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.

A NEW PARADIGM: A SHIFT FROM EXPANSIONARY INVESTMENTS TOWARDS PROFITABILITY OPTIMIZATION

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23rd January 2025

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, incorporating refined operational adjustments and comprehensive financial forecasts, leveraging finance literature and advanced 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 Siemens Healthineers strategic shift from expansionary investments toward profitability optimization, highlighting how Siemens Healthineers is prioritizing efficiency and margin improvement to drive sustainable long-term value.

Keywords:
MedTech, Siemens Healthineers, Equity Research, AI

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

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

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Introduction

This joint Equity Research Report on Siemens Healthineers AG examines the company's expected performance and strategic outlook in the context of its main revenue and cost drivers, investment strategies, and evolving external factors. Using a Discounted Cash Flow (DCF) model as the primary valuation method, based on financials adjusted to represent the core activities of the company and supported by relative valuation benchmarks, we gain insights into the company's trajectory, the key drivers behind its growth, and its ability to navigate industry headwinds. Our analysis projects a target share price of €65.53 by December 2025, reflecting an upside potential of 22% and a total shareholder return of 25%, including an estimated dividend of €1.34. Based on these findings, we issue a BUY recommendation.

The report follows a logical structure, beginning with a Company Overview and an analysis of macroeconomic and industry trends. It then transitions into a competitive analysis, evaluates value drivers and forecasts, and presents the valuation outcomes, incorporating sensitivity and scenario analyses to account for potential risks and opportunities. The report concludes with an ESG analysis, highlighting Siemens Healthineers sustainability initiatives and their alignment with long-term growth.

In this joint report, my individual contributions include the Market Analysis and Industry Landscape, where I analyse global trends and external factors influencing Siemens Healthineers, such as economic developments, demographic shifts, and the increasing burden of chronic diseases. I then focus on Value Drivers and Forecasts, identifying the key factors driving revenue growth, cost optimization and long-term profitability. Lastly, I provide the Conclusion and Final Recommendations, summarizing the report's findings and reinforcing our investment thesis.

The other sections, prepared by my colleague, include the Company Overview and Competitive Analysis, which assess Siemens Healthineers market positioning and performance relative to peers. He also conducts the Valuation Analysis, detailing the DCF methodology, relative valuation results, and sensitivity scenarios. Finally, he provides the ESG Analysis, emphasizing Siemens Healthineers sustainability efforts and their strategic importance.

Market Analysis and Industry Landscape

This section aims to provide a comprehensive foundation for the assumptions underpinning our projections and valuation. This analysis is intrinsically tied to an understanding of the macroeconomic outlook, as Siemens Healthineers is a global company whose operations are significantly influenced by prevailing and emerging macroeconomic trends. This section is structured into subsections to

provide a detailed and focused discussion on these topics, along with their implications for Siemens Healthineers. We begin with a brief overview of the current global economic environment and the outlook for the near future. Following this, we analyze the global healthcare industry, narrowing our focus to the MedTech sector. To capture the most relevant developments affecting Siemens Healthineers, we evaluate the industry dynamics in key geographies where the company has a substantial presence, particularly the US and European markets. Additionally, we examine emerging markets such as China and India, which we believe offer significant growth opportunities. Finally, we analyze the Imaging segment, one of the most critical contributors to Siemens Healthineers' revenue and market leadership.

Macroeconomic Outlook

"Global Economy has demonstrated resilience"

The last few years poses to prove the resilience of the economy. From the eruption of a global pandemic to the most recent geopolitical conflicts and extreme weather episodes, this have caused impacts like disruption of important supply chains, rising of energy prices and a rising on inflation and interest rates. Although these episodes, the global economy has demonstrated a certain resilience and it is expected that in the future, things will tend to stabilize, being this stabilization more likely to occur in certain regions.

The global GDP growth is forecasted at 3.2% in 2024 which will be sustained into 2025, and it is expected to remain flat. This growth will be more notable in emerging markets which are expected to grow at 5.1% contrasting with more advanced economies which are projected to just growth at 1.5% (International Monetary Fund, 2024). This shyer grow in advanced economies, specifically in Europe, which is projected to have a 0.8% GDP growth in 2025, poses risks for Siemens Healthineers since Europe accounts for approximately 30% of S.H' revenues.

		Projections	
	2023	2024	2025
World Output	**3.3**	**3.2**	**3.2**
Advanced Economies	**1.7**	**1.8**	**1.8**
United States	2.9	2.8	2.2
Euro Area	0.4	0.8	1.2
Germany	-0.3	0.0	0.8
France	1.1	1.1	1.1
Italy	0.7	0.7	0.8
Spain	2.7	2.9	2.1
Japan	1.7	0.3	1.1
United Kingdom	0.3	1.1	1.5
Canada	1.2	1.3	2.4
Other Advanced Economies[2]	1.8	2.1	2.2
Emerging Market and Developing Economies	**4.4**	**4.2**	**4.2**
Emerging and Developing Asia	5.7	5.3	5.0
China	5.2	4.8	4.5
India[3]	8.2	7.0	6.5

Figure 1– GDP Growth Projections
Source: International Monetary Fund, 2024

Inflation remains a critical factor influencing input costs, particularly for medical device components such as semiconductors, which are essential in the production of medical equipment. Rising inflation over the past two years has driven up

semiconductor prices by 15-20%. This increase has had a direct impact on production costs and subsequently on margins. However, global inflation, which has been a persistent challenge, is showing signs of stabilization. The IMF projects inflation to decline from 5.9% in 2023 to 4.5% by 2025. This disinflation trend is expected to be more pronounced in advanced economies, although certain regions may still face inflationary pressures. The normalization of inflation towards target levels by 2025 is anticipated in most major markets. This more favorable inflation outlook could help stabilize input costs and improve Siemens Healthineers' ability to manage margins.

Interest rates projected to see gradual reductions

Interest rates are projected to follow a trajectory consistent with inflation trends, with gradual reductions expected in the coming years. The U.S. Federal Reserve has recently signaled the beginning of rate cuts, and further reductions are anticipated by 2025. Lower interest rates are likely to potentialize investment activities among healthcare providers, which has been constrained in recent years due to elevated borrowing costs (New York Times, 2024). These higher rates previously delayed capital expenditures in high-cost medical equipment as hospitals and healthcare institutions rely heavily on financing or government support for such investments (Chicago Booth Review, 2024). A sustained decrease in interest rates could lead to a resurgence in demand for medical devices. This aligns with our projection that healthcare providers will have greater capacity and willingness to invest.

