A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

# IS AI THE FUTURE OF MEDTECH?
# SIEMENS HEALTHINEERS AT THE FOREFRONT OF CHANGE

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Abstract

This Equity Research seeks to provide a comprehensive valuation of Siemens Healthineers by putting into practice the content learned during this Master's in Finance program. The valuation will be based on a Discounted Cash Flow Model, leveraging finance literature and modeling tools to estimate the company's intrinsic value and, as a result, present a well-founded investment thesis with a clear recommendation for potential investors. The reader can expect particular emphasis on the transformative impact of AI in enhancing operational efficiency within Siemens Healthineers and its role in the company's long-term growth.

Keywords:

MedTech, Siemens Healthineers, Equity Research, AI

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This report is part of the Siemens Healthineers AG Equity Research (annexed), developed by João Vieira and Tiago Curralo and should be read has an integral part of it.

# Table of Contents

# Introduction

This joint Equity Research Report on Siemens Healthineers AG aims to provide a comprehensive investment recommendation based on a detailed valuation analysis. The primary valuation method applied was the Discounted Cash Flow model, complemented by a relative valuation approach. These methods allow us to assess both Siemens Healthineers' intrinsic value and market perceptions. To develop the DCF model, we began by reformulating Siemens Healthineers' financial statements to focus on key operating drivers that create business value. Projections were formulated using financial literature, available data from platforms such as Bloomberg, and other financial tools. The analysis yielded a target share price of **€65.53** by December 2025, compared to a current share price of €53.78 as of December 16, 2024, reflecting an **upside potential of 22%** and an **expected total shareholder return of 25%**, including an estimated dividend of €1.34. Based on this, our recommendation is **BUY**.

The joint report is structured chronologically, it begins with a Company Overview, followed by an assessment of macroeconomic and industry trends. Next, a competitive analysis intended to evaluate Siemens Healthineers relative to its peers. The report then transitions into forward-looking sections, where we identify value drivers, present valuation outcomes, and perform a sensitivity and scenario analyses to explore variations in assumptions. Finally, the report concludes with an ESG analysis.

In this joint report, my individual contribution covers the Company Overview followed by a competitive analysis. I then present the valuation analysis, explaining the steps taken in the DCF model, the results of the relative valuation, and the conclusions from the sensitivity and scenario analyses. Finally, I provide an ESG analysis, looking at Siemens Healthineers' current sustainability practices and their potential benefits.

The other sections of the joint report, prepared by my teammate, focus on the macroeconomic and industry analysis. This part provides an understanding of the external environment and identifies the value drivers used in the projections, which will also be covered by him. Additionally, my teammate brings all the sections together in the conclusion, summarizing the key findings and reinforcing the final investment recommendation.

# Company Overview

## Company Description

***“Operates across more than 70 countries”***

Siemens Healthineers AG is a leading player in the global healthcare technology industry, renowned for its innovative solutions spanning medical diagnostics, therapeutic services, and healthcare consulting. Headquartered in Erlangen, Germany, Siemens Healthineers operates in a highly competitive medical technology landscape across more than 70 countries, illustrating its extensive global footprint. Before becoming a fully independent company, Siemens Healthineers was part of Siemens AG’s business portfolio, which continues to exert considerable influence, particularly in the company’s shareholder structure. A significant milestone was achieved in 2018 when Siemens Healthineers launched its IPO, raising over €4.5 billion, making it one of the largest healthcare IPOs in history. Since then, the company has demonstrated consistent growth. In 2024, Siemens Healthineers achieved revenues of €22.3 billion, reflecting an 3.2% year-on-year increase.

Figure 1:MAGNETOM Flow
*Source: Siemens Healthineers Website*

The business of Siemens Healthineers is divided into four primary segments: Imaging, Diagnostics, Varian, and Advanced Therapies:

Figure 2: Mobilett Mira Max, X-Ray system
*Source: Siemens Healthineers Website*

Imaging

This segment, the largest contributor to revenue, includes products such as magnetic resonance imaging (MRI), computed tomography (CT), and X-ray equipment. Siemens Healthineers holds a global market share of approximately 37% in this segment, showcasing its leadership position.

Figure 3: Atellica Solution
*Source: Siemens Healthineers Website*

Diagnostics

Encompasses in-vitro products and services used in laboratory diagnostics and point-of-care testing. In this market, Siemens Healthineers faces strong competition from companies like Roche Diagnostics, Abbott Laboratories, and Danaher Corporation.

Figure 4: TrueBeam Radiotherapy System
*Source: Varian Website*

Varian

Focused on oncology and cancer-related products, this segment provides advanced technologies to hospitals and clinics worldwide. The acquisition of Varian in 2020 significantly strengthened Siemens Healthineers' position in radiation oncology, capturing approximately 50% of the global market.

Figure 5:  ARTIS icono angiography system
*Source: Varian Website*

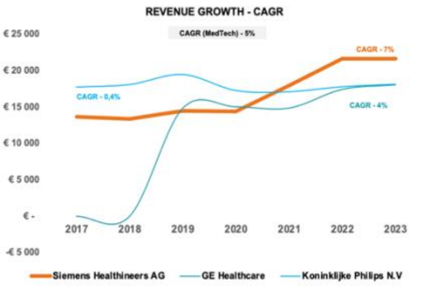


Figure 2 - CAGR – Industry Revenue Growth
*Source: Statista, 2024*

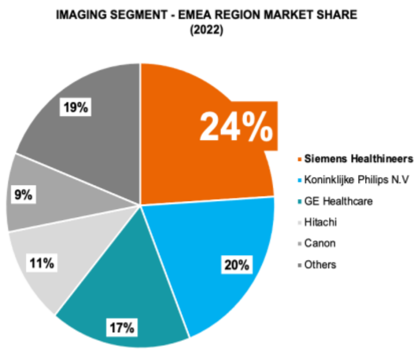


Figure 7 – EMEA Market Share on Imaging
*Source: Statista, 2024*

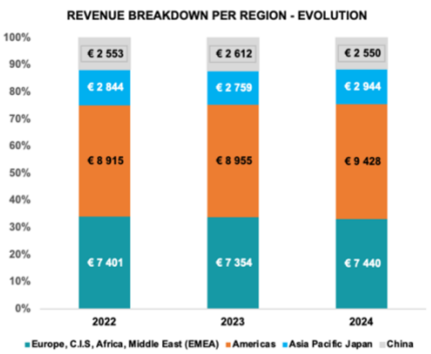


Figure 3 - Revenue Breakdown for Region
*Source: Siemens Healthineers Annual Reports*

<u>Advanced Therapies</u>

This segment supports image-guided minimally invasive treatments across cardiology, interventional radiology, and surgery. Siemens Healthineers leads this segment with a global market share of approximately 25–30%, followed closely by competitors like GE Healthcare, Philips N.V, and Medtronic plc.

