



# 2020 Baxter

Pam Stephens  
SIGMA SPECTRUM Manufacturing  
Medina, New York

# Investor Conference

Jay Saccaro

Corporate Vice President and  
Chief Financial Officer

May 9, 2016

**Baxter**

# Agenda



**Operational Performance**



**Financial Outlook**



**Balance Sheet And Capital Deployment**

# Agenda



**Operational Performance**



**Financial Outlook**



**Balance Sheet And Capital Deployment**

# Accomplishments Post Spin-Off

Delivered **Strong Growth And Improved Margins** In 2H 2015 And Q1 2016

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Initiated Actions To **Rebase Cost Structure**

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Advanced **Robust, New Product Pipeline** With Recent Key Launches

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**Enhanced Financial Flexibility** Through Utilization Of Retained Stake

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➤ **Solidifying Foundation To Successfully Execute Long-Range Plan**

# Baxter Financial Outlook

(As Of May 2015 Investor Conference)

Metric	2H 2015	FY 2016	2020
Sales Growth [Constant Currency]	~Flat	2% - 3%	~4% CAGR <sup>1</sup>
Adjusted Operating Margin	~9%	~10%	~14%
Adjusted EBITDA Margin	~15%	~16%	~20%
Operating Cash Flow	N / A	~\$1.3 Billion	>\$2.0 Billion

# Solid Start To 2016

Metric	Q1 2016 Guidance	Q1 2016 Actuals
Sales Growth [Constant Currency]	3% - 4%	~4%
Adjusted Operating Margin	N / A	10.5%
Adjusted EPS	\$0.28 - \$0.30	\$0.36