Beyond macroeconomic factors, structural trends such as the aging global population and the rising prevalence of chronic and non-communicable diseases (NCDs)[1] are expected to drive long-term demand for medical equipment. Forward planning is essential to address these demographic and healthcare challenges, necessitating immediate investments in medical infrastructure. Siemens Healthineers stands to benefit significantly from those demand trends.

- **Healthcare Sector**

Figure 2 – Global Healthcare trends
Source: World Economic Forum

The global healthcare sector is undergoing a revolutionary transformation, driven by technological advancements, demographic shifts, and a paradigm shift in patient care. These changes, underpinned by the potential of AI, have been accelerated by the structural transformations introduced during the COVID-19 pandemic. Innovations such as telemedicine have facilitated more personalized patient interactions while freeing clinicians to focus on complex procedures (Keuper et al., 2024). However, the pandemic also left lasting challenges, most notably a severe workforce shortage. The global healthcare sector is projected to face a shortfall of 10 million workers by 2030, largely driven by burnout and

[1] Chronic conditions that are not directly transmissible person to person.

dissatisfaction with job conditions (Deloitte, 2024). The integration of AI and advanced medical technology will be pivotal in addressing these challenges. Notably, 74% of healthcare providers globally plan to significantly increase investments in AI and digital health tools by 2025 (McKinsey & Company, 2024).

Since the pandemic, public health expenditure has increased globally. Low-income countries, which represent 8% of the global population, accounted for a mere 0.24% of global health expenditure, contrasting with high-income countries which accounts for 81% of global healthcare spending. Furthermore, 11% of the world's population resides in countries where annual per capita healthcare spending is less than $50, a stark contrast to high-income countries, where the average exceeds $4,000 per capita (World Health Organization, 2024).

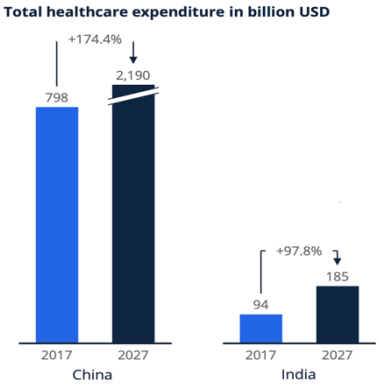

Figure 3 – Total Healthcare expenditure in China and India (Historical vs Projection)
Source: Statista

Global health expenditures will exhibit an upwards trajectory, reaching, by 2050, an amount of $15 trillion (Global Burden of Disease Collaborative Network, 2023). As of global healthcare expenditure as a percentage of GDP, this is projected to increase steadily also, rising by approximately 0.2 percentage points between 2024 and 2029, reaching an estimated 6.26% by 2029 (Statista, 2024). Healthcare GDP elasticity, which measures the rate at which healthcare spending grows relative to GDP, currently averages 1.1 globally indicating that healthcare spending is outpacing GDP growth by 10% (Sanmarchi et al., 2021).

"Healthcare spending is outpacing GDP growth by 10%"

Macrotrends in Healthcare

- **Aging Population**

The aging trajectory of the global population presents significant economic risks and places immense pressure on healthcare providers, increasing their vulnerability to potential collapse. Nevertheless, this demographic shift also highlights opportunities for substantial growth in demand for the advanced equipment and services offered by Siemens Healthineers. By 2030, one in six people worldwide will be over the age of 60, with the proportion in Europe and the United States nearly doubling. By 2050, the global population aged 60 and older is expected to surpass 2.1 billion, accounting for 22% of the total population. In Europe and the US, this demographic will represent approximately 25% of the population (World Health Organization, 2024).

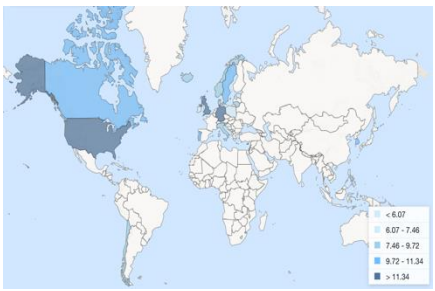

Figure 4- Health Expenditure (as % GDP)
Source: GlobalData Patent Analytics

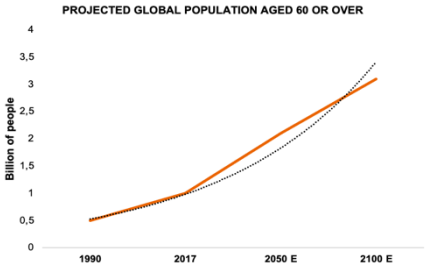

Figure 5 – Population aged 60 or over - Projection
Source: World Health Organization, 2024

Accompanying this trend is the steady rise in global life expectancy, which has increased from an average of 46.9 years in the 1950s to a projected 77 years by 2050 (World Economic Forum, 2023). In developed regions, life expectancy could exceed 80 years, further emphasizing the necessity for innovative and efficient healthcare solutions to meet the growing demand.

- **Chronic Diseases, Cancer specific**

NCDs accounts for 74% of global deaths

The aging population trend is contributing to a significant increase in the prevalence of chronic and NCDs which predominantly affect older individuals. As the global demographic shifts towards an older population, the incidence of these diseases is expected to rise proportionally. Currently, NCDs such as cardiovascular diseases, cancer, respiratory diseases, and diabetes account for 74% of global deaths, surpassing fatalities caused by all communicable diseases combined. Among these, cancer has the most significant impact on Siemens Healthineers' operations. The global prevalence of cancer is expected to grow by 77% by 2050 (World Health Organization, 2024). Furthermore, the global economic burden of cancer care is expected to exceed $1.5 trillion annually by 2030, with cancer care costs in Europe already at approximately €200 billion per year (National Cancer Institute, 2024). While the negative effects of cancer on patients' quality of life and their families are profound and widely recognized, this analysis focuses on the scale of the disease and the pressing need for innovative, adaptive treatment solutions. The objective is to equip healthcare providers with cost-effective, affordable, and advanced tools to ensure optimal care delivery. In addressing this growing challenge, AI is emerging as a transformative force in oncology. Studies estimate that majority of radiology tasks could be automated using AI, significantly improving diagnostic accuracy, particularly for lung and breast cancer (Bradley, 2024). This advancement not only enhances the precision of early detection but also reduces the time and resources required for radiological assessments, contributing to more efficient healthcare delivery.