Siemens Healthineers is growing faster than the sector and its main peers. With a revenue CAGR of nearly 8%, the company outperforms both the industry average of 5% and competitors like GE Healthcare and Philips N.V, which reported CAGRs of 4% and 0,4%, respectively (Statista, 2024).

## Geographical Presence

Siemens Healthineers has consistently aimed to achieve a global scale, and this ambition is reflected in its presence across more than 70 countries. The company operates within four key regions: EMEA[1], Americas, Asia-Pacific-Japan, and China. This extensive global footprint across diverse cultural, political, and economic landscapes enables a well-diversified geographical portfolio. By balancing region-specific risks with growth opportunities, the company ensures that its innovative products and solutions reach as many patients as possible worldwide.

In the EMEA region, Siemens Healthineers holds a commanding position in the European market, particularly in the Imaging segment, where it captures approximately 24% of the market share. This outpaces its competitors, with GE Healthcare holding 17% and Philips N.V approximately 20%, leaving 39% for smaller players (Statista, 2024). Siemens Healthineers' stronghold in this region can be attributed to its origins as a German-based company, and a well-known and trusted company across key European countries like Germany, Spain, and Italy.

The Americas, particularly the US, represent Siemens Healthineers' largest revenue-generating region, accounting for 42,2% of total revenue in FY 2024 [Fig 8]. The US market is a hub for innovation and capital investment, making it a critical focus for healthcare technology companies. Latin America also presents growth potential, with increasing healthcare investments creating opportunities for expansion.

In the Asia-Pacific-Japan region, Siemens Healthineers generates approximately 14% of its total revenue. While Japan remains a key market, its importance has diminished due to market saturation. However, emerging economies such as India, Indonesia, and South Korea have offset this decline, driven by robust healthcare

[1] Europe, Middle East and Africa.

demand resulting from demographic growth and an expanding middle class. This shift has made quality healthcare more accessible, transforming it from a luxury to a necessity.

***"By 2030, China is projected to become the largest medical technology market globally"***

China represents both a significant opportunity and a challenge for Siemens Healthineers. By 2030, China is projected to become the largest medical technology market globally, with government healthcare investments expected to reach $2.3 trillion (BizVibe, 2024). Siemens Healthineers has benefited from rapid revenue growth and a strong CAGR in this region over the past years. The company has implemented local production strategies to align with China's localization policies, reduce costs, and minimize import tariffs. However, recent developments have raised concerns. Delays in order execution have negatively impacted Siemens Healthineers' business in the region, undermining ongoing efforts to strengthen its presence. Political tensions, such as the US-China trade conflicts, exacerbate these risks, particularly with the potential for tariffs on imported goods. While the outlook for China remains promising, these challenges underscore the volatility and complexity of operating in this market.

## Business Model

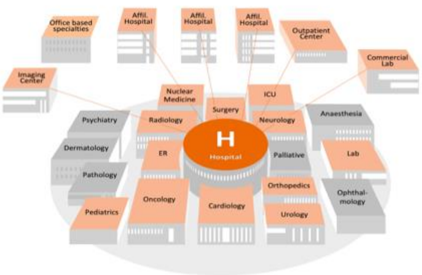


Figure 9 – Siemens Healthineers Business Model Representation
*Source: Siemens Healthineers Presentations*

Siemens Healthineers' business model is centered on generating recurring revenues through a diversified portfolio of products and long-term contracts typically associated with the use of the products sold. Across most of its segments, a significant portion of revenues comes from service agreements, which cover the maintenance and repair of medical equipment sold, as well as software updates. Another key revenue stream is the sale of equipment, which is often tied to the aforementioned long-term contracts. High-margin equipment, such as MRI and CT machines, exemplify these sales. Additionally, Siemens Healthineers offers flexible financing options, including leasing agreements. In FY 2024, income from operating leases amounted to €250 million, highlighting the effectiveness of this model in generating cash flow. Typically, the company also generates revenues from lower-cost instruments, particularly within its Diagnostics segment. Here, revenues are driven by the sale of reagents and consumables for laboratories, employing a "razor-and-blades" model[2]. To ensure a stable cash flow generation model that is not overly dependent on one-time equipment sales, Siemens Healthineers continuously expands its digital health portfolio. This includes AI-powered software and digital platforms designed to optimize operational workflows in healthcare. These solutions are often sold through subscription or licensing models. Many of these innovations are implemented through the company's "Value Partnerships"[3], wherein Siemens Healthineers collaborates with healthcare

***"A significant portion of revenues comes from service agreements"***

[2] Offering of a product at a lower price to drive sales of complementary consumable products at higher margins.
[3] Strategic collaborations with healthcare providers on Consulting, Operational Management, Digital and AI.

providers to manage entire departments, offer consulting services, and provide workforce training. These partnerships typically span over a decade, enabling the company to secure long-term cash flow streams and strengthen customer retention.

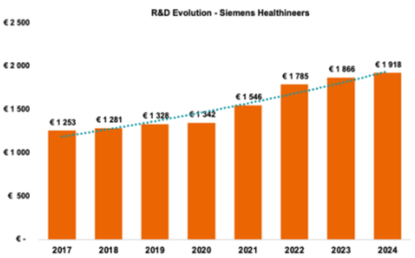

Figure 10 – R&D Expenses
*Source: Siemens Healthineers Annual Reports*

***"Merely adequate investment is insufficient to remain competitive and capture market share"***

***"Allocates substantial resources to secure long-term contracts and key clients"***

Regarding costs and expenses associated with Siemens Healthineers' operations and the broader sector, the largest component is research and development expenses [Fig 10]. This reflects the industry's reliance on rapid innovation, where merely adequate investment is insufficient to remain competitive and capture market share. Other significant costs comes from sales and marketing expenses, as Siemens Healthineers allocates substantial resources to secure long-term contracts and maintain strong relationships with key clients. In FY 2024, selling and general administrative expenses increased by 2.1% year-over-year, reaching nearly €3.7 billion. Maintaining a global supply chain also results in considerable logistical costs, including those related to raw materials, production, and distribution. These costs are often influenced by macroeconomic conditions, which can significantly affect shipping related expenses. A notable example is the recent order delays from the China region. Furthermore, Siemens Healthineers' global footprint entails substantial compliance costs due to the highly regulated nature of the industry in almost every key region where the company operates. These costs include expenses related to product testing, certifications and adherence to diverse regulatory standards across jurisdictions.

## Shareholder Structure

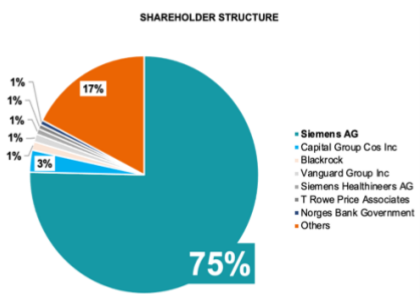

Figure 11 – Siemens Healthineers' Shareholder Structure
*Source: Bloomberg*

As of September 2024, Siemens Healthineers had approximately 1.128 billion shares outstanding, with Siemens AG retaining a majority stake of approximately 75.4%. Other ownership stakes are illustrated in [Fig 11].

# Competitive Landscape

In this section, we adopt a broad perspective to analyze key financials and ratios for Siemens Healthineers, assessing their historical trends, and projecting their likely trajectory during the forecast period used in our valuation. To enrich this financial overview, we compare Siemens Healthineers with its two closest peers: GE Healthcare and Philips N.V, based on similarities in product portfolio and revenue levels. Additionally, we benchmark Siemens Healthineers against the broader industry. For the purpose of this analysis, we constructed an industry average using eight selected peers[4]. These peers include a mix of European and

[4] GE Healthcare, Philips N.V, Medtronic, Elekta, Carl Zeiss Meditec, Sonova Holding, Becton Dickinson, Danaher.

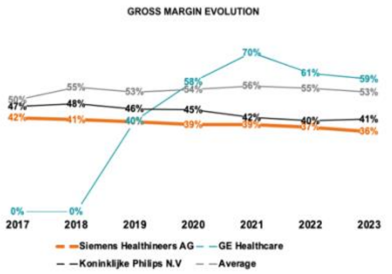

Figure 12 – SH, Peers and Industry Gross Margin
*Source: Analysts estimates, Bloomberg*

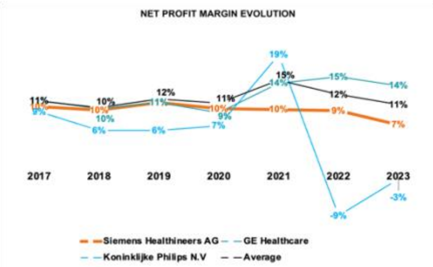

Figure 13 – SH, Peers and Industry Net Profit Margin Evolution
*Source: Analysts estimates, Bloomberg*

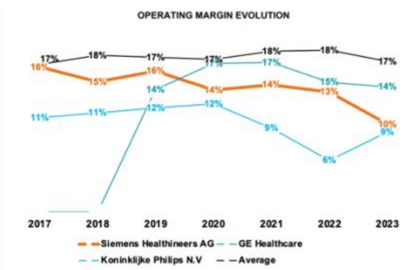

Figure 14 – SH, Peers and Industry Operating Margin Evolution
*Source: Analysts estimates, Bloomberg*

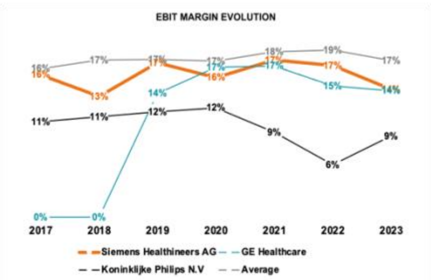

Figure 15 – SH, Peers and Industry EBIT Margin Evolution
*Source: Analysts estimates, Bloomberg*

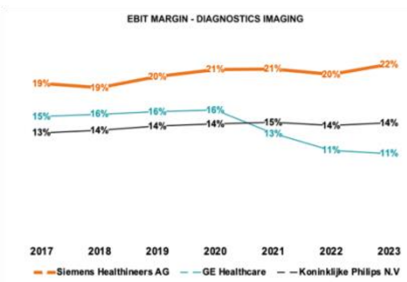

Figure 16 – SH, Peers and Industry EBIT Margin of Imaging segment
*Source: Analysts estimates, Bloomberg*

US companies within the same industry, encompassing both larger and smaller market capitalizations relative to Siemens Healthineers. This approach ensures a balanced and representative sample, reflecting the two key geographies where Siemens Healthineers operates, while minimizing bias in the industry averages. Through this comparison, we aim to identify instances where Siemens Healthineers stands out as an outlier and analyze areas of relative underperformance/overperformance compared to its main peers and the industry.

## Margins Analysis

From 2017 to 2023, Siemens Healthineers has underperformed both its primary competitors and the industry average in terms of gross margins. This underperformance can be attributed to several factors. One key reason is Siemens Healthineers' commitment to substantial investments in R&D, which, while vital for innovation, compresses gross margins due to the upfront costs that do not generate immediate returns. Additionally, the acquisition of Varian has exerted downward pressure on margins, primarily due to integration costs and financing expenses associated with the transaction. Siemens Healthineers' strategic focus on expanding into emerging markets has further impacted margins. To penetrate these price-sensitive regions, the company has adopted lower pricing strategies to capture market share, negatively affecting gross margins. Similar trends are evident in operating and net profit margin evolution. However, there are positive indications for margin recovery. We expect that due to a more positive macroeconomic outlook for 2025, the margins start showing an upward trend, but we were quite conservative of such evolution in terms of growth rates for 2025. The same approach was taken for other relevant margins, both the operating and net profit ones, as can be seen by [Fig 13] and [Fig 14].

A deeper and more focused analysis reveals a more nuanced picture. When examining EBIT margins for specific segments, the narrative of Siemens Healthineers underperforming its peers does not hold uniformly. This indicates that the margin pressures are more concentrated within specific segments rather than reflecting the entirety of Siemens Healthineers' operations or even all segments on the same proportion. We have accessed the Imaging and Advanced Therapies segments, as these are the most comparable to the segments of Siemens Healthineers' main peers. Within the Imaging segment, Siemens Healthineers has consistently outperformed its peers, while in the Advanced Therapies segment, Siemens Healthineers performs on par with its peers. These findings suggest that the perceived overall margin underperformance is primarily linked to the integration costs of Varian and the challenges within the Diagnostics segment, which has struggled to maintain profitability since the COVID-19 pandemic, the period where this segment registered a not comparable growth in terms of demand.

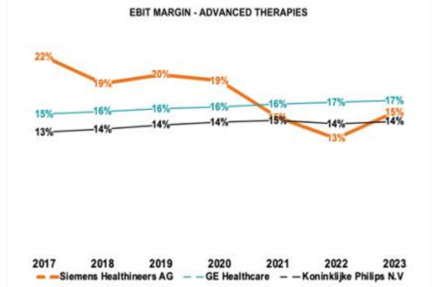


Figure 17 – SH, Peers EBIT Margin of the Advanced Therapies segment
*Source: Analysts estimates, Bloomberg*

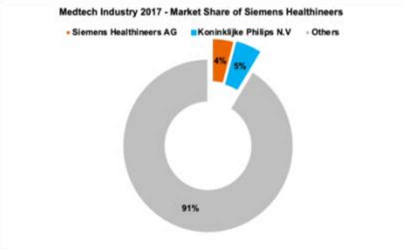


Figure 18 – Medtech Industry 2017: Market Share of SH and Peers
*Source: Analysts Estimates*

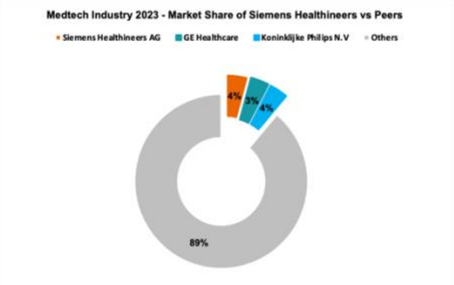


Figure 19 – Medtech Industry 2023: Market Share of SH and Peers
*Source: Analysts Estimates*

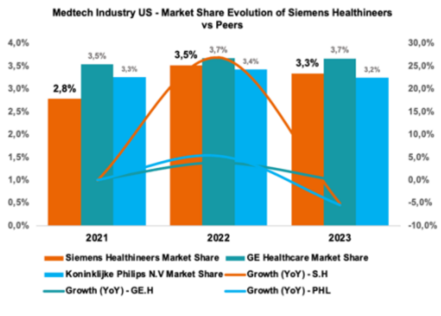


Figure 20 – Medtech Industry US: Market Share of SH and Peers
*Source: Analysts Estimates*

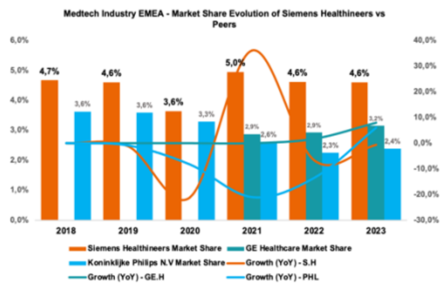


Figure 21 – Medtech Industry EMEA: Market Share of SH and Peers
*Source: Analysts Estimates*

The MedTech industry as a whole has experienced relatively stable margins from a financial perspective. However, margins have remained restrained post COVID-19, reflecting the broader macroeconomic challenges that continue to impact the sector.

For valuation and growth projections of value drivers, we have adopted a cautious approach, reflecting that we expected the persistence of these macroeconomic pressures in the short term, although in a lower scale. While we anticipate gradual recovery, the economic environment is expected to constrain industry growth rates for at least 2025.

## Market Share Evolution

From the [Fig 18] and [Fig 19], we can see that the MedTech industry from 2017 to today's is very well fragmented, highlighting the presence of numerous smaller players. Siemens Healthineers is being able to sustain its market share but being closely followed by both GE Healthcare and Philips N.V, although they have smaller share of the overall market. When accessing the industry, we can see that significant gains for a specific company is quite difficult to obtain, since smaller players are able to capture niches of specific segments and so, highlight the highly competitive environment in this industry. Since looking at the global industry does not seem to give us useful information to apply in our estimates, we tried to access the evolution of Siemens Healthineers and its peers in the most important geographies for Siemens Healthineers, the US, EMEA and Emerging Markets. The time frame used in each case will depend on the presence of available information to perform such estimations.

### US

As illustrated in [Fig 20], Siemens Healthineers has consistently increased its market share in the US, despite facing significant competition from GE Healthcare, which continues to outperform Siemens Healthineers. in this market. However, GE Healthcare has exhibited stagnating growth in the US, while Siemens Healthineers. has benefited from strategic initiatives, particularly the acquisition of Varian. This acquisition significantly boosted Siemens Healthineers' presence in the US market. This market share expansion, achieved in a relatively stagnant market, underscores the critical role of M&A activities in driving growth within the highly fragmented MedTech industry.

### EMEA

In the EMEA region, Siemens Healthineers stands out with a clear edge over its peers, even though it holds only about 5% of the total market. Despite the slow progress of European economy, Siemens Healthineers has managed to maintain its strong position, highlighting its ability to adapt to tough market conditions. The company’s compliance with strict European Union medical device regulations has strengthened its reputation and created barriers that make it harder for new competitors to enter the market. Additionally, Siemens Healthineers’ localized approach, such as providing cost-effective imaging systems for public healthcare providers with limited budgets, has helped it remain a key player in the region.

<u>Emerging Markets</u>

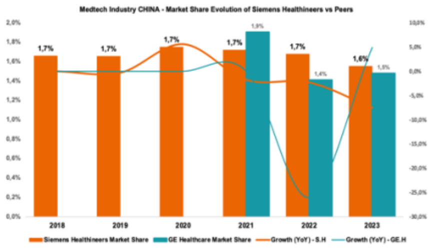


Figure 22 – Medtech Industry EMEA: Market Share of SH and Peers
*Source: Analysts Estimates*

Regarding emerging markets, [Fig 22] highlights the intense rivalry between GE Healthcare and Siemens Healthineers for market share. While Siemens Healthineers holds a slight advantage over GE Healthcare, it has demonstrated greater resilience and stability in its market share compared to the more volatile growth exhibited by GE Healthcare in these regions. Siemens Healthineers has strategically established localized manufacturing facilities in countries such as China and India, allowing it to offer lower prices and tailor products to local market needs. Despite facing intense competition from local players, particularly in China, Siemens Healthineers is perceived as offering superior quality and enjoys strong brand recognition. These factors have allowed the company to maintain a competitive edge over local competitors in the emerging markets thus far.

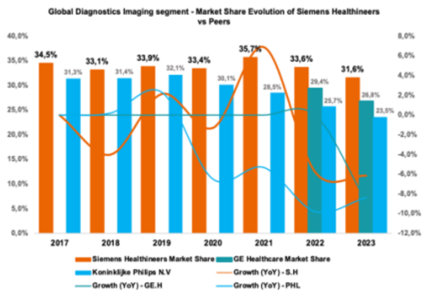


Figure 23 –Global Imaging Sector: Market Share of SH and Peers
*Source: Analysts Estimates*

Finally, we analyzed the common segment shared by Siemens Healthineers and its peers, the Imaging segment, and concluded that Siemens Healthineers is clearly a leader in this area, holding an impressive 31.6% share of the global market. Despite various challenges, Siemens Healthineers has consistently maintained its market share above 30%, primarily driven by its high-performing products, including MRI, CT, and PET systems, which are globally recognized for their superior technology [Fig 23].

## Financial Ratios Overview

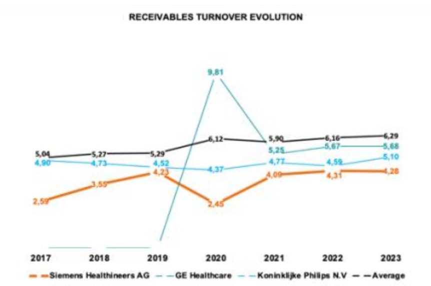


Figure 24 – Receivables Turnover SH, Peers and Industry Evolution
*Source: Analysts Estimates, Bloomberg*

After analyzing key financial ratios where Siemens Healthineers stands out, either positively or negatively, we identified that in terms of the Receivables Turnover Ratio, which measures how efficiently Siemens Healthineers collects receivables from clients, the company has consistently underperformed compared to both its main peers and the broader industry. This low ratio can largely be explained by the nature of Siemens Healthineers’ business model and its sales strategy. A significant portion of its equipment is utilized by public healthcare institutions, such as government-funded hospitals. Reliance on public contracts and government entities often leads to slower payment cycles due to bureaucratic processes. However, despite the longer collection periods, these contracts provide Siemens Healthineers with a stable and recurring cash flow, which is vital for liquidity. Over time, this predictability in revenue sources adds significant value, leading us to conclude that the underperformance in this ratio does not pose a substantial risk

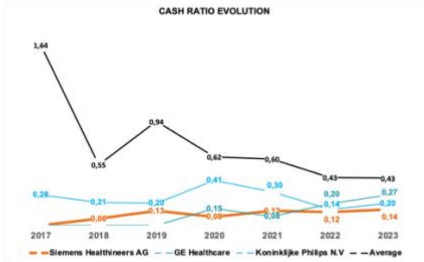

Figure 25 – Cash Ratio SH, Peers and Industry Evolution
*Source: Analysts Estimates, Bloomberg*

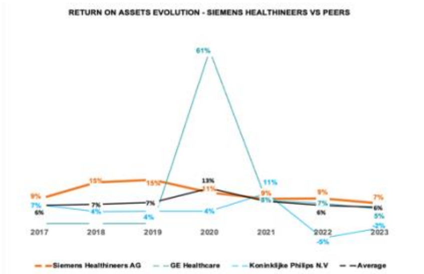

Figure 26 – ROA SH, Peers and Industry Evolution
*Source: Analysts Estimates, Bloomberg*

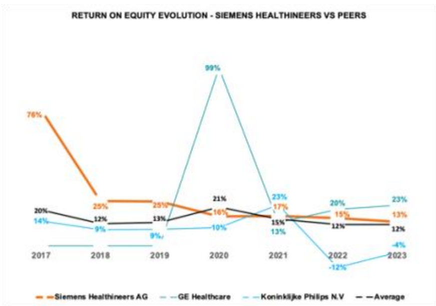

Figure 27 – ROE SH, Peers and Industry Evolution
*Source: Analysts Estimates, Bloomberg*

to Siemens Healthineers' liquidity. A similar perspective applies to the Cash Ratio, where Siemens Healthineers again appears to underperform. This can be attributed to its strategic reinvestment of cash flows into R&D initiatives and the recently M&A deal performed, such as the Varian acquisition. These activities leave the company with relatively lower cash reserves. However, this seemingly risky approach is mitigated by the current influence of Siemens Group, which could provide financial support if required. This connection allows Siemens Healthineers to adopt a less conservative cash management strategy, enabling it to prioritize innovation, a critical catalyst in the MedTech industry.

However, in contrast to these perceived weaknesses, Siemens Healthineers outperforms the industry in other key financial metrics, including ROE[5] and ROA[6] as illustrated in [Fig 26] and [Fig 27], showcasing a superior operational efficiency, which we consider an important competitive advantage and we firmly predict that this could further widen the gap with its direct competition in future years, something that will be addressed in more detail in the following sections of this report.

# Valuation

After forecasting Siemens Healthineers' financial statements until 2034, we have chosen to perform our valuation using a DCF model. This method allows us to accurately capture the long-term growth of key variables and dynamically assess how different assumptions impact the company's intrinsic value. While we have analysed each segment in detail and presented our growth expectations throughout the report, we opted not to pursue a Sum of the Parts (SOTP) valuation primarily due to the lack of critical segment-specific data, such as CAPEX, working capital, and debt levels. Without this information, the valuation would rely heavily on assumptions, which could undermine its accuracy and reliability. To avoid this, we have chosen to value the company as a whole, focusing on more grounded and reliable inputs to ensure a more precise and credible assessment.

## WACC

To determine the WACC, a key element for discounting Siemens Healthineers' free cash flows, we applied the standard formula:

$$WACC = \left(\frac{E}{V}\ X\ \mathcal{R}e\right) + \left(\frac{D}{V}\ X\ \mathcal{R}d\right) X\ (1 - T)$$

[5] Return on Equity
[6] Return on Assets

For the tax rate, we used a forecasted statutory tax rate from 2025 onwards, which was derived by applying a moving average of historical statutory tax rates from 2017 to 2024. To estimate the target debt-to-value ratio, we calculated a 80/20 weighted average between Siemens Healthineers' historical D/V over the past three years, the years after the pandemic, and the historical D/V of selected comparables (companies with similar net debt levels) for the same time frame, resulting in a target D/V of 18%. We assumed that the company would keep this ratio constant over the period considered. The cost of equity and cost of debt are 7,3% and 3,1%, respectively, which we will provide a detailed explanation of how these were calculated in the following sections. The achieved WACC value was 6,38% from 2025 onwards.