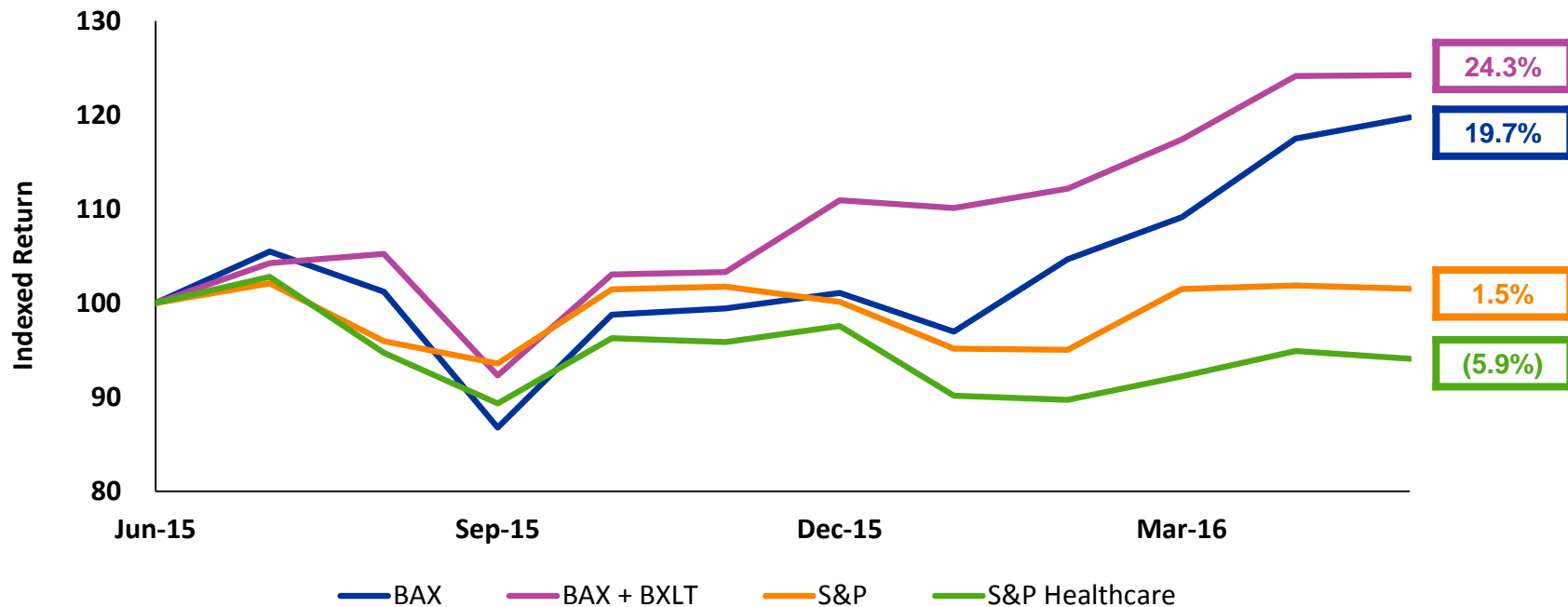
# 2016 Full Year Financial Guidance

Metric	FY 2016 (May 2015)	FY 2016 (February 2016)	FY 2016 (Current)
Sales Growth [Constant Currency]	2% - 3%	2% - 3%	~3%
Adjusted Operating Margin	~10%	~11%	~11.5%
Adjusted EPS	N / A	\$1.46 - \$1.54	\$1.59 - \$1.67
Operating Cash Flow	~\$1.3B	~\$1.4B	>\$1.4B
Free Cash Flow	~\$0.4B	~\$0.5B	>\$0.5B

➤ Improving Operational Performance Drives Increased Financial Outlook

# Delivering Significant Value Since Spin-Off

## Total Shareholder Return (06/30/15 - 05/06/16)





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# 2016 - 2020 Baxter Financial Outlook

## Outlook Assumes

- Modest Price Increases In Select Product Categories
- Impact Of Incremental Generic Competition For US Cyclophosphamide
- Risk-Adjusted Revenues From New Products
- Current Foreign Exchange Rates, Unless Otherwise Noted
- Anticipated TSA Income With Commensurate Ramp Down Over 12 Months
- Share Repurchases Aligned To Offset Option Dilution
- Adjusted Financial Results, Excluding Special Items<sup>1</sup>

## Outlook Does NOT Assume

- Any Material Change In Global Regulatory / Macro-Environment And Utilization Trends
- Any Impact From Currency Fluctuations
- Prospective M&A Initiatives
- Any Incremental Reduction In Share Count Through Stock Buybacks Beyond Split-Off Exchange

# Baxter Financial Outlook

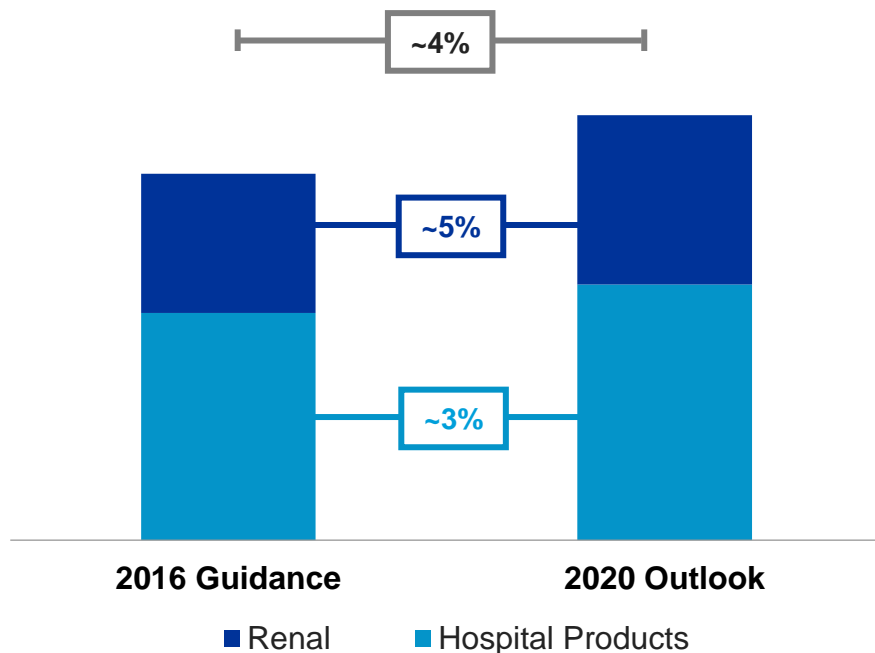
Metric	2016 Guidance	2018 Outlook	2020 Outlook
Sales Growth [Constant Currency]	~3%	3% - 4% CAGR <sup>1</sup>	~4% CAGR <sup>2</sup>
Adjusted Operating Margin	~11.5%	14% - 15%	17% - 18%
Adjusted EBITDA Margin	~18%	21% - 22%	24% - 25%
Adjusted Tax Rate	~20.5%	~21%	~22%
Adjusted EPS <i>Growth vs. 2015</i>	\$1.59 - \$1.67 15% - 21%	\$2.10 - \$2.25 15% - 18% CAGR	\$2.75 - \$3.00 15% - 17% CAGR

