) its track record of positive free cash flow generation historically.

However, the rating is constrained by (1) regional concentration in North America (around 70% of revenue in 2023), where adverse changes in the regulatory environment or the payor mix can have materially negative impact on FME's revenue and profitability; (2) exposure to tightening healthcare budgets globally; (3) a shareholder oriented remuneration policy and potential for M&A although we currently do not expect larger transactions.

OUTLOOK RATIONALE

The stable outlook reflects our expectations that operating performance and credit metrics will improve in the next 12-18 months and the company being able to compensate ongoing inflationary pressure. Moreover, the stable outlook assumes that FME will remain committed to its investment grade rating by prioritizing its public commitment to its 3-3.5x net leverage range over capital allocation to M&A and shareholders' distribution.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the recent weak positioning of the rating, an upgrade is unlikely in the short-term. Positive rating pressure could arise if Moody's adjusted gross debt/EBITDA declines sustainably below 3x; Moody's adjusted retained cash flow/net debt increases sustainably above 20%; the company establishes a longer track record of prudent management of the group's liquidity, with early refinancing of upcoming maturities.

Negative rating pressure could arise if Moody's adjusted gross debt/EBITDA exceeds 4x on a sustained basis; Moody's adjusted retained cash flow/net debt declines below 15% on a sustained basis and/or negative free cash flow generation for a prolonged period.

LIQUIDITY

The liquidity of FME is good. As of end March 2024, the company had approximately €1.1 billion of cash on its balance sheet and access to an undrawn €2 billion syndicated senior unsecured revolving credit facility, which matures in July 2027. The rating agency projects the Moody's adjusted free cash flow (after lease repayment and dividend distribution) of around €500 million per year in 2024 and 2025. In addition, FME has access to €0.7 billion other bilateral committed credit facilities, €0.5 billion capacity under uncommitted bilateral credit facilities, access to a $0.9 billion account receivable facility, which matures in August 2024, and €1.4 billion capacity under its €1.5 billion commercial paper program. The next long-term debt maturities include $400 million Fresenius Medical Care US Finance II, Inc's backed senior unsecured in 2024, €700 million FME's backed senior unsecured bonds and term loans in 2025 and in total €2.1 billion FME's and Fresenius Medical Care US Finance III, Inc.'s backed senior unsecured debts in 2026.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at https://ratings.moodys.com/rmc-documents/356424 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Bad Homburg, Germany, Fresenius Medical Care AG (FME) is the world's leading provider of dialysis products and dialysis services. In 2023, the group's revenue amounted to €19.5 billion. The company is publicly listed with Fresenius SE & Co. KGaA (FSE), owning approximately 32% of the company.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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