## Cost of Equity

To calculate the cost of equity, we decided to use the CAPM formula:

$$\mathcal{R}e = \mathcal{R}f + \beta e \times (\mathcal{R}m - \mathcal{R}f)$$

To determine the risk-free rate of 2.10%, we relied on the 10-year German government bond yield, as the cash flows being discounted are denominated in euros. For the market risk premium, we applied a value of 5.0%, in line with KPMG's guidance as of September 30, 2024 (KPMG, 2024). The MSCI World Index was selected as a proxy for the market portfolio to reflect Siemens Healthineers' global operations and market exposure. This index better captures the diversification potential of a global investor compared to narrower benchmarks such as the DAX, for example. Since the MSCI World Index is inherently denominated in USD, we utilized Bloomberg capabilities to convert the values into euros, ensuring consistency with the currency applied across our valuation. To estimate the equity beta, we conducted a regression analysis of Siemens Healthineers' historical stock returns against the MSCI World Index returns, using weekly data over a two-year period. This analysis yielded an estimated beta of approximately 1.04.

## Cost of Debt:

We faced challenges in estimating the cost of debt for Siemens Healthineers, primarily due to the absence of outstanding bond debt, which prevents us from directly obtaining a credit rating. Initially, we considered using the Siemens Group's credit rating as a proxy. However, this proved inadequate, as the two companies, despite being part of the same group, have distinct risk profiles, which makes the credit risk exposure of Siemens Healthineers significantly different from Siemens Group. As a result, we opted to derive a credit rating proxy using comparable companies.

To achieve this, we utilized the Bloomberg Fair Value Yield Curve, starting with an analysis of the BBB industrial fair value yield curve and subsequently applying the same methodology for A and BB-rated bonds. We then plotted the yields of Siemens Healthineers' competitors on the same graph, allowing us to assess the industry's relative standing in terms of credit rating. This approach enabled us to approximate that most of our closest competitors relies somewhere near BBB, so we have assumed that the same will stands for Siemens Healthineers. After this process, and having the corresponding credit ratings of the peers, we derived the cost of debt by applying the following formula:

Rd = YTM – Probability of Default (PD) x Loss Given Default (LGD)

Our objective was to determine the yield to maturity for long-term corporate bonds with a 10-year maturity, aligning with the forecasted time frame of our analysis. We used the average of yields of the selected peers as a proxy for Siemens Healthineers' yield to maturity. Subsequently, we adjusted the yields obtained to account for the probability of default and estimated a cumulative default rate along with a loss given default for each peer. By averaging these adjusted yields, we derived an estimated cost of debt for Siemens Healthineers of approximately 3.1%.

## DCF

| Inputs | | |
|---|---|---|
| Valuation Date | | 31/12/2025 |
| Net Debt/ Enterprise Value - 2025 | | 18,0% |
| Equity Value/ Enterprise Value - 2025 | | 82% |
| WACC | | 6,38% |
| Terminal Growth (g) | | 3,69% |
| #Outstanding shares (in millions) | | 1118 |
| **Outputs** | | |
| Sum PV of Core UFCF | € | 16 192 |
| PV of Terminal Value Core UFCF | € | 65 835 |
| Non-core Invested Capital | € | (1 082) |
| **Enterprise Value** | **€** | **80 945** |
| Net debt (Book Value) - 2025 | € | 12 667 |
| **Equity Value** | **€** | **73 266** |

Figure 28 – DCF Inputs and Outputs
*Source: Analysts estimates*

After determining the WACC and the respective cost of equity and debt, other critical inputs are required to complete our DCF analysis, including the terminal growth rate (g). The terminal growth rate was derived from the projected growth of unlevered free cash flow in the final year of our forecast, estimated at 3.69%. This assumption is credible, as it is slightly below the estimated weighted average perpetual growth rate of the economies in which the company operates, calculated to be at approximately 3.72%. This approach ensures that differences in regional economic exposure are accurately reflected while maintaining a conservative approach by incorporating a buffer through a rate marginally lower than the perpetual economic growth rate.

In our DCF model, we utilized the WACC for the current year, 2024, to accurately discount the UFCF for the starting year of our projections. This approach ensures the valuation is anchored to the latest available information, specifically reflecting Siemens Healthineers' current capital structure. For this purpose, we used the book value of net debt and the market value of equity, calculated as the share price multiplied by the outstanding shares, alongside the latest statutory tax rate. From 2025 onwards, subsequent UFCFs were discounted following the methodology detailed in the WACC subsection of this report.

The Enterprise Value, a key output of the DCF model, was calculated as the sum of the present value of Core UFCFs derived from our projections (evidenced in the annexed forecasted cash flow map), the terminal value based on the projected terminal growth rate, and the Non-Core invested capital. The latter was derived from our own projections based on a reformulated balance sheet, also provided in the annex. All relevant inputs and outputs are summarized in [Fig 28]. Ultimately, this bring us to a target share price of 65,53€, representing an upside potential of 22%.

## Multiples Valuation

To enhance our analysis, we also decided to conduct a relative valuation of Siemens Healthineers in comparison to its peers. This approach provides a market-based valuation benchmark, complementing our DCF analysis with additional market-driven insights. A similarity variable was applied to weight peers based on factors such as operational focus, revenue scale, profitability, and capital structure. This ensured that the analysis prioritized companies most comparable to Siemens Healthineers' core business. Furthermore, we adjusted valuation multiples including EV/EBITDA, EV/Revenue, Price/Book, and P/E to focus exclusively on core operations by excluding non-operating and non-recurring items. These adjustments eliminated distortions and improved the comparability assessment, aligning with Siemens Healthineers' operational reality. GE Healthcare received the highest weight at 25% due to its strong similarity with Siemens Healthineers in Imaging and Diagnostics, comparable revenue scale, and similar profitability, supported by a more conservative capital structure (lower leverage). Philips N.V, weighted at 20%, shares a similar revenue scale and balanced capital profile, aligning closely with Siemens Healthineers in asset structure and operations. Medtronic plc carries a weight of 15%, with higher profitability and operational overlap, although its larger scale and broader product mix limits comparability. Elekta's niche focus, smaller scale, and higher leverage reduce comparability as well, while its lower profitability explains its discounted multiples. Becton Dickinson and Danaher Corp were, as Elekta, also weighted at 10% each, due to differences on business focus, reflecting their activities on consumables for Becton Dickinson and the acquisition-driven growth for Danaher Corp. Lastly, Carl Zeiss Meditec and Sonova Holding were assigned 5% each, reflecting its niche operations and smallest scales.

| Similarity | |
|---|---|
| **Comparable companies** | |
| Elekta AB | **10%** |
| GE Healthcare | **25%** |
| Carl Zeiss Meditec AG | **5%** |
| Sonova Holding AG | **5%** |
| Medtronic PLC | **15%** |
| Becton Dickinson and Co | **10%** |
| Danaher Corp | **10%** |
| Koninklijke Philips N.V | **20%** |

Figure 29 – Multiples Valuation: Similarity weights
*Source: Analysts estimates, Bloomberg*

Siemens Healthineers trades at a premium compared to Elekta and Philips N.V, reflecting its stronger margins and growth prospects. Although it shares significant operational and profitability similarities with Medtronic and GE Healthcare, these peers are undervalued by the market relative to Siemens Healthineers. After refining the multiples to focus exclusively on core activities and adjusting the valuation based on peer similarities, the weighted multiples implied an average share price of €34.57. Siemens Healthineers consistently trades at higher multiples across all metrics compared to its main peers, reflecting investor confidence in its strong market position, operational efficiency, and growth potential. This premium valuation indicates that shareholders are willing to pay more for Siemens Healthineers, anticipating superior growth compared to its competitors. However, the lower average share price derived from the multiples valuation, relative to the one obtained through our DCF, highlights the market's more cautious pricing of Siemens Healthineers' growth potential compared to its intrinsic value. Despite this, it reinforces the view that investors regard Siemens Healthineers' growth prospects as significantly stronger than those of its peers, thereby justifying its premium valuation.

## SENSITIVITY ANALYSIS

To assess the potential impact of certain variables on Siemens Healthineers' share price and to validate the usefulness and accuracy of the assumptions made during our valuation modeling, a sensitivity analysis was conducted. This analysis not only helped us build confidence in our assumptions but also allowed us to evaluate their potential implications.

Firstly, as Siemens Healthineers does not have outstanding bonds, as previously mentioned, we must rely significantly on assumptions to estimate the cost of debt. This introduces a risk, as an overreliance on assumptions could impact the accuracy of our model. To mitigate this, we tested how variations in the cost of debt would influence the WACC and, consequently, the share price. For this analysis, we used the risk-free rate as the lower bound and the approximate percentage difference between our cost of debt estimate and the risk-free rate as the upper bound [Fig 30]. Our findings indicate that variations in the cost of debt result in minimal changes to the WACC and, consequently, the share price. This reassures us that the assumptions made are reasonable and do not significantly impact the model. Following this, we analyzed the effect of various beta levels on the cost of equity, applying the same methodology as before. For the upper and lower bounds, we used the values derived from the performed regression, at a 95% confidence level [Fig 31]. The results differed significantly from the cost of debt analysis, as variations in beta had a substantial impact on the cost of equity and, consequently, led to considerable fluctuations in the share price. To ensure the accuracy of the equity beta applied, we adopted a second approach for its estimation. Using Bloomberg, we gathered the levered betas of the competitors analyzed in this report, unlevered them considering their respective capital structures, and calculated the median of the unlevered betas of these peers. Using this methodology, and after determining the upper and lower bounds for a 95% confidence interval of the peers' unlevered betas, we found that the median value aligns with the interval considered and matches the result derived from our

| | Risk-Free | | | Rd | | | |
|---|---|---|---|---|---|---|---|
| | 2,10% | 2,40% | 2,80% | **3,09%** | 3,50% | 3,80% | 4,10% |
| **WACC** | 6,25% | 6,29% | 6,34% | **6,38%** | 6,43% | 6,47% | 6,50% |
| **Share Price** | € 69,66 | € 68,37 | € 66,82 | € **65,53** | € 64,16 | € 63,04 | € **62,22** |

Figure 30 – Sensitivity Analysis between the variables: Cost of Debt vs WACC
*Source: Analysts estimates, Bloomberg*

| | Lower 95% - Be | | | Be | | | Upper 95% - Be |
|---|---|---|---|---|---|---|---|
| | 0,69 | 0,80 | 0,90 | **1,04** | 1,14 | 1,24 | 1,39 |
| **Re** | 5,60% | 6,30% | 6,80% | **7,31%** | 7,80% | 8,30% | 9,00% |
| **WACC** | 4,98% | 5,55% | 5,96% | **6,37%** | 6,78% | 7,19% | 7,76% |
| **Share Price** | € 152,00 | € 101,14 | € 80,34 | € **65,53** | € 55,31 | € 47,20 | € 38,63 |

Figure 31 – Sensitivity Analysis between the variables: Equity Beta, Cost of Equity, WACC
*Source: Analysts estimates, Bloomberg*

| € 65,53 | 5,78% | 5,98% | 6,18% | 6,38% | 6,58% | 6,78% | 6,98% |
|---|---|---|---|---|---|---|---|
| 3,09% | € 68,88 | € 63,13 | € 58,12 | € 53,72 | € 49,82 | € 46,35 | € 43,23 |
| 3,29% | € 74,32 | € 67,75 | € 62,08 | € 57,14 | € 52,81 | € 48,97 | € 45,55 |
| 3,49% | € 80,71 | € 73,10 | € 66,63 | € 61,05 | € 56,19 | € 51,92 | € 48,14 |
| 3,69% | € 88,32 | € 79,40 | € 71,90 | € 65,53 | € 60,03 | € 55,24 | € 51,04 |
| 3,89% | € 97,53 | € 86,89 | € 78,10 | € 70,72 | € 64,44 | € 59,03 | € 54,32 |
| 4,09% | € 108,93 | € 95,97 | € 85,48 | € 76,83 | € 69,56 | € 63,38 | € 58,05 |
| 4,29% | € 123,37 | € 107,19 | € 94,43 | € 84,10 | € 75,58 | € 68,42 | € 62,33 |

Figure 32 – Sensitivity Analysis between the variables: WACC vs Terminal Growth Rate (g)
*Source: Analysts estimates, Bloomberg*

regression (βu = 0.65). This consistency confirms the accuracy of the regression used to estimate the equity beta and, consequently, the cost of equity applied. Finally, we assessed the impact of our estimated terminal growth rate (g) and the discount rate (WACC) on the share price. To analyse this variation, we applied a delta[7] of 0.2 percentage points for both WACC and g. The results showed that the share price could experience a favourable variation of approximately +142% or an unfavourable variation of around -40%. This highlights the high sensitivity of the share price to changes in these variables, which aligns with our expectations. This sensitivity we believe that can be attributed to the relatively recent establishment of Siemens Healthineers, the market's perception of the company as being in a growth phase or even the inherent volatility of this specific industry.