# Baxter Financial Outlook

Metric	2016 Guidance	2018 Outlook	2020 Outlook
Operating Cash Flow	>\$1.4B	>\$1.8B	~\$2.5B
Capital Expenditure	~\$900M	~\$825M	~\$750M
Free Cash Flow	>\$500M	~\$1.0B	~\$1.75B

# Delivering Balanced Top Line Growth

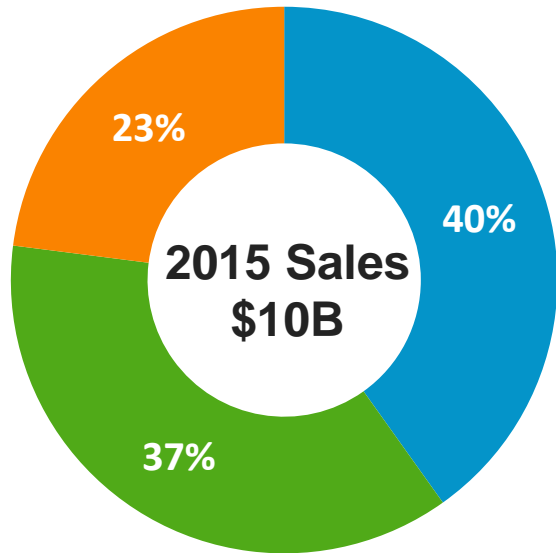
## Sales Growth By Business (CAGR<sup>1</sup>)



	2015 Sales	CAGR <sup>1</sup>
Integrated Pharmacy	~\$2.3B	3% - 4%
Fluid Systems	~\$2.1B	3% - 4%
Surgical Care	~\$1.3B	~3%
BioPharma Solutions	~\$0.5B	~1%
<b>Hospital Products</b>	<b>~\$6.2B</b>	<b>~3%</b>
Chronic Renal	~\$3.4B	~4%
Acute Renal	~\$0.4B	10% - 11%
<b>Renal</b>	<b>~\$3.8B</b>	<b>~5%</b>

