



North America
United States
Health Care
Medical Supplies &
Devices

Industry
MedTech DataBook

Date
11 July 2014

Industry Update

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A Mid-Year Check-Up and 2Q Preview

What's in this month's edition...

The DataBook contains our usual review of performance and valuation statistics as well as company and industry data. We review some of the major events across the space. We updated some of our models to reflect 10K/Q updates, our current thinking on the end markets, and other company specific events ahead of the quarter (see Figure 1). Our investment ratings are unchanged. Our Buy ratings include MDT, COV, STJ, SYK and TNDM.



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(Large Cap) MedTech outperforming the market

On a YTD (7/9/14) basis, the S&P 500 Healthcare Equipment & Supply index is up 11.7% versus the S&P 500 up 6.7%. Within the MedTech index, there were several notable performers including EW (up 34%), COV (up 34% on the back of the Medtronic acquisition announcement), SYK (up 13.9%). J&J, which included in the pharma index is up 11.0% YTD. The laggards include ABT (up 7.7%), BDX (up 8.1%), and BSX (up 8.3%).

1H14 themes and stock performance drivers: portfolio mgmt and pipelines

The major themes have been portfolio management (M&A, spins, divestitures) as well as the building positive case for pipeline acceleration. In March, Baxter announced its intention to spin-off its Bioscience business. In April, Zimmer announced it would buy Biomet. In June, Medtronic announced it would buy Covidien. On the pipeline front, the notable FDA approvals included St. Jude's CardioMEMS, Medtronic's CoreValve and Edwards' SAPIEN XT, while Boston Scientific was told WATCHMAN would need a third panel date.

2Q14 earnings: J&J kicks it off next Tuesday

J&J kicks off earnings season next Tuesday. We expect J&J's results to be driven by the pharma business with a particularly big contribution from Olysio (Hep C). J&J will also highlight its pharma business on its quarterly call. For the MedTech sector as a whole, we expect to see some modest improvements sequentially in trends. We expect most to be optimistic around continued acceleration for the balance of the year.

2H14: portfolios, pipelines, and add in hopes for utilization lift/ACA impact

We expect the themes of M&A and pipeline to continue to drive stock performances. Once again, we expect building hopes for an uplift in utilization.

Our investment views are unchanged

Our Buy ratings include MDT, COV, STJ, SYK, and TNDM. We highlight MDT and COV as our top ideas. We liked both companies individually and like the prospects for a combination even more. Covidien's CEO sums it up nicely as he describes the deal as a situation of "1+1=5." We believe the fundamental outlook and valuation is compelling.

Valuation and Risks

Our universe trades at 17.9x our CY14E adj EPS and 16.4x our cash (ex-intangible amortization) EPS, the latter of which is generally in line with the S&P 500. Our PTs are generally based on our 2015E EPS and generally apply a market multiple and adjusted for company-specific factors. Downside risks: Medicare cuts/austerity measures, greater pricing pressures, increased govmt regulations. Upside risks: improved utilization, new products, M&A.

(We have changed estimates for some of our companies under coverage. See Figure 1 for details.)

Top picks

Medtronic (MDT.N),USD63.60	Buy
St. Jude Medical (STJ.N),USD69.60	Buy
Covidien Ltd. (COV.N),USD90.91	Buy
Stryker (SYK.N),USD83.98	Buy
Tandem Diabetes (TNDM.OQ),USD14.23	Buy

Source: Deutsche Bank

Companies Featured

Abbott Laboratories (ABT.N),USD41.27	
Baxter International (BAX.N),USD75.82	Hold
C. R. Bard (BCR.N),USD145.81	Hold
Becton Dickinson (BDX.N),USD119.47	Hold
Boston Scientific (BSX.N),USD13.02	Hold
CareFusion Corp. (CFN.N),USD44.72	Hold
Covidien Ltd. (COV.N),USD90.91	Buy
Edwards Lifesciences (EW.N),USD87.89	Hold
Johnson & Johnson (JNJ.N),USD106.04	Hold
Medtronic (MDT.N),USD63.60	Buy
St. Jude Medical (STJ.N),USD69.60	Buy
Stryker (SYK.N),USD83.98	Buy
Zimmer Holdings (ZMH.N),USD103.79	Hold
Tandem Diabetes (TNDM.OQ),USD14.23	Buy

Source: Deutsche Bank



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Summary of Changes

We have updated some of the models across our universe to reflect 10K/Q updates, our current thinking on end markets, foreign exchange movements, and other company specific events. See Figure 1 for a summary of the changes.

Figure 1: Summary of Changes

	Ticker	DB Rating	Price 7/9/14	Price Target		Fiscal 2014 Estimates				Fiscal 2015 Est			
				Old	New	Sales (\$millions)		EPS		Sales (\$M)		EPS	
						Old	New	Old	New	Old	New	Old	New
Baxter	BAX	Hold	\$75.82	\$74.00	--	\$16,517	\$16,612	\$5.12	\$5.16	\$16,661	\$16,686	\$5.30	\$5.25
Becton Dickinson	BDX	Hold	\$119.47	\$119.00	--	\$8,395	--	\$6.24	--	\$8,758	--	\$6.88	\$6.87
Boston Scientific	BSX	Hold	\$13.02	\$14.00	--	\$7,429	--	\$0.80	--	\$7,763	--	\$0.90	--
C.R. Bard	BCR	Hold	\$145.81	\$146.00	--	\$3,278	--	\$8.25	--	\$3,416	--	\$9.10	--
CareFusion	CFN	Hold	\$44.72	\$44.00	--	\$3,770	\$3,769	\$2.31	--	\$4,159	\$4,115	\$2.65	\$2.69
Covidien	COV	Buy	\$90.91	\$114.00	--	\$10,614	--	\$3.97	--	\$11,161	--	\$4.36	--
Edwards Lifesci	EW	Hold	\$87.89	\$81.00	--	\$2,152	\$2,140	\$3.17	\$3.16	\$2,230	\$2,218	\$3.70	\$3.69
Johnson & Johnson	JNJ	Hold	\$106.04	\$102.00	--	\$75,107	\$74,955	\$5.87	--	\$77,985	\$76,473	\$6.34	\$6.23
Medtronic	MDT	Buy	\$63.60	\$85.00	--	\$17,006	--	\$3.83	--	\$17,728	--	\$4.05	--
St. Jude Medical	STJ	Buy	\$69.60	\$78.00	--	\$5,705	--	\$3.99	--	\$6,011	--	\$4.36	--
Stryker	SYK	Buy	\$83.98	\$90.00	--	\$9,685	--	\$4.79	--	\$10,332	--	\$5.26	--
Zimmer	ZMH	Hold	\$103.79	\$107.00	--	\$4,781	\$4,802	\$6.10	--	\$4,982	\$5,002	\$6.43	--

Source: Deutsche Bank



A Summary of Our Ratings and Forecasts

Our Buy ratings include MDT, STJ, COV, SYK, and TNDM.

Figure 2: Medical Supplies & Devices Comp Table

Company Name	Market Cap (\$)	Rating	Price Target	Price: 7/9/14	Implied % Chg	Div Yield	FY End	EPS Basis	DB FY EPS ests			I/B/E/S Est FY EPS		PE (CY EPS)		Rel PE 2015
									2013	2014E	2015E	2014E	2015E	2014E	2015E	
S&PCOMP S&P 500				1,973		2.0%			\$109.00	\$119.00	\$125.00	\$117.32	\$127.11	16.8x	15.5x	
Diversified Healthcare																
ABT-US Abbott Labs	\$61,985			\$41.27		2.1%	31-Dec	Cash				\$2.19	\$2.44	18.9x	16.9x	9%
								Adjusted						23.1x	20.2x	
JNJ-US J&J	\$299,997	Hold	\$102.00	\$106.04	-4%	2.6%	31-Dec	Adjusted	\$5.52	\$5.87	\$6.23	\$5.89	\$6.34	18.1x	17.0x	10%
								Cash	\$5.89	\$6.24	\$6.60			17.0x	16.1x	
Medical Supply Companies																
BAX-US Baxter	\$41,140	Hold	\$74.00	\$75.82	-2%	2.7%	31-Dec	Cash	\$4.86	\$5.16	\$5.25	\$5.14	\$5.44	14.7x	14.4x	-7%
								Adjusted	\$4.67	\$4.91	\$5.00			15.4x	15.2x	
BDX-US Becton Dickinson	\$23,082	Hold	\$119.00	\$119.47	0%	1.8%	30-Sep	Adjusted	\$5.82	\$6.24	\$6.87	\$6.25	\$6.84	18.6x	17.0x	10%
								Cash	\$6.14	\$6.56	\$7.19			17.7x	16.3x	
BCR-US Bard	\$11,119	Hold	\$146.00	\$145.81	0%	0.6%	31-Dec	Cash	\$6.51	\$8.25	\$9.10	\$8.26	\$9.17	17.7x	16.0x	3%
								Adjusted	\$5.78	\$7.35	\$8.20			19.8x	17.8x	
COV-US Covidien	\$40,989	Buy	\$114.00	\$90.91	25%	1.4%	30-Sep	Adjusted	\$3.72	\$3.97	\$4.36	\$3.99	\$4.45	22.6x	20.4x	31%
								Cash	\$4.12	\$4.36	\$4.75			20.6x	18.8x	
CFN-US CareFusion	\$9,271	Hold	\$44.00	\$44.72	-2%	0.0%	30-Jun	Cash	\$2.12	\$2.31	\$2.69	\$2.31	\$2.68	17.8x	15.8x	2%
								Adjusted	\$1.89	\$2.08	\$2.46			19.1x	16.9x	
Cardiovascular Companies																
EW-US Edwards Lifesci	\$9,272	Hold	\$81.00	\$87.89	-8%	0.0%	31-Dec	Adjusted	\$3.11	\$3.16	\$3.69	\$3.17	\$3.63	25.6x	23.8x	53%
								Cash	\$3.22	\$3.27	\$3.80			26.8x	23.1x	
BSX-US Boston Scientific	\$17,221	Hold	\$14.00	\$13.02	8%	0.0%	31-Dec	Cash	\$0.73	\$0.80	\$0.90	\$0.80	\$0.90	16.2x	14.5x	-7%
								Adjusted	\$0.47	\$0.54	\$0.63			23.9x	20.7x	
MDT-US Medtronic	\$63,331	Buy	\$85.00	\$63.60	34%	1.9%	30-Apr	Adjusted	\$3.75	\$3.83	\$4.05	\$3.82	\$4.05	15.9x	14.4x	-7%
								Cash	\$4.03	\$4.11	\$4.33			14.8x	13.6x	
STJ-US St. Jude Medical	\$19,987	Buy	\$78.00	\$69.60	12%	1.6%	31-Dec	Adjusted	\$3.76	\$3.99	\$4.36	\$3.99	\$4.31	17.5x	15.9x	3%
								Cash	\$4.00	\$4.23	\$4.60			16.5x	15.1x	
Orthopedics Companies																
SYK-US Stryker	\$31,836	Buy	\$90.00	\$83.98	7%	1.5%	31-Dec	Cash	\$4.64	\$4.79	\$5.26	\$4.80	\$5.28	17.5x	16.0x	3%
								Adjusted	\$4.38	\$4.44	\$4.91			18.9x	17.1x	
ZMH-US Zimmer	\$17,418	Hold	\$107.00	\$103.79	3%	0.8%	31-Dec	Adjusted	\$5.75	\$6.10	\$6.43	\$6.12	\$6.56	17.0x	16.1x	4%
								Cash	\$6.16	\$6.50	\$6.83			16.0x	15.2x	
Small Cap MedTech																
TNDM-US Tandem	\$327	Buy	\$25.00	\$14.23	76%	0.0%	31-Dec	Adjusted	(\$21.46)	(\$3.26)	(\$2.88)	(\$3.53)	(\$2.87)			
Large Cap MedTech Sector Average (ex-JNJ/ABT/TNDM/COV) (Market cap weighted)																
						1.7%								16.4x	15.2x	-2%
														17.9x	16.4x	6%

Cash denotes non-GAAP EPS excluding intangible amortization expense
Source: Deutsche Bank, Thomson Reuters, Company reports



Figure 2: Medical Supplies & Devices Comp Table

As of 7/9/14	7/9/14 Company Name	Enterprise Value (\$M)	EV/Sales (fiscal)		EV/EBIT (fiscal)		EV/EBITDA (Fiscal)			FCF Yield (EV, FY)			Year-over-Year Percent Change in							
			2014E	2015E	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E	Sales			EBITDA			EPS	
												2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E
Diversified Healthcare																				
ABT-US	Abbott Labs																			
JNJ-US	J&J	\$289,114	3.9x	3.8x	13.9x	13.3x	12.5x	11.9x	11.5x	4.8%	5.1%	6.4%	6%	5%	2%	10%	5%	3%	6%	6%
Medical Supply Companies																				
BAX-US	Baxter	\$47,546	2.9x	2.8x	13.4x	13.2x	11.5x	10.7x	10.4x	3.1%	2.9%	4.1%	8%	9%	0%	5%	7%	3%	6%	2%
BDX-US	Becton Dickinson	\$24,476	2.9x	2.8x	14.4x	13.3x	11.3x	10.8x	9.8x	4.9%	4.9%	5.6%	4%	4%	4%	4%	4%	10%	7%	10%
BCR-US	Bard	\$11,576	3.5x	3.4x	19.3x	17.0x	13.9x	12.9x	11.9x	9.2%	4.6%	5.7%	3%	8%	4%	-13%	8%	9%	27%	10%
COV-US	Covidien	\$44,857	4.2x	4.0x	19.1x	17.5x	15.5x	15.4x	14.3x	3.6%	4.3%	5.4%	4%	4%	5%	-1%	1%	8%	7%	10%
CFN-US	CareFusion	\$9,123	2.4x	2.2x	13.3x	11.1x	10.6x	10.3x	8.8x	4.9%	3.9%	3.8%	-1%	6%	9%	7%	3%	16%	9%	17%
Weighted Avg - Ex-COV			2.9x	2.8x	14.4x	13.5x	11.6x	11.0x	10.3x	4.5%	3.7%	4.7%	5%	7%	3%	2%	6%	7%	9%	7%
Cardiovascular Companies																				
EW-US	Edwards Lifescience	\$9,059	4.2x	4.1x	20.8x	19.9x	16.3x	17.9x	17.2x	4.8%	9.5%	4.4%	8%	4%	4%	15%	-9%	5%	2%	17%
BSX-US	Boston Scientific	\$21,122	2.8x	2.7x	20.8x	18.2x	13.0x	12.3x	11.5x	4.2%	4.8%	6.2%	-1%	4%	4%	-1%	6%	7%	10%	12%
MDT-US	Medtronic	\$60,932	3.6x	3.4x	12.2x	11.2x	10.7x	10.4x	9.8x	7.3%	7.5%	7.5%	3%	3%	4%	0%	3%	7%	2%	6%
STJ-US	St. Jude Medical	\$22,588	4.0x	3.8x	15.4x	14.0x	13.1x	12.9x	11.9x	2.6%	5.3%	6.3%	0%	4%	5%	-3%	2%	8%	6%	9%
Wtg Avg (ex-EW)			3.5x	3.4x	14.6x	13.2x	11.7x	11.3x	10.6x	5.6%	6.5%	7.0%	1%	3%	5%	-1%	3%	7%	5%	8%
Orthopedics Companies																				
SYK-US	Stryker	\$30,834	3.2x	3.0x	13.5x	12.4x	12.0x	11.6x	10.9x	6.0%	5.4%	6.8%	4%	7%	7%	9%	3%	6%	3%	10%
ZMH-US	Zimmer	\$17,389	3.6x	3.5x	11.9x	11.1x	10.1x	9.4x	9.0x	3.9%	4.9%	6.8%	3%	4%	4%	3%	7%	5%	6%	5%
Weighted Avg			3.3x	3.2x	13.0x	11.9x	11.3x	10.8x	10.2x	5.2%	5.2%	6.8%	4%	6%	6%	7%	4%	6%	4%	8%
Large Cap MedTech Sector Average (ex-JNJ, ABT, TNDM)																				
Weighted Avg - Ex-COV			3.3x	3.2x	14.4x	13.3x	11.8x	11.3x	10.6x	5.1%	5.3%	6.0%	3%	5%	4%	2%	4%	7%	6%	8%

Source: Deutsche Bank, Thomson Reuters,, Company reports



Our Quick Takes on the Stocks

Figure 3: Our take on the stocks (pricing data as of July 9, 2014)

Company	Our take on the stock	Risks/what could change our view?	Upcoming Potential Catalysts									
Medtronic (MDT) Rating: Buy Target: \$85.00 Est return Price: \$63.60 33.6% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$3.83</td> <td>\$3.82</td> </tr> <tr> <td>2015E</td> <td>\$4.05</td> <td>\$4.05</td> </tr> </tbody> </table> PE (DB CY15E) 14.4x	EPS	DB	First Call	2014E	\$3.83	\$3.82	2015E	\$4.05	\$4.05	The vision of Medtronic's CEO, Omar Ishrak, is to reinvent, redefine, and reposition the company as a healthcare technology solutions company that focuses on therapy innovation, globalization, and importantly economic value. We believe the acquisition of Covidien furthers the transformation. As Covidien's CEO Joe Almeida has described the merger, this is a situation of "1+1=5." We believe the whole is greater than the sum-of-the-parts. Medtronic plc will be a stronger, better positioned company and a more attractive investment for investors.	Downside risks include the inability to close the Covidien deal and/or structure as a tax inversion, achievement of cost synergies, failure of pipeline products, failure to retain key talent, and adverse IRS rulings.	<ul style="list-style-type: none"> ■ Ongoing: Updates from Medtronic-Covidien merger ■ July: read-thrus from competitors ■ July 25: COV's results ■ Aug 19: MDT's results ■ Aug 21: MDT's shareholder meeting ■ Sept 13-17: TCT conference
EPS	DB	First Call										
2014E	\$3.83	\$3.82										
2015E	\$4.05	\$4.05										
Covidien (COV) Rating: Buy Target: \$114.00 Est return Price: \$90.91 25.4% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$3.97</td> <td>\$3.99</td> </tr> <tr> <td>2015E</td> <td>\$4.36</td> <td>\$4.45</td> </tr> </tbody> </table> PE (DB CY15E) 20.4x	EPS	DB	First Call	2014E	\$3.97	\$3.99	2015E	\$4.36	\$4.45	On June 15, Medtronic announced it would acquire Covidien in a cash-and-stock transaction. As we mention above, we believe the merger will create a stronger, better positioned company. We believe there is a high likelihood that the deal closes and as such we see upside to COV shares through the conversion into MDT shares.	Downside risks mainly relate to the Medtronic merger. To the extent that the merger does not close, then we see some downside risk to COV shares.	<ul style="list-style-type: none"> ■ Ongoing: Updates from Medtronic-Covidien merger ■ July 25: COV's results ■ 2H14: Updates on the neurovascular product recalls ■ Aug 19: MDT's results ■ Sept 13-17: TCT conference
EPS	DB	First Call										
2014E	\$3.97	\$3.99										
2015E	\$4.36	\$4.45										
St. Jude Medical (STJ) Rating: Buy Target: \$78.00 Est return Price: \$69.60 12.1% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$3.99</td> <td>\$3.99</td> </tr> <tr> <td>2015E</td> <td>\$4.36</td> <td>\$4.31</td> </tr> </tbody> </table> PE (DB CY15E) 15.9x	EPS	DB	First Call	2014E	\$3.99	\$3.99	2015E	\$4.36	\$4.31	We rate STJ a Buy. With a stable to improving cardiac rhythm management business (51% of sales) and the addition of several new products, top line growth rate should improve into the mid-single, possibly high-single digits. Given the acceleration in sales, product mix, and along with restructuring/cost savings initiatives, we see leverage to the bottom line. We still see upside to the stock.	Downside risks include pricing pressure, CRM market growth and share, delays or lack of success with the product pipeline (particularly CardioMEMS, Nanostim, Portico, and TactiCath), and product failures.	<ul style="list-style-type: none"> ■ July 16: STJ's results ■ 2H14: FDA approval and US launch of TactiCath ablation catheter ■ July 24: Read-thrus from Boston Scientific's results ■ August 19: Read-thrus from Medtronic's results ■ Sept 13-17: TCT conference
EPS	DB	First Call										
2014E	\$3.99	\$3.99										
2015E	\$4.36	\$4.31										
Stryker (SYK) Rating: Buy Target: \$90.00 Est return Price: \$83.98 7.2% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$4.79</td> <td>\$4.80</td> </tr> <tr> <td>2015E</td> <td>\$5.26</td> <td>\$5.28</td> </tr> </tbody> </table> PE (DB CY15E) 16.0x	EPS	DB	First Call	2014E	\$4.79	\$4.80	2015E	\$5.26	\$5.28	We believe Stryker's management has the right operating strategy as it is focused on the themes of globalization, innovation, collaboration, and cost optimization. Stryker has been fairly active on the M&A front and we believe acquisitions should drive growth and shareholder value. We believe Stryker's diversified business model should provide for steady mid-single digits top line and double-digit EPS growth. We rate SYK a Buy.	Downside risks include integration challenges or inability to drive adequate returns related to the MAKO acquisition, dilution with future acquisitions, reductions in hospital capex spending, and the inability to drive operating leverage.	<ul style="list-style-type: none"> ■ Ongoing: Market read-thrus from Zimmer-Biomet merger ■ July 15: JNJ's results ■ July 17: SYK's results ■ Sept 17: SYK analyst meeting
EPS	DB	First Call										
2014E	\$4.79	\$4.80										
2015E	\$5.26	\$5.28										

Source: Deutsche Bank, Thomson Reuters



Figure 3: Our take on the stocks (pricing data as of July 9, 2014) continued

Company	Our take on the stock	Risks/what could change our view?	Upcoming Potential Catalysts									
Tandem Diabetes (TNDM) Rating: Buy Target: \$25.00 Est return Price: \$14.23 76%	<p>We see Tandem as an exciting story within the diabetes management space and believe the company is poised to capture share with its t:slim insulin pumps and next-generation products. We believe there is upside from current levels driven by the companies increased revenue outlook which turns on increased sales rep productivity, expanded managed care contracts, and new product introductions. We rate TNDM a Buy.</p>	<p>Downside risks: additional capital raises, revenue shortfalls, pipeline delays.</p>	<ul style="list-style-type: none"> Any day: PMA submission for t:sensor July 31: TNDM's results 2H14: 510K filing for t:flex 									
Boston Scientific (BSX) Rating: Hold Target: \$14.00 Est return Price: \$13.02 7.5% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$0.80</td> <td>\$0.80</td> </tr> <tr> <td>2015E</td> <td>\$0.90</td> <td>\$0.90</td> </tr> </tbody> </table> PE (DB CY15E) 14.5x	EPS	DB	First Call	2014E	\$0.80	\$0.80	2015E	\$0.90	\$0.90	<p>We believe management is doing the right things by restructuring, refocusing, and repositioning the company and the stock's performance reflects the acknowledgement of such. The top line has stabilized and Boston has a number of products in the pipeline that could help to accelerate growth back in to the low-to-mid single digits. Boston also has ongoing restructuring programs that should help to improve the margin profile over time. We see some risk to the tax rate, however. Given the valuation, we see some upside in the stock, but we rate the stock a Hold.</p>	<p>Downside risks include the inability to achieve restructuring savings, delays or lack of success with new products, and dilutive acquisitions.</p> <p>Upside risks include greater cost cutting, improved R&D productivity, greater success with new product launches, and improvements in the DES and ICD markets.</p>	<ul style="list-style-type: none"> July 24: BSX's results 2H14: Initiation of Lotus transcatheter aortic valve US trial (REPRISE III) trial Sept 13-17: TCT Conference Nov 15-19: AHA Conference (Synergy stent data) 1H15: FDA Approval of Watchman
EPS	DB	First Call										
2014E	\$0.80	\$0.80										
2015E	\$0.90	\$0.90										
Zimmer (ZMH) Rating: Hold Target: \$107.00 Est return Price: \$103.79 3.1% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$6.10</td> <td>\$6.12</td> </tr> <tr> <td>2015E</td> <td>\$6.43</td> <td>\$6.56</td> </tr> </tbody> </table> PE (DB CY15E) 16.1x	EPS	DB	First Call	2014E	\$6.10	\$6.12	2015E	\$6.43	\$6.56	<p>We believe the proposed Biomet merger makes the Zimmer story more appealing on one hand as we see benefits to consolidation, but also introduces some risks in terms of integration. We believe the core orthopedic markets are likely to grow in the mid-single digits overall.</p>	<p>Downside risks include inability to manage the cost structure, greater pricing pressure and depressed unit growth, Biomet merger.</p> <p>Upside risks include a recovery in unit growth, synergies from Biomet merger, success with new products in gaining share, or ability to manage cost structure.</p>	<ul style="list-style-type: none"> Ongoing: Updates on Zimmer-Biomet merger July 24: ZMH's results 1Q15: Biomet merger close
EPS	DB	First Call										
2014E	\$6.10	\$6.12										
2015E	\$6.43	\$6.56										
CareFusion (CFN) Rating: Hold Target: \$44.00 Est return Price: \$44.72 -1.6% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$2.31</td> <td>\$2.31</td> </tr> <tr> <td>2015E</td> <td>\$2.69</td> <td>\$2.68</td> </tr> </tbody> </table> PE (DB CY15E) 15.8x	EPS	DB	First Call	2014E	\$2.31	\$2.31	2015E	\$2.69	\$2.68	<p>CareFusion has made progress in restructuring itself since its spin, particularly in its margin improvement efforts. While we still see some opportunities for margin expansion ahead, we believe top line acceleration may be more challenging without successful M&A. We rate CFN a Hold at the time and await greater clarity on the M&A side.</p>	<p>Upside risks include greater-than-expected gains in infusion therapies and restructuring savings.</p> <p>Downside risks include inability to achieve cost savings or infusion pump gains, and greater softness in hospital capex spending.</p>	<ul style="list-style-type: none"> August 7: CFN's results
EPS	DB	First Call										
2014E	\$2.31	\$2.31										
2015E	\$2.69	\$2.68										

Source: Deutsche Bank, Thomson Reuters



Figure 3: Our take on the stocks (pricing data as of July 9, 2014) continued

Company	Our take on the stock	Risks/what could change our view?	Upcoming Potential Catalysts									
Baxter (BAX) Rating: Hold Target: \$74.00 Est return Price: \$75.82 -2.4% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$5.16</td> <td>\$5.14</td> </tr> <tr> <td>2015E</td> <td>\$5.25</td> <td>\$5.44</td> </tr> </tbody> </table> PE (DB CY15E) 14.4x	EPS	DB	First Call	2014E	\$5.16	\$5.14	2015E	\$5.25	\$5.44	<p>Baxter has announced that it will separate into two companies. While we generally view the breakup as a potential positive longer term, our view on the near-term fundamentals remain unchanged. We believe the looming competition, particularly for its highly profitable recombinant franchise, is likely to remain an overhang for the stock. We believe 2014 and 2015 will be challenging years for Baxter and consensus expectations for 2015 are too high. We rate BAX shares a Hold.</p>	<p>Downside risks include increased recombinant competition, IVIG capacity constraints, greater-than-expected gross margin pressures, generic competition, pipeline delays.</p> <p>Upside risks include failure of competitors' recombinant programs, greater success of "wildcard" programs, successful integration of Gambro, and Hy-Q approval and success.</p>	<ul style="list-style-type: none"> ■ Ongoing: Updates on BAX 855 program, rFVIII competition ■ Mid-July: BiIB's US launch of Elocate ■ July 17: BAX's results ■ July 31: HyQvia FDA panel/Grifols release ■ Aug 13: CSL reports ■ 3Q14: Top line data from BAX-855 (long-acting) trial ■ Late-2014: FDA filing BAX-855 ■ Late-2014/early 2015: Form 10s for the Biosci spin ■ Mid-2015: Spin-off of Biopharmaceuticals business
EPS	DB	First Call										
2014E	\$5.16	\$5.14										
2015E	\$5.25	\$5.44										
Johnson & Johnson (JNJ) Rating: Hold Target: \$102.00 Est return Price: \$106.04 -3.8% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$5.87</td> <td>\$5.89</td> </tr> <tr> <td>2015E</td> <td>\$6.23</td> <td>\$6.34</td> </tr> </tbody> </table> PE (DB CY15E) 17.0x	EPS	DB	First Call	2014E	\$5.87	\$5.89	2015E	\$6.23	\$6.34	<p>We believe all three of J&J's divisions should see steady-to-improving trends. Within pharmaceuticals, the new products have already started to accelerate growth and we expect additional pipeline milestones ahead. Within Consumer, we believe the worst is likely behind for the McNeil OTC franchises and there should be improving trends ahead. We expect Medical Device & Diagnostics to be reasonably steady. However, we believe the stock is fairly valued at current levels.</p>	<p>Downside risks include US dollar strength, Rx pipeline failures, M&A integration risks, delays with the recovery of the McNeil OTC business, and adverse IRS rulings related to Synthes.</p> <p>Upside risks include greater success with Rx pipeline, utilization improvements, and greater share recapture for Consumer</p>	<ul style="list-style-type: none"> ■ Ongoing: Pharmaceuticