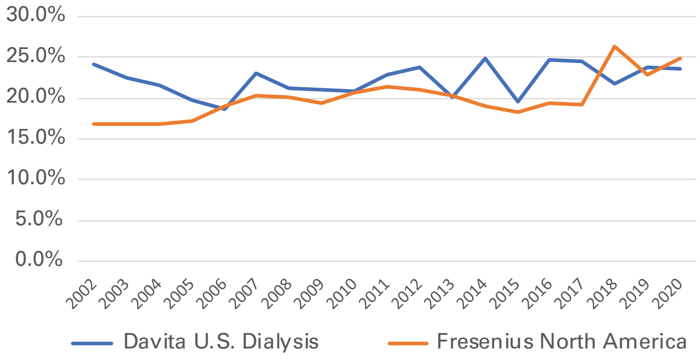
THIRD QUARTER 2021 HIGHLIGHTED HOLDING: FRESENIUS MEDICAL CARE

The impact of COVID-19 on Fresenius Medical Care is inherently transient. At the same time, favorable industry trends are emerging, the benefits of which should largely accrue to the world's preeminent dialysis company.

Fresenius Medical Care (FMC) is a leading global provider of dialysis products and services, with over 345,000 patients and products distributed in 150 countries. In its core market of North America, accounting for nearly 70% of total sales, FMC competes primarily with Denver-based DaVita, with each splitting a roughly 75% share of the $36 billion services market. Both DaVita and FMC have a 25+ year history of generating relatively steady 20% EBITDA[1] margins in the United States (Figure 1), but only FMC is vertically integrated as a supplier of dialysis equipment and consumables with a significant presence overseas, providing it with a long-term growth avenue via under-penetrated international markets.

Figure 1: EBITDA Margins



Source: Company filings, Pzena analysis

FMC's core services segment – accounting for nearly 80% of total company revenue – involves the operation of over 4,000 dialysis centers. The average clinic has 80 patients treated across three shifts, and the business's fixed costs consist mostly of labor and occupancy – meaning scale is central to generating positive returns. In the highly consolidated US market, the competitive dynamic is quite attractive, as DaVita and FMC largely stay out of each other's way. In fact, in the majority of US counties where FMC operates, it maintains more than a 50% market share, and in areas with a particularly low population density, where only a single clinic may be needed, its dialysis centers effectively act as natural monopolies.

		Earning Per Share			Price/Earnings		
	Price	FY21E	FY22E	Normal*	FY21E	FY22E	Normal*
Fresenius	€60.86	€3.60	€4.23	€6.98	16.9x	14.4x	8.7x

Fiscal Year-End March 31
*Pzena estimate of normalized earnings
Source: Bloomberg, Pzena analysis
Data as of September 30, 2021

THE IMPACT OF COVID-19: SEVERE, BUT ULTIMATELY TRANSITORY

Unsurprisingly, the impact of COVID-19 was particularly severe on chronic kidney disease (CKD) patients who, due to their co-morbidities, experienced a mortality rate eight times that of the CKD population without COVID-19[2]. The loss of revenue associated with cumulative excess mortality, representing 4% of FMC's 2019 year-end total patient population, as well as higher COVID-19-related expenses, eroded the company's earnings (operating income fell by 35% year-over-year in the June '21 quarter) and share price along with it.

Despite these headwinds, the market appears to be ignoring a crucial eventuality: FMC's patient volumes are bound to revert to baseline levels due to the life-sustaining function of renal care, and when they do, margins should benefit disproportionally given the high fixed cost nature of the business. Given that the average time spent on dialysis is about five years, we anticipate overall volumes to normalize within one to three years as the impact of COVID-19 dissipates, while underlying risk factors for kidney disease – namely diabetes, hypertension, and obesity – continue to rise in the United States, driving organic

[1] Earnings before interest, taxes, depreciation, and amortization.

[2] Gibertoni D, Reno C, Rucci P, Fantini MP, Buscaroli A, Mosconi G, et al. (2021) COVID-19 incidence and mortality in non-dialysis chronic kidney disease patients. PLoS ONE 16(7): e0254525. https://doi.org/10.1371/journal.pone.0254525

growth. There are already tangible signs that FMC's patient population is stabilizing, with excess mortality markedly declining from its peak level of 3,705 in 4Q20 to 1,489 in 2Q21, no doubt a function of an improving patient vaccination rate.

Although cost inflation–resulting from higher wages and elevated freight rates, supplies, and chemical pricing–is pressuring margins today, historically, the company has mitigated margin pressures through efficiency initiatives and by leveraging its scale to renegotiate commercial contracts with payers and secure higher reimbursement rates – though it will take some time for this to flow through the income statement because higher reimbursements generally lag cost inflation.

We also believe investors are overlooking FMC's long-term growth opportunities, which include home-based dialysis services, value-based care programs, and continued expansion outside of North America.

LONG-TERM HEALTH TRENDS DRIVE GROWTH

Primarily due to an aging population, CKD is projected to become even more prevalent in the United States, with the CDC expecting 16% of the over-30 population to suffer from the illness by the year 2030, up from 14% in 2020[3]. The prevalence of end-stage renal disease (ESRD), which can materialize from CKD and requires dialysis and/or transplant, has predictably grown as CKD became more common, and the number of patients with ESRD is expected to increase between 29% and 68% from 2015 to 2030.[4]

[3] Centers for Disease Control and Prevention. Chronic Kidney Disease Surveillance System–United States. website. http://www.cdc.gov/ckd

[4] McCullough KP, Morgenstern H, Saran R, Herman WH, Robinson BM. Projecting ESRD Incidence and prevalence in the United States through 2030. J Am Soc Nephrol. 2019 Jan;30(1):127-135. doi: 10.1681/ASN.2018050531. Epub 2018 Dec 17. PMID: 30559143; PMCID: PMC6317596.

[5] Patient Activation Measure in Dialysis Dependent Patients in the United States

[6] United States Renal Data System. 2018 USRDS annual data report: Epidemiology of kidney disease in the United States. National Institutes of Health, National Institute of Diabetes and Digestive and Kidney Diseases, Bethesda, MD, 2018.
Publications based on USRDS data reported in the Annual Data Report or on the USRDS web site or supplied upon request must include the above citation and the following notice: The data reported here have been supplied by the United States Renal Data System (USRDS). The interpretation and reporting of these data are the responsibility of the author(s) and in no way should be seen as an official policy or interpretation of the U.S. government.

In addition, researchers are still learning about COVID-19's potential long-term effects. As it pertains to kidney problems, a recent study involving 1.7 million patients published in the Journal of the American Society of Nephrology found that between one and six months after being infected, people who recovered from COVID-19 were 35% more likely to have renal damage or an overall decline in kidney function than those who were not infected[5].

CAPITALIZING ON SECULAR SHIFTS

As part of the company's renal care continuum strategy, FMC will look to capitalize on the growing penetration of home dialysis. Currently, about 14% of FMC's patients dialyze at home (up from 10% in 2016), and the company is targeting 25% by 2022 – a goal of the 2019 Advancing American Kidney Health Executive Order. The economics of home dialysis are attractive even with the resulting lower clinic utilization, as per patient revenues are comparable to in-clinic, yet at a lower cost for FMC to serve. Also, lower capital expenditures associated with clinic build-outs should provide an ongoing tailwind for free cash flow. The most appealing aspect of dialyzing at home, however, is the improvement in patient outcomes that comes from facilitating an additional procedure each week. The added treatment will also likely drive more high-margin consumable sales for FMC, currently constituting about 21% of revenue.

The value-based care (VBC) paradigm shift is also a promising development that has the potential to boost FMC's business while simultaneously lowering healthcare costs. A VBC contract is essentially a capitated payment model, in which–in addition to providing dialysis care on a fee-for-service basis–FMC assumes responsibility for managing the ESRD patient's non-dialysis expenses, including hospitalizations, capturing a targeted margin of 5-6% on those dollars of medical spend by driving better outcomes, and thus, savings. The VBC model is effective because it incentivizes FMC to use its proximity to the end patient to deliver better care; and FMC's clinical staff are certainly better-positioned than the insurance carrier to detect signs of potential complications, and to intervene before serious (and expensive) adverse developments occur. VBC is still in its infancy, but the move to a "pay-for-performance" model is an important initiative in containing costs for people suffering with renal failure, who only make up 1% of the US Medicare population, but account for 7% of the Medicare budget[6]. As such, we believe VBC plans will become more common over time, and we estimate that the transition could boost FMC's EBITDA by up to 25%.

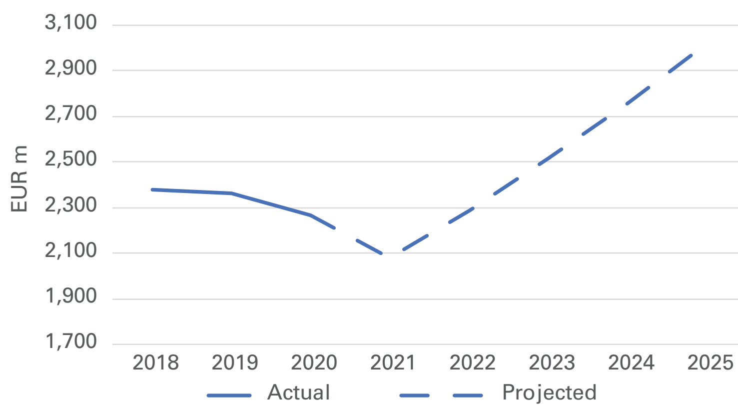
SIGNIFICANT OPPORTUNITIES BEYOND NORTH AMERICA

FMC's 50,000 hemodialysis machines, located in 50 different countries, treat more than half of the world's dialysis patients. Possessing the largest worldwide vertically integrated dialysis network provides FMC with a viable path to international expansion for dialysis services, which have not yet experienced the maturation and consolidation of the North American market. FMC will focus on entering markets first as a dialysis supplier; then, as they learn local market dynamics, prudently expand downstream into clinical services.

SUMMARY

A deep dive into FMC's business reveals an attractive growth profile based on secular trends that we believe other investors – who remain sidelined due to short term headwinds – are largely underappreciating. FMC has maintained a strong balance sheet while generating considerable cash flow over the past year, despite an extremely challenging environment. Yet the market is ascribing a multiple to the stock that assumes long-term earnings deterioration, not the growth that we're expecting (Figure 2). The timing of a normalization of FMC's elevated excess mortality rate is unknown, but one thing is almost certain: reliable, effective, and high-quality renal care will remain essential, and we believe Fresenius Medical Care is the world's best-positioned provider to meet those needs. Trading at 8.7x our estimate of normalized earnings, we view Fresenius as a compelling value opportunity.

Figure 2: Annual Operating Income



Source: Company filings, Pzena analysis

FURTHER INFORMATION

These materials are intended solely for informational purposes. The views expressed reflect the current views of Pzena Investment Management ("PIM") as of the date hereof and are subject to change. PIM is a registered investment adviser registered with the United States Securities and Exchange Commission. PIM does not undertake to advise you of any changes in the views expressed herein. There is no guarantee that any projection, forecast, or opinion in this material will be realized. Past performance is not indicative of future results. All investments involve risk, including risk of total loss.

This document does not constitute a current or past recommendation, an offer, or solicitation of an offer to purchase any securities or provide investment advisory services and should not be construed as such. The information contained herein is general in nature and does not constitute legal, tax, or investment advice. PIM does not make any warranty, express or implied, as to the information's accuracy or completeness. Prospective investors are encouraged to consult their own professional advisers as to the implications of making an investment in any securities or investment advisory services.

The specific portfolio securities discussed in this presentation are included for illustrative purposes only and were selected based on their ability to help you better understand our investment process. They were selected from securities in one or more of our strategies and were not selected based on performance. They do not represent all of the securities purchased or sold for our client accounts during any particular period, and it should not be assumed that investments in such securities were or will be profitable. PIM is a discretionary investment manager and does not make "recommendations" to buy or sell any securities. There is no assurance that any securities discussed herein remain in our portfolios at the time you receive this presentation or that securities sold have not been repurchased.

Fresenius Medical Care was held in our Global Value, International Value, International Focused Value, European Focused Value, Large Cap Focused Value, Large Cap Value, Focused Value, Mid Cap Focused Value, and other strategies during the third quarter of 2021.

For U.K. Investors Only:

This financial promotion is issued by Pzena Investment Management, Ltd. ("PIM UK"). PIM UK is a limited company registered in England and Wales with registered number 09380422, and its registered office is at 34-37 Liverpool Street, London EC2M 7PP, United Kingdom. PIM UK is an appointed representative of Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority. The Pzena documents are only made available to professional clients and eligible counterparties as defined by the FCA. Past performance is not indicative of future results. The value of your investment may go down as well as up, and you may not receive upon redemption the full amount of your original investment. The views and statements contained herein are those of Pzena Investment Management and are based on internal research.

For Australia and New Zealand Investors Only:

This document has been prepared and issued by Pzena Investment Management, LLC (ARBN 108 743 415), a limited liability company ("Pzena"). Pzena is regulated by the Securities and Exchange Commission (SEC) under U.S. laws, which differ from Australian laws. Pzena is exempt from the requirement to hold an Australian financial services license in Australia in accordance with ASIC Corporations (Repeal and Transitional) Instrument 2016/396. Pzena offers financial services in Australia to 'wholesale clients' only pursuant to that exemption. This document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

In New Zealand, any offer is limited to 'wholesale investors' within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not to be treated as an offer, and is not capable of acceptance by, any person in New Zealand who is not a Wholesale Investor.

For Jersey Investors Only:

Consent under the Control of Borrowing (Jersey) Order 1958 (the "COBO" Order) has not been obtained for the circulation of this document. Accordingly, the offer that is the subject of this document may only be made in Jersey where the offer is valid in the United Kingdom or Guernsey and is circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom, or Guernsey, as the case may be. The directors may, but are not obliged to, apply for such consent in the future. The services and/or products discussed herein are only suitable for sophisticated investors who understand the risks involved. Neither Pzena Investment Management, Ltd. nor Pzena Investment Management, LLC nor the activities of any functionary with regard to either Pzena Investment Management, Ltd. or Pzena Investment Management, LLC are subject to the provisions of the Financial Services (Jersey) Law 1998.