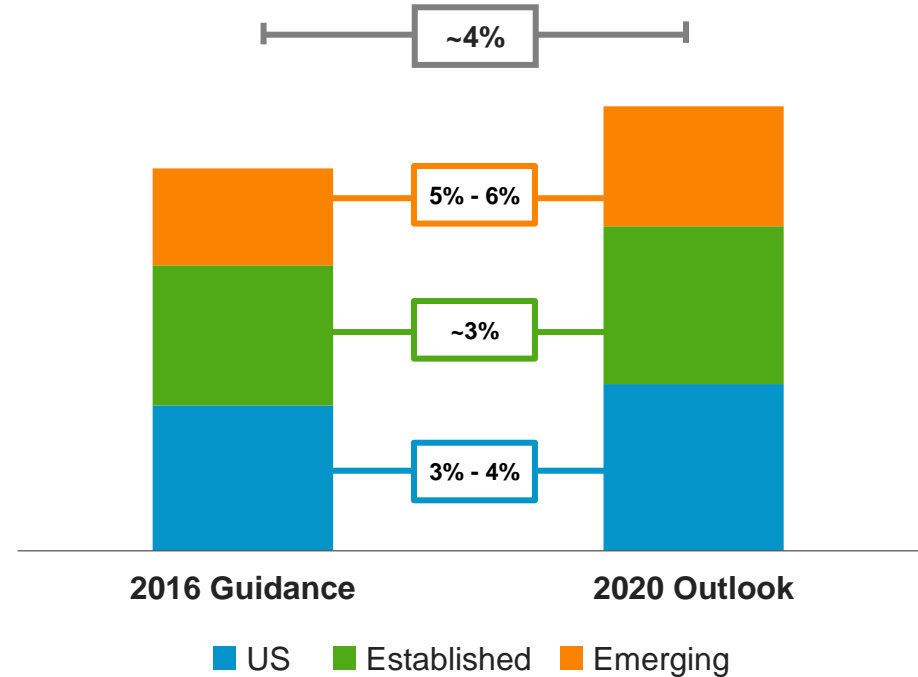
# Broad Geographic Footprint

## 2015 Regional Composition



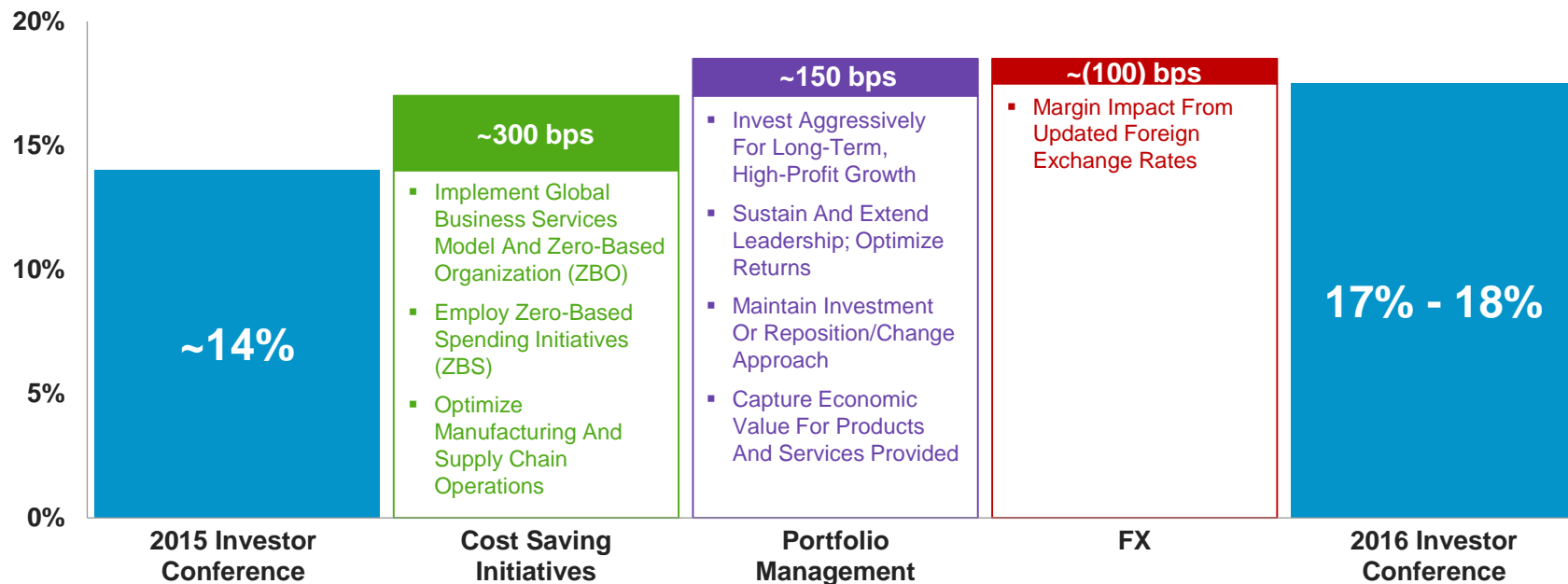
■ US ■ Established ■ Emerging

## Outlook By Market (CAGR<sup>1</sup>)



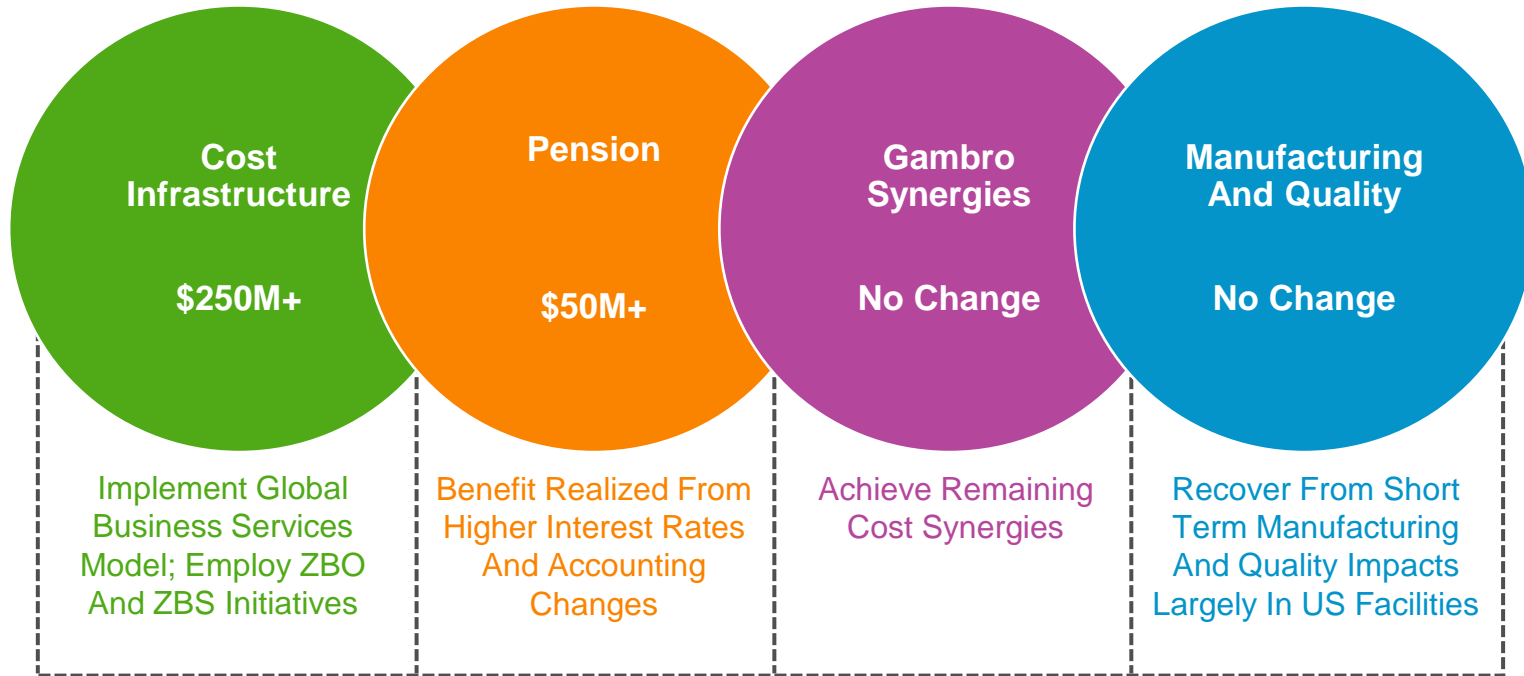
# Focused Strategy To Deliver Incremental Value

## 2020 Adjusted Operating Margin Outlook (% Of Sales)



➤ Delivering 300+ bps Of Incremental Margin Expansion Versus Prior Outlook

# Incremental Cost Savings Versus 2015 Investor Conference



➤ Driving Operational Excellence Across Baxter



# Dispassionate Portfolio Management

<b>Core Growth</b>	<ul style="list-style-type: none"><li>▪ Target Investments In Highest Return Areas To Drive Differential Growth</li></ul>
<b>Core Return On Capital</b>	<ul style="list-style-type: none"><li>▪ Capture Full Economic Value For Products / Services Offered</li><li>▪ Customize Investment Approach By Market</li><li>▪ Optimize Regional Product Allocations To Drive Returns</li></ul>
<b>Maintain Or Manage Differently</b>	<ul style="list-style-type: none"><li>▪ Manage Discretionary Investment Levels Flat Or Down</li><li>▪ Execute Turnaround Strategies Or Select Market Exits</li><li>▪ Limit Investment In Capital Expenditures</li></ul>
<b>Strategic Bets</b>	<ul style="list-style-type: none"><li>▪ Allocation Of Funds To Select, Longer-Term, Differentiated Technologies</li><li>▪ Anticipate Longer Payoff Horizon</li></ul>

➤ **Executing A Tactical Approach To Drive Top Line Growth And Expand Margins**

# Agenda



Operational Performance



Financial Outlook



**Balance Sheet And Capital Deployment**

# Significantly Enhancing Financial Flexibility

## Retained Stake Utilization

~19.5%



### Debt Exchange

- Deleveraged Baxter's Balance Sheet Through Intermediated Debt For Equity Exchanges
  - Retired ~\$1.5B Bank Line: Q1 2016
  - Retired ~\$2.2B In Bonds: Q1 2016

### Pension Contribution

- Contributing ~\$700M Of Baxalta Equity To US Qualified Pension Program; Improving Funded Status And Reducing Pension Expense

### Equity Exchange

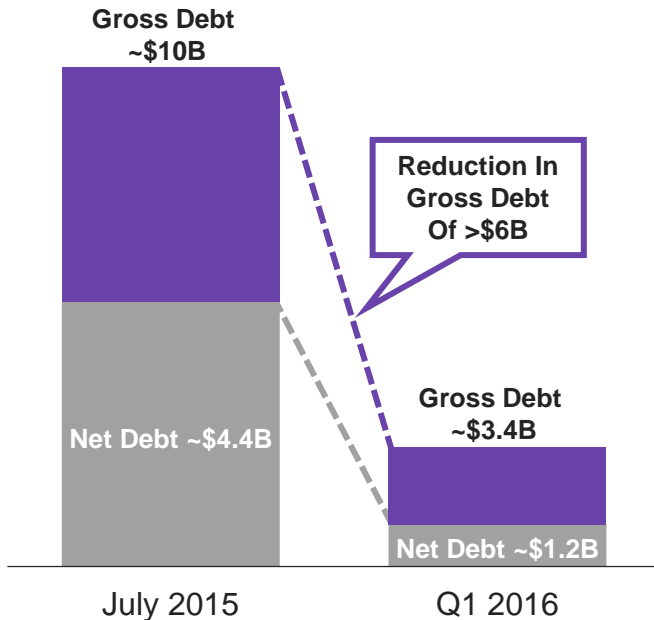
- Launched Exchange Offer For ~13.4M Baxalta Shares For Outstanding Baxter Shares; Reducing Baxter's Outstanding Share Count



Maximizing Economic Value Through Tax-Efficient Utilization Of Retained Equity Stake

# Significantly Enhancing Financial Flexibility

## Debt Level Evolution



### Debt Exchange

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# Identify Opportunities To Reduce Working Capital