"Majority of radiology tasks could be automated using AI"

- **AI in Healthcare and Telemedicine**

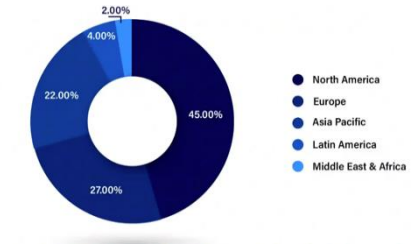

Figure 6 - AI in Healthcare Market Share (by region)
Source: Precedence Research

AI and telemedicine are among the most transformative and disruptive trends shaping the healthcare industry. The COVID-19 pandemic accelerated the adoption of telemedicine, highlighting its numerous benefits. For patients, telemedicine offers enhanced convenience by enabling access to healthcare services from their homes. For providers, it improves cost-efficiency, with potential savings of up to $6 billion annually in the US by mitigating hospital overcrowding, reducing transportation costs, and minimizing unnecessary consultations (Health Data Management, 2024). Notably, over 60% of telemedicine consultations have been directed toward managing chronic diseases. Furthermore, those studies indicate that telemedicine adoption has improved healthcare access for rural populations by 65%.

AI in diagnostic imaging provide more faster and accurate results, facilitating early detection of cancer

In the realm of AI, its integration has driven substantial advancements in personalized medicine, enabling tailored treatment plans that enhance both efficacy and patient satisfaction. Healthcare providers also utilize AI to optimize operational efficiency, streamlining administrative tasks and resource allocation, with estimated annual savings of nearly $16 billion worldwide. Additionally, AI has

been transformative in diagnostic imaging, where algorithmic analyses of medical images provide faster and more accurate results, facilitating early detection of critical conditions such as cancer. The global AI in healthcare market is valued at $26.69 billion in 2024 and is projected to reach $613.81 billion by 2034, reflecting a remarkable CAGR of 36.63% over the forecast period (Precedence Research, 2024). The US leads this market, commanding a 45% share.

- **Regulatory Challenges regarding the application of AI in Healthcare**

Public debate around ethical issues of using AI in Healthcare

Despite the vast potential that AI offers in the healthcare sector, several challenges currently limit its full realization. Given the relatively recent adoption of these technologies and the inherently high-stakes nature of the industry, where decisions directly impact human lives, a robust and comprehensive regulatory framework is indispensable. The application of AI-based systems in healthcare has sparked significant public debate around ethical standards, particularly concerning data protection legislation, patient privacy, and the inherent characteristics of machine learning models. For Siemens Healthineers, these challenges are magnified by its global operations. For instance, systems deployed in the US must adhere to HIPAA[2] regulations, while those in Europe must comply with GDPR[3] requirements. Aligning operations with these distinct regulatory frameworks poses a complex challenge, increasing compliance costs and the risk of financial penalties for non-compliance. Ensuring synchronization between GDPR and HIPAA standards is particularly costly and resource-intensive, given the differences in scope and requirements.

Medtech Industry

In 2023, the global MedTech market was valued at approximately $518.46 billion and is projected to grow to $886.80 billion by 2032, reflecting a CAGR of 6.3% (Fortune Business Insights, 2024). Globally, the market is dominated by key players such as Medtronic plc, the industry leader, followed by Johnson & Johnson, Siemens Healthineers, GE Healthcare, and Philips N.V. The US accounts for the largest market share, followed by European countries like Germany, France, and the United Kingdom. As illustrated in [Fig 18], the MedTech industry has consistently outperformed global equity indices in terms of shareholder returns. This makes the sector particularly attractive for investors, including risk-averse ones, due to its favorable characteristics. Market leaders in the industry are not only known for their high margins but also for their recurring revenue models, which can contribute up to 70% of total revenues. These models support stable cash flow generation, further enhancing the sector's appeal to investors.

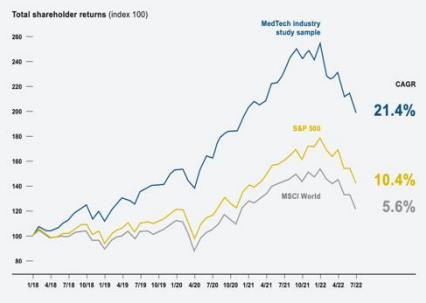

Figure 7 – Total shareholder returns: MedTech Industry vs Indexes (S&P 500 and MSCI World) from 2018 to 2022
Source: Roland Berger, Capital IQ

[2] U.S. Federal Law that states standards to protect sensitive patient health information.
[3] EU regulation that oversees the protection of personal data.

US

The US MedTech market, a global leader with approximately 40% market share and annual revenues of $211.10 billion, is expected to grow at a CAGR of 4.83% from 2024 to 2029, reaching $267.30 billion by the end of the period (Statista, 2024). Furthermore, the US accounts for over 27% of global medical device patents, driven by the FDA's expedited approval process[4], which reduces time-to-market for new devices and strengthens the competitive edge of domestic companies (Medical Device Network, 2024).

Europe

The European MedTech industry holds a global market share of approximately 26%. Prominent companies such as Siemens Healthineers, Philips N.V, Novartis, and Roche Diagnostics play a significant role in shaping the industry. Germany stands as the largest market in Europe, generating annual revenues of €38 billion. In 2023, the total European MedTech market was valued at approximately €160 billion and is projected to grow at a CAGR of 4.63% between 2024 and 2029, slightly below the US one (Statista, 2024).

Unlike the more consolidated US market, where large players dominate, the European MedTech landscape is highly fragmented, with approximately 95% of companies classified as SMEs[5]. Despite this fragmentation, the industry significantly contributes to Europe's economy, employing over 760,000 individuals and demonstrating a high productivity level, with an estimated value-added per employee of €177,000 (MedTech Europe, 2024).

However, Europe lags behind the US in terms of patent approvals and new product certifications. The complex regulatory environment and bureaucratic hurdles extend the time-to-market in Europe to 12–24 months, compared to just 6–12 months in the US (Swiss Medtech, 2024). This regulatory inefficiency erodes the competitive edge of European firms.

Emerging Markets

Emerging markets are reshaping the competitive landscape for US and European MedTech companies, with China and India exerting increasing pressure. The MedTech market in China has grown to become the second largest globally, holding a market share of approximately 20% and valued at around $96 billion. It is projected to expand at a CAGR of 5% (Statista, 2024). Recognizing both the

[4] FDA Approval Process – Ensures that medical devices are safe and effective before their market release and usage.
[5] Small and Medium Enterprises.

challenges and opportunities, companies like Siemens Healthineers and GE Healthcare have established a degree of market penetration in China, leveraging partnerships with local firms.

However, geopolitical trade tensions between the US and China pose significant risks. With the recent election of Donald Trump, these tensions are expected to intensify, potentially resulting in higher tariffs on components and devices manufactured in China. This presents a dual impact for Siemens Healthineers. On one hand, it offers an opportunity to gain a competitive advantage over Chinese equipment manufacturers. On the other hand, it poses a risk due to the reliance on essential components previously sourced from Chinese suppliers. To mitigate this risk, Siemens Healthineers is proactively establishing local production facilities in China, aiming to offset the potential negative impact of increased trade tariffs while strengthening its presence in the market.

India, on the other hand, is projected to achieve a remarkable CAGR of 15%, primarily driven by the rising demand for healthcare due to its rapidly growing population and an increase in government healthcare spending (Indian Chamber of Commerce, 2024). The country is placing significant emphasis on localized innovation, particularly in the development of low-cost medical devices.

- **Imaging Sector in Scope**

The Imaging sector is recognized as one of the most profitable segments within the MedTech industry, boasting gross margins in the range of 50% to 60%, significantly surpassing the broader MedTech industry average of 40% to 50%. Siemens Healthineers leads this sector with a 32% share of the global market, closely followed by GE Healthcare at approximately 27%. The sector is projected to grow at a robust CAGR of 6.4% through 2032, driven by rising demand for products such as X-ray and MRI systems (Fortune Business Insights, 2024). In terms of operating margins, the medical imaging sector similarly outperforms the broader MedTech industry. For instance, Siemens Healthineers and GE Healthcare report operating margins in the range of 15% to 20%, well above the MedTech industry average of 10% to 15%. These metrics underscore the sector's strategic importance as a high-margin growth driver.

Value Drivers and Forecasts

In this section, we outline and analyse the key drivers underpinning the majority of our forecasts. Following the reformulation of our financial statements, we have identified the primary factors that are expected to drive value creation. These include sustained revenue growth in key regions segments, as well as potential

value creation through cost base optimization/reduction. Finally, we will evaluate the rationale and financial implications of the Varian acquisition, specifically with the goal of determine whether this transaction is likely to enhance shareholder value or, conversely, resulted in value destruction.

Revenues

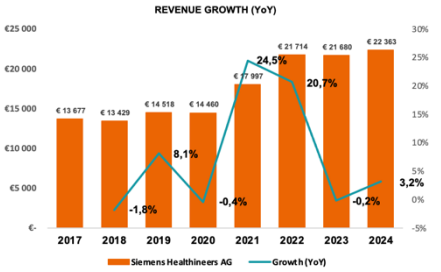

Figure 8 – SH Revenue Growth Year-on-Year
Source: Analysts estimates, Siemens Healthineers Annual Reports

Revenue growth will be considered as the core driver and the primarily foundation for our forecasts. Given Siemens Healthineers' operations across diverse regions, each with unique trends and associated risks, it is critical to tailor our estimates to reflect these differences accurately. Similarly, performance across segments can vary significantly due to macroeconomic and regional factors. To account for these dynamics, we decomposed revenue forecasts by region and by segment, linking the two whenever possible. This approach allows us to capture a more precise view, incorporating the unique growth drivers and localized challenges inherent to each geography and segment.

- **By Region**

To achieve the most accurate revenue growth projections by region, we adopted a dual approach that combines regional macroeconomic estimates with country-specific inputs. These were weighted to reflect their proportional contributions to regional revenues. Specifically, we calculated a weighted average, attributing 70% to our estimates for the CAGR of each segment and 30% to the expected real GDP growth rates in those regions.

Americas

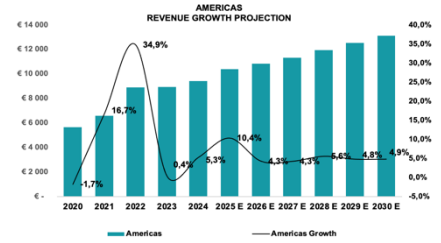

Figure 9 – SH Revenue Growth Projection – Americas region
Source: Analysts estimates

The revenue growth of the Americas region is primarily driven by the US, which accounted for approximately 85% of the region's total revenues in 2024. However, this dominance is expected to decline modestly to 81% by 2034, as markets like Canada and Latin America are anticipated to experience substantial growth. Overall, the Americas region is projected to achieve a CAGR of approximately 5%, with revenues increasing from €9.43 billion in 2023 to €15.41 billion by 2034. Within this region, the Varian segment, which contributed 17.3% of total revenues in 2024, is forecasted to grow its share to 18.7% by 2034. Meanwhile, Imaging, which accounted for 55% of revenues in 2024, is expected to maintain a stable contribution.

The recently announced tariffs of 60% on Chinese imports and 10% on European imports by US President Donald Trump are likely to have direct implications for revenues in the US While the company's localized manufacturing strategy is expected to mitigate much of the impact, the tariffs could still lead to a reduction of less than 50 basis points in gross margins (FactCheck.org, 2024). Nevertheless, these tariffs are anticipated to exert broader cost pressures on global margins.

Additionally, we have estimated a strength of the euro and a consequently normalization of the USD/EUR exchange rate to 0.87 [Fig 37], which is expected to reduce revenue growth in the Americas by approximately 1-2% in the short run. The appreciation of the euro against the dollar could erode some sort of competitive advantage of European-origin products in the region, as it effectively raises their relative price. This shift is likely to influence the overall growth trajectory. Currency fluctuations have been carefully incorporated into our model, given their significant impact on our forecasts. With the US market being a major revenue driver for Siemens Healthineers and operating primarily in dollars, exchange rate movements are a key consideration for our estimates.

