Fresenius Third Quarter Results a Model of Consistency

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Fresenius Medical Care FMS reported strong third-quarter results Tuesday, showing that it remains a consistent operator in the dialysis space. With regulatory uncertainty now behind it after the release of the final bundling proposal from CMS this past summer, we expect the firm to finish its fiscal year on a high note next quarter, and carry its earnings momentum into 2011. We will leave our fair value estimate in place for now.

The firm grew revenue by 7% in constant currency to roughly $3.1 billion, with organic growth contributing to most of the increase. Overall dialysis service revenue grew 9% in constant currency to $2.3 billion, helped by an increase in revenue per treatment of 3% to $359 on higher reimbursement. Meanwhile, Fresenius' products group grew 3% constant currency to $737 million, as a pickup in the international segment offset a relatively flat performance in North America, driven by product mix shifts and lower reimbursement for Venofer, an intravenous iron therapeutic. The company's overall operating margin increased by about 50 basis points to 16% of sales during the quarter, led by scale advantages and higher revenue per treatment in the domestic market.

Fresenius continues to deliver a steady operating performance quarter after quarter, and we don't expect that to change much in 2011 even as the regulatory environment begins to shift. While it's not perfectly clear what changes, if any, will occur with the firm's North American services segment as bundling takes hold, we believe these changes will largely be muted by Fresenius' products segment and international focus, which provide diversity to its cash flows. We continue to believe the company's long-term prospects are sound.

http://quicktake.morningstar.com/Stocknet/san.aspx?id=358344