Standardize Payable Terms



Accelerate Collection Of Receivables In Key Markets

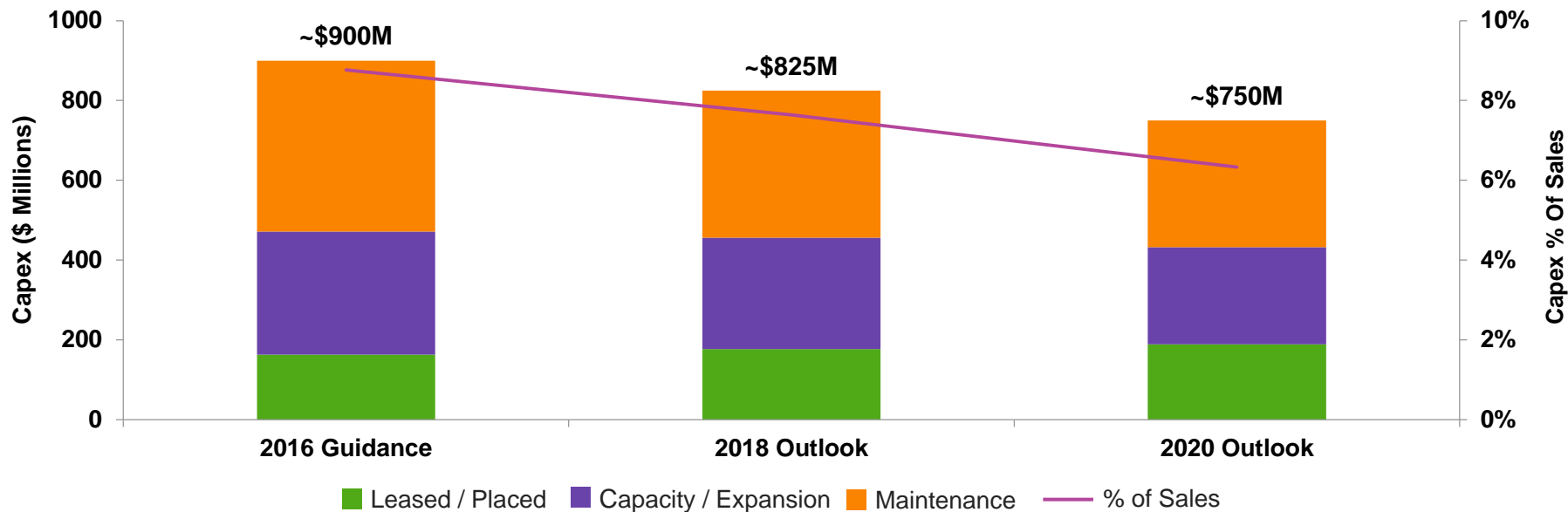


Implement Disciplined Management Of Inventory

➤ Optimizing Working Capital To Enhance Cash Generation

# Capital Expenditures

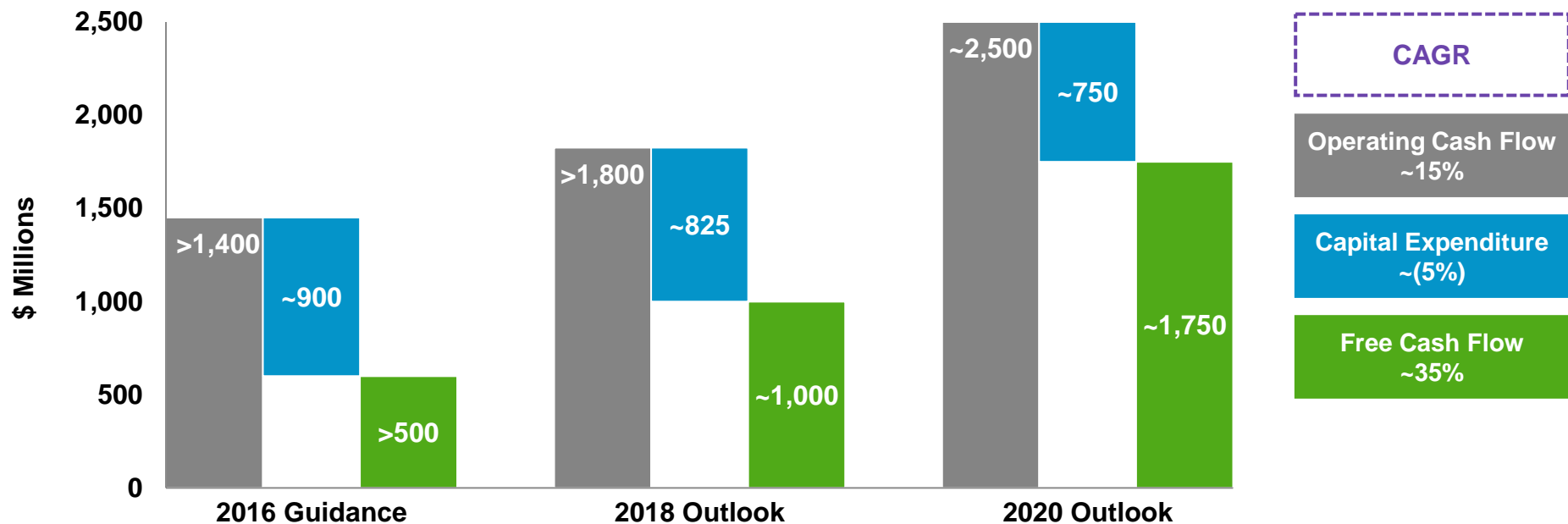
## Capex Utilization And Trending



➤ Implementing Disciplined Prioritization And Spending Control Around Capex

# Driving Significant Improvements In Cash Generation

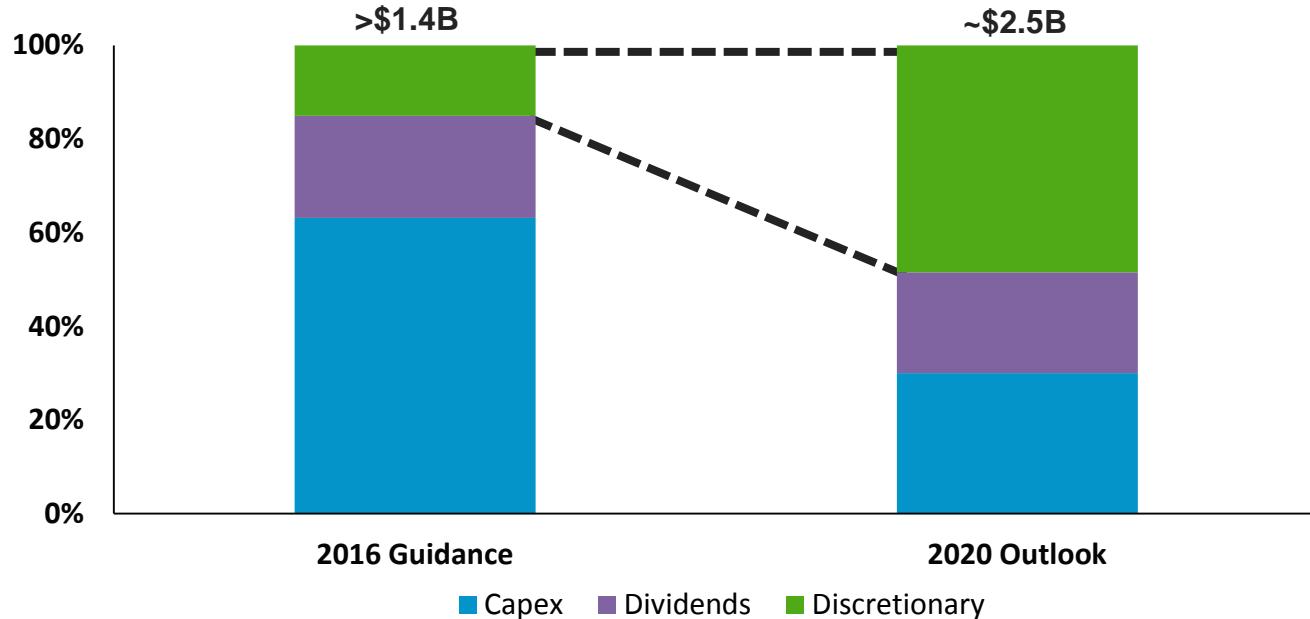
## Cash Flow Growth





# Opportunistically Deploying Capital To Fuel Growth And Create Value

Percent Of Operating Cash Flow



➤ Flexibility To Reinvest In Business And Return Value To Shareholders

# Maintaining Disciplined And Balanced Capital Allocation

## Reinvestment In Business

Delivering Sustainable Growth, Advancing Innovation And Driving Margin Expansion

## Dividends

Targeting Payout Ratio Of ~35% Of Adjusted Net Income; Distributions To Meaningfully Increase With Earnings Growth

## Share Repurchases

Opportunistically Returning Value To Shareholders; Balancing With Other Investment Alternatives

## M&A

Identifying And Pursuing Accretive Opportunities That Generate Returns Above Targeted Thresholds

# Executing Disciplined M&A Strategy

## Strategic Objectives

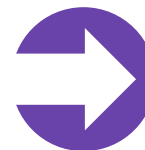
- Drive Category Leadership
- Improve Baxter's Weighted Average Market Growth Rate
- Identify And Pursue Strategic Adjacencies
- Build Upon Core Strengths – Channel Presence And Geographic Footprint

## General Financial Guidelines

- Accelerate Top Line Growth And Accretive To Operating Margin
- Double Digit Internal Rate Of Return
- Accretive To Cash Earnings In Near-Term
- Preserve Investment Grade Credit Rating And Financial Flexibility

## Net Debt / EBITDA Guidelines

0.6X  
Current



<2.0X  
Future

- Targeting Investment Grade Rating
- Focused On Deployment Of Excess Cash To Fund M&A Opportunities And Accelerate Returns

# Summary



**Strong Operational Performance Positions Company Well**



**Driving Significant Operating Margin Expansion By 2020**



**Balancing Investments In Organic And Inorganic Opportunities To Fuel Growth And Create Value**



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