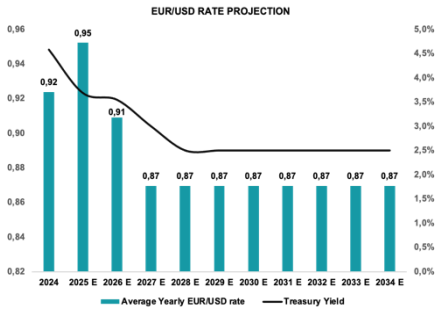

Figure 10 – EUR/USD Exchange Rate Projection
Source: Analysts estimate

EMEA

EMEA revenues have grown steadily from €5.13 billion in 2018 to €7.44 billion in 2024, with a particularly strong increase of 36.14% registered in 2021, driven by the post-pandemic recovery in healthcare. This growth was fueled also by an increased healthcare investments across countries like Africa and the Middle East (Fortune Business Insights, 2024). Imaging remains the dominant segment in EMEA, contributing €4.08 billion to total regional revenues in 2024, with only a projected slight decline in its contribution share of 1% anticipated by 2034.

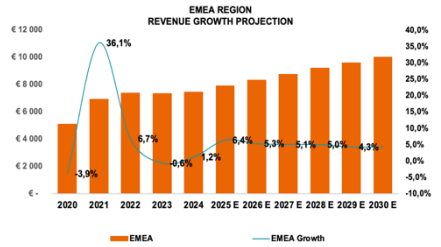

Figure 11 – SH Revenue Growth Projection – EMEA Region
Source: Analysts estimate

The Varian segment, which generated €1.29 billion in 2024, is projected to grow substantially to €2.23 billion by 2034. This expansion is underpinned by the rising demand for advanced cancer care in the region, supported by the mentioned macrotrends addressed in previous sections. Concluding, EMEA's revenue is forecasted to grow at a CAGR of 4.55%, driven by and increasing access to healthcare, particularly in regions such as Southern Europe and some parts of the Middle East.

Asia Pacific Japan

While Japan remains a critical market, contributing significantly to revenues, growth in the region has begun to shift toward emerging markets such as India, Indonesia, and Thailand. These markets are experiencing rapid growth, driven by the expansion of healthcare infrastructure and a targeted development of digital health solutions designed to address critical challenges such as the limited access to healthcare of some niches of the population, resource shortages, and the increasing demands of an aging population (McKinsey & Company, 2024). To capitalize on this trend, the company has developed regionally tailored products, such as compact imaging systems like the Magnetom Free.Max and the Somatom On.Site.

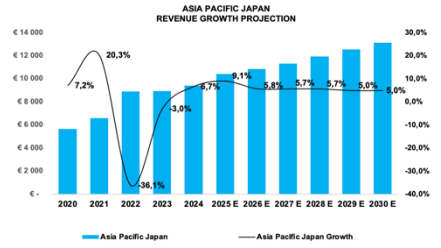

Figure 12 – SH Revenue Growth Projection – Asia Pacific Japan Region
Source: Analysts estimate

Imaging, which represented 55% of the region's total revenues in 2024, is projected to maintain its stable share as these developing countries will continue to expand

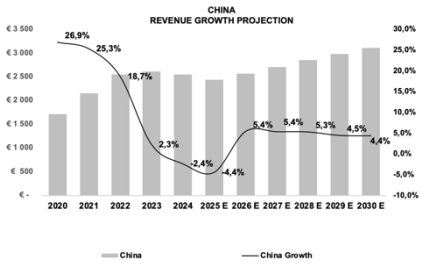

Figure 13 – SH Revenue Growth Projection – China Region
Source: Analysts estimate

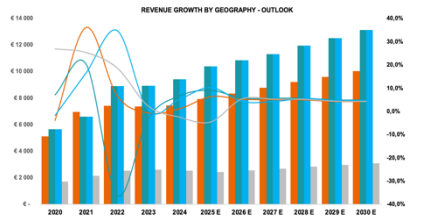

Figure 14 – SH Revenue Growth Projection – Outlook for all regions
Source: Analysts estimate

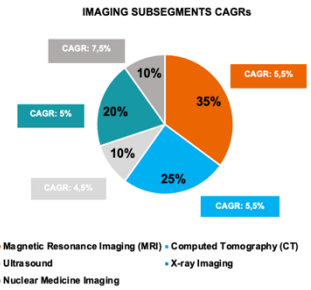

Figure 15 – Imaging constituent subsegments and their CAGRs
Source: Analysts estimate, Global Market Insights, Allied Market Research

further their healthcare infrastructure. The region is forecasted to grow at a CAGR of 5.63%.

China

China's healthcare market has experienced rapid growth. Revenues in the region reached €2.55 billion in 2024 and are projected to grow to €3.60 billion by 2034, reflecting a CAGR of 2.96%. However, we project that growth in 2025 will be restrained due to delays in the implementation of Chinese government stimulus [6] which are still under development (South China Morning Post, 2024), and the impact of ongoing anti-corruption initiatives in the healthcare sector which persists to this day (DLA Piper, 2024).

These factors have significantly slowed procurement activities, and we anticipate that they will continue to weigh on 2025. The Imaging and Diagnostics segments are also facing pricing pressures driven by tighter regulatory controls in the region. In contrast, Varian is better positioned to mitigate these challenges, benefiting from its localized production capabilities, which help offset some of the adverse impacts. The Varian segment, which contributed 17.3% for China's revenues in 2024, is expected to grow to 19.8% by 2034, driven mainly by the government's Healthy China program[7] aiming at the modernization of their healthcare infrastructure.

To sum up, we project that by 2034, Siemens Healthineers will maintain its revenue contribution from the Americas, while experiencing a slight decline in EMEA. Growth in Asia Pacific Japan is expected to continue outpacing other regions in terms of expected growth, resulting in a higher revenue contribution compared to China.

- **By Segment**

Our previously analysis of the contributions from both regions and segments to overall revenue reveals that most revenue variations are driven by differences in the performance of specific segments. In contrast, the performance of the same segments across different regions shows relatively minimal variation. This indicates that overall revenue growth is primarily influenced by how well each segment performs globally, rather than by regional differences within those segments. With this output in mind, we conducted a deeper analysis of each segment's foundations to better evaluate their intrinsic potential and forecast their trajectories over the projected period. Leveraging insights from financial literature, we applied a weighted approach within our framework, allocating proportional weights to the subsegments that comprise each segment. For the purposes of this report, we have chosen to highlight only the subsegments we believe will drive the

[6] 6% of China's GDP. Used to fund infrastructure and support health and social services within the country.
[7] Healthcare system reform, public health campaigns and health education.

most significant growth within each segment.

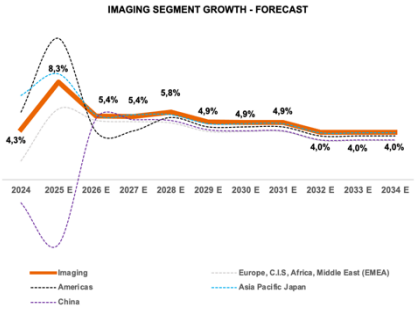

Figure 16 – Imaging Segment Growth Forecast
Source: Analysts estimate

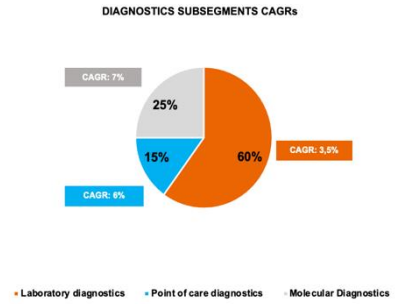

Figure 17 – Diagnostic constituent subsegments and their CAGRs
Source: Analysts estimate

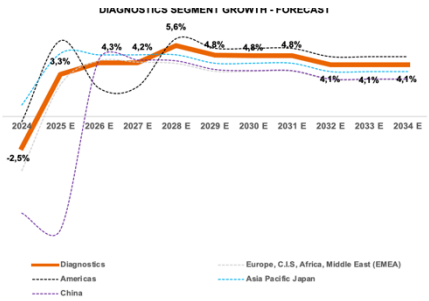

Figure 18 – Diagnostic Segment Growth Forecast
Source: Analysts estimate

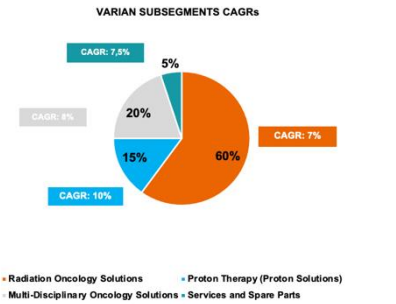

Figure 19 – Varian constituent subsegments and their CAGRs
Source: Analysts estimate, Grand View Research

Imaging

MRI systems[8] is the largest subsegment, contributed 35% of Imaging revenues, driven by advancements in high-resolution imaging technology and an increasing demand for neurological, cardiovascular, and orthopedic diagnostics. CT systems[9] and X-ray systems also made significant contributions, supported by the rising prevalence of chronic diseases and the transition from older systems to digital technologies [Fig 42]. Nuclear Medicine Imaging, although smaller in terms of share contribution it is the fastest growing subsegment, with a projected 7.5% CAGR (MarketsandMarkets, 2024).

Diagnostics

Molecular Diagnostics is the fastest growing area, with a projected CAGR of 7% [Fig 44]. Despite challenges arising from the decline in COVID-19 testing, operational inefficiencies, and intense market competition, Siemens Healthineers' transformation program[10] has already delivered €300 million in cost savings and improved operational efficiency within this segment. With a strategic focus on high-growth areas like Molecular Diagnostics, the segment is now positioned for a stronger and more profitable outlook compared to the post-pandemic period, once the transformation program is fully implemented.

Varian

Radiation Oncology Solutions, the largest subsegment, generates 60% of Varian's revenues and serves as the primary growth driver. Proton Therapy and Multi-Disciplinary Oncology Solutions also play significant roles [Fig 46], supported by the increasing adoption of precision cancer treatments and integrated oncology workflows. By 2034, Varian's revenue contribution is forecasted to rise to 19.1%, reaching €6.70 billion, making it the fastest growing segment within Siemens Healthineers' portfolio.

Advanced Therapies

The largest driver in this segment is Image-Guided Therapy Systems, which accounts for 50% of the segment's revenues, fuelled by the growing adoption of minimally invasive procedures and interventional cardiology. Surgical Robotics is another key growth area [Fig 48], projected to grow at a 7% CAGR as demand for robotic-assisted surgeries increases in both developed and emerging markets (Grand View Research, 2024). By 2034, Advanced Therapies is expected to

[8] Non-invasive medical devices used in radiology.
[9] X-Ray medical device used to detect fractures and tumors.
[10] Program intended to improving operational efficiency and reducing costs across its business segments.

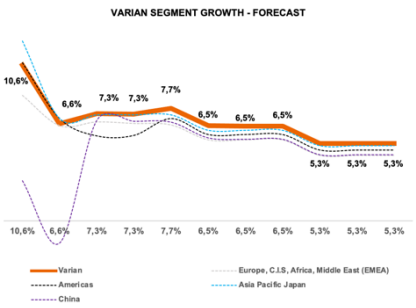

Figure 20 – Varian Segment Growth Forecast
Source: Analysts estimate

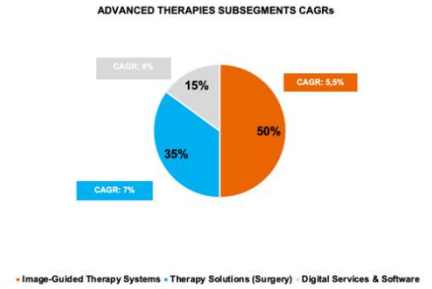

Figure 21 – Advanced Therapies constituent subsegments and their CAGRs
Source: Analysts estimate, Markets and Markets

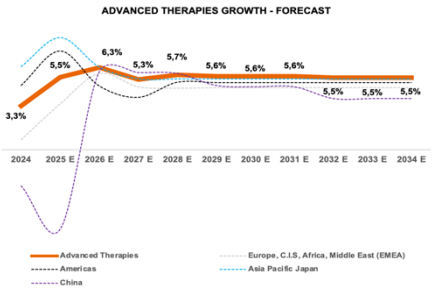

Figure 22 – Advanced Therapies Segment Growth Forecast
Source: Analysts estimate

Figure 23 – Historical Siemens Healthineers' stock prices: Ranged around Varian acquisition's announcement day
Source: Yahoo Finance

contribute 9.4% of Siemens Healthineers' total revenues.