## SCENARIO ANALYSIS

To assess the potential outcomes of Siemens Healthineers' operational efficiency strategy, we conducted a scenario analysis focusing on variations in the projected COGS reduction factor. This analysis aims to evaluate the strategy's potential impact under extreme cases and its implications for the company's growth trajectory. Changes in this factor directly influence the terminal growth rate applied in our valuation, capturing also the extent to which the company's substantial R&D investments in AI and the digitalization of infrastructures and workflows translate into tangible results. The analysis involves two distinct scenarios:

Optimistic Scenario: The COGS reduction factor applied in our model decreases by 0.2 percentage points. This represents a situation where the operational efficiency strategy is fully realized, and investments in AI and digital solutions yield the expected returns and are effectively implemented.

Pessimistic Scenario: The COGS reduction factor increases by 0.2 percentage points, reflecting a case where the strategy fails to deliver the intended outcomes, and technological investments do not generate the anticipated returns.

| | Pessimistic | Base | Optimistic |
|---|---|---|---|
| Share Price (€) | € 44,64 | € 65,53 | € 96,25 |
| Upside Potential | -17% | 22% | 79% |

Figure 33 – Optimistic, Base and Pessimistic scenarios outputs
*Source: Analysts estimates*

For both scenarios, we conducted a DCF analysis using the same structure as our base case to isolate the impact of variations in the COGS reduction factor on the share price. To ensure the results remain focused on the effectiveness of the operational efficiency strategy, other key value drivers such as revenue growth across regions and segments were assumed the ones we assumed for the base case to avoid introducing bias. The results demonstrate that Siemens Healthineers' share price is highly sensitive to changes in the COGS reduction factor, with significant implications. In the optimistic scenario, where operational efficiency initiatives and technological investments are successfully implemented, the share price increases by 47% compared to our base case. Conversely, under the

[7] Absolute change or difference between two values, often expressed in percentage points.

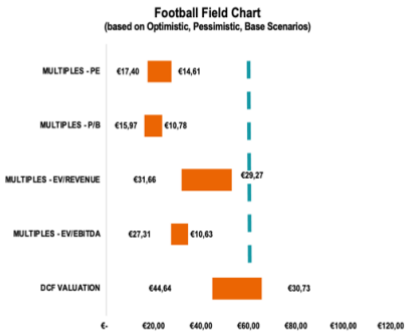


Figure 34 – Football Field Chart: DCF and Multiples Valuation outcomes for Optimistic, Base and Pessimistic scenarios
*Source: Analysts estimates*

pessimistic scenario, where the strategy falls short, the share price decreases by 32%. These outcomes emphasize the critical importance of effective execution in realizing the anticipated efficiencies, with a meaningful upside potential and an increase in total shareholder return of 57% if the strategy succeeds. However, this is counterbalanced by a notable downside risk, with a potential loss in shareholder value of approximately 11% if the strategy fails to meet expectations. This can be seen clearly in the results highlighted by [Fig 34].

# ESG Analysis

## Company's Commitment

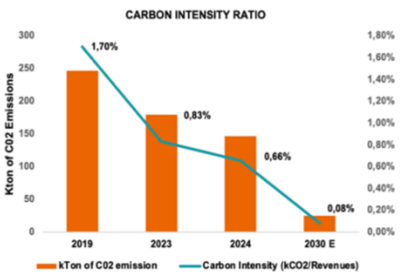


Figure 35 – Carbon Intensity (kCo2/Revenues) Evolution
*Source: Analysts estimates, Siemens Healthineers Sustainability Report 2024*

Siemens Healthineers has integrated sustainability into the core of its business strategy. The company has committed to ambitious environmental goals, including achieving Net Zero emissions by 2050. As part of this roadmap, Siemens Healthineers aims to reduce Scope 1 and 2 emissions by 90% by 2030. By 2024, the company had already achieved a 40% reduction, cutting its carbon footprint to 147 kilotonnes of $CO_2$e, as can be highlighted by [Fig 35]. Beyond emission reductions, Siemens Healthineers is advancing circular economy principles by refurbishing and reusing medical equipment. The company is further committed to increasing its share of circular revenue by 2030. In energy efficiency, a collaboration with the University of California led to a 33% reduction in energy consumption for MRI systems by implementing an innovative solution that powers down systems when idle. These advancements reflect the company's ongoing commitment to reducing energy usage while driving cost efficiencies.

## ESG Performance

Siemens Healthineers' strong ESG performance has been recognized by leading rating agencies. The company holds an ESG risk rating of 18.1 from Sustainalytics, placing it in the low-risk category, and an overall ESG score of 72 from LSEG, ranking it among the top performers in the Healthcare sector.

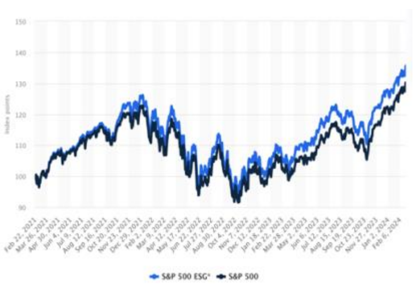

Figure 36 – S&P 500 ESG cumulative returns vs S&P 500
*Source: Statista*

From an investment perspective, Siemens Healthineers' ESG initiatives translate into financial benefits. The company's focus on energy efficiency and circularity not only bolsters its environmental credentials but also generates significant operational cost savings. These savings have been incorporated into our valuation through a reduction in COGS, as we expect these measures to have an increasing financial impact in the coming years as they are fully implemented. Furthermore, as demonstrated in [FIG 36], top-performing ESG companies are delivering higher returns compared to the broader market, illustrating the tangible financial impact of robust ESG integration. Siemens Healthineers' outperformance in ESG ratings compared to its peers reinforces our belief that further cost reductions will materialize. Additionally, empirical evidence linking ESG top performers to higher returns has guided our decision to incorporate these insights also into a more ambitious terminal growth rate assumption.

Annex: Full Report