Concluding, we project that Imaging will remain the largest revenue contributor, followed by Diagnostics and Varian. However, Varian is projected to surpass Diagnostics in most regions due to its faster growth trajectory. Advanced Therapies is expected to deliver the weakest performance among all the segments, although it is still anticipated to achieve a considerable growth over the forecasted period.

Undoubtedly, the main drivers of Siemens Healthineers' revenues are the ones above analyzed in this section; However, relying solely on these two factors may underestimate Siemens Healthineers' potential to outperform market expectations by capitalizing on its competitive advantages. To capture the company's ability to achieve revenue growth above market rates, we introduced an additional factor into our model. This factor is derived from the historical ratio of nominal revenue growth exceeding market benchmarks, relative to annual investments in intangible assets, PPE, and acquisition transactions. By incorporating this ratio, we can more effectively quantify the impact of these investments on the company's ability to consistently surpass market performance. Based on our projections, we attributed a positive effect of 10% to 12%, annually, from these investments above market expectations.

Varian's acquisition in scope

The acquisition of Varian offers Siemens Healthineers significant scalability, enhanced market share in key regions, and the integration of a comprehensive oncology portfolio to address major macrotrends in healthcare. From a strategic perspective, these benefits align with Siemens Healthineers' growth targets. However, from a valuation point of view, our analysis aimed to determine whether the acquisition created or destroyed value for its shareholders, considering the $16.4 billion all-cash transaction price.

Using a DCF analysis, we estimated the enterprise value of Varian adjusted to 2021, the year of its acquistion, and found it to be lower than the acquisition price. This suggests a potential overpayment for the transaction, especially given the relative size of Siemens Healthineers at that time compared with the amount paid. While revenues for the Varian segment increased in 2023 compared to its pre-acquisition performance, earnings remain below to the levels observed when Varian operated independently, raising concerns about whether the synergies realized thus far justify the price paid.

For the valuation above, we conclude that, while the acquisition delivers strategic advantages as mentioned above, the synergies achieved so far appear insufficient to offset the premium paid. This raises us questions about the financial rationale of the deal, leading to the conclusion of a potential loss of value for shareholders.

Furthermore, the [Fig 50] highlights that the market was not fully convinced by the acquisition announcement. On the day of the announcement, the share price dropped significantly by 9%, continued to decline in the following days. This supports our conclusion that the deal was perceived as expensive, reflecting investor skepticism regarding the substantial costs involved and concerns about its long-term financial benefits.

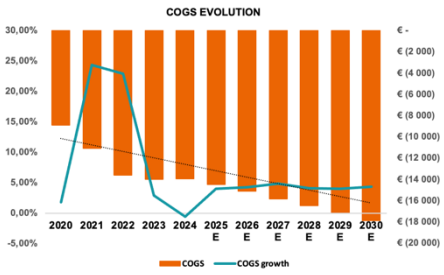

Figure 24 – SH COGS Evolution (2020-2030)
Source: Siemens Healthineers Annual Reports, Analysts estimate

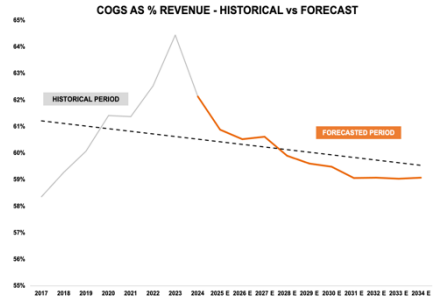

Figure 25 – Historical vs Forecas COGS as % Revenues
Source: Siemens Healthineers Annual Reports, Analysts estimate

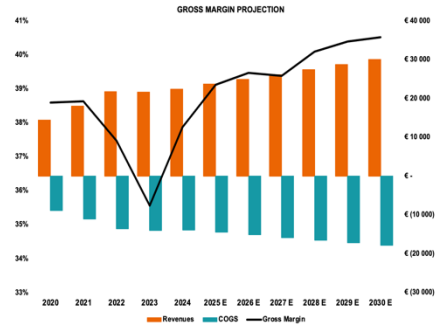

Figure 26 – Gross Margin Projection based on marginal COGS reductions
Source: Siemens Healthineers Annual Reports, Analysts estimate

Cost Drivers

Starting in 2024, Siemens Healthineers has adopted a targeted strategy focused on high-margin areas to maximize operational efficiency. This approach aims to reduce its cost base through the realization of economies of scale and an increased workflow automation, while prioritizing R&D investments in these target areas to a greater extent. Imaging and Oncology are expected to be the primary focus of this new strategy. Meanwhile, Diagnostics, currently undergoing a transformation phase, is likely to face margin pressures in the short term. Consequently, we believe Siemens Healthineers should prioritize achieving profitability in this segment before fully aligning it with the broader strategic approach applied into other segments.

- **COGS**

COGS are expected to rise due to increasing prices of essential materials and components, inflationary pressures, and higher overhead costs associated with expanded production capacity [Fig 51]. To estimate these effects, we used proxies based on the forecasted price trends of predominant materials for each segment, the EU's inflation rates, and the projected increase in R&D expenses, respectively. Despite these short-term pressures, we believe that Siemens Healthineers' above mentioned strategy will deliver benefits relatively quickly. To try to reflect this into our model, and inspired by the Moore's Law[11], we incorporated a segment-specific COGS reduction factor for each year, driven by the expected realization of economies of scale and enhanced process automation. This adjustment accounts for the company's efforts to improve operational efficiency and optimize its cost structure over time, the primarily targets of this new strategy. In practical terms, considering the differences among segments, we estimate the following annual COGS reductions: Imaging and Diagnostics are projected to achieve the largest improvements, with reductions of 1% and 0.75%, respectively. These gains are driven by greater opportunities for computational efficiencies and workflow scalability. Imaging is expected to benefit from AI-powered software solutions and automated manufacturing innovations, such as the low-

[11] Number of transistors on a microchip doubles each 2 years, while its costs decrease significantly.

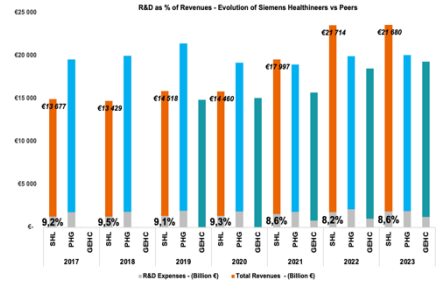

Figure 27 – R&D as % of Revenues Evolution: SH vs Peers
Source: Analysts estimates

helium MAGNETOM Free.Max[12], which enable material waste reduction and lower associated production costs. Diagnostics, on the other hand, will see improvements through the Atellica Transformation Program[13], which centralizes production and automates logistics, alongside advancements in scalable molecular diagnostics technologies that drive per-unit cost reductions. Varian and Advanced Therapies are forecasted to achieve smaller reductions of 0.5%, reflecting their lower reliance on computational efficiencies and limited ability to leverage economies of scale and automation.

- **R&D Expenses**

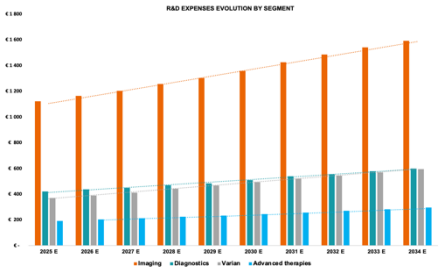

Figure 28 – R&D Expenses Projection (by segment)
Source: Analysts estimate

As illustrated in [Fig 54], Siemens Healthineers has demonstrated a resilient commitment to sustaining its percentage of revenue allocated to R&D over the years. This commitment is a crucial for maintaining relevance in the market and securing continued gains in market share. R&D is widely recognized as a primary driver of innovation, particularly in the MedTech industry, where advancements occur at an exponentially fast pace. We anticipate that Siemens Healthineers will continue to allocate a consistent proportion of its revenues to R&D in the coming years. For our projections, we have used the most recent available data as a reference point to estimate future periods. Additionally, we expect that these investments will increasingly target high-margin products and initiatives focused at improving the Diagnostics segment's growth trajectory, which has faced challenges due to operational inefficiencies.

- **Currency Differences**

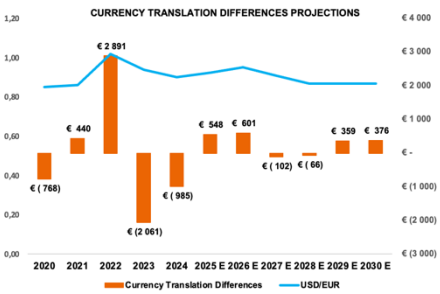

Figure 29 – Currency Translation Differences Projection (USD/EUR)
Source: Analysts estimate

Finally, it is essential to consider the impact of currency translation differences on companies with a strong global presence, and Siemens Healthineers is no exception. Over the past four years, currency translation differences have impacted the company's core results by €500 million to €2 billion annually, primarily driven by fluctuations in the USD/EUR exchange rate, particularly the appreciation of the US dollar. Looking ahead, we anticipate a reversal, projecting a gradual appreciation of the euro in the coming years. This expectation is supported by a forecasted recovery from the energy crisis and the resolution of geopolitical disruptions currently affecting the European market.

Invested Capital Drivers

Given Siemens Healthineers' strategic emphasis on operational efficiency and margin expansion, controlled investment spending is anticipated. As a result, projections for these areas will adopt a more cautious approach, using 2024 as the

[12] Whole-body MRI system.
[13] Adressing challenges within Diagnostics segment by optimizing workflows, implementing and automation.

baseline for future years.

- **Additions to PPE, Intangible Assets & CAPEX**

The decline in additions to PPE and intangibles in 2024, €696 million compared to €838 million in 2023, exemplifies this strategic shift, highlighting the company's focus on optimizing efficiency over pursuing aggressive expansion. The same can be said about future CAPEX. Looking ahead, as shown in [Fig 57], this indicates a steady increase on CAPEX that matches the pace of revenue growth. This reinforces potential management's efforts of maintaining consistent investments to support operations while ensuring capital spending remains controlled.

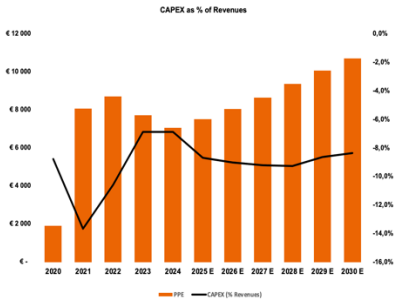

Figure 30 – PPE and CAPEX as % Revenues (2020-2030)
Source: Analysts estimate

Conclusion and Final Recommendations

Based exclusively on our DCF model, we project a target share price of **65,53€** by December 2025. With an expected dividend of **1.54€**, assuming a payout ratio of 57%, we estimate a total shareholder return of approximately **25%.** At the current trading price of **53,78€**, this represents an upside potential of **22%**, leading us to issue a **BUY** recommendation.

The performance of fiscal year 2024, during which Siemens Healthineers met all its revenue and profit growth targets despite challenges from delayed orders in the China region, reinforces our **BUY** recommendation. This achievement demonstrates the company's ability to deliver strong results even in an unfavorable environment, a key consideration from an investor's perspective. Looking ahead, we forecast that the company's strategic shift toward operational efficiency in its high-margin segments, rather than broad expansions, combined with the potential materialization of investments in AI across its portfolio, will enable Siemens Healthineers to achieve significant market share gains in key regions while solidifying its leadership in others. Despite our conviction in this investment thesis, caution is warranted regarding the execution of this strategy and the full realization of AI investments. Sensitivity and Scenario analyses performed have highlighted that any shortcomings in strategy execution could lead to significant variations in the stock price, potentially resulting in a loss of value for shareholders. Nonetheless, Siemens Healthineers' consistent track record of delivering strong results, coupled with its proven ability to navigate risks with resilience and precision, reinforces our confidence in its capacity to drive sustained shareholder value throughout the period of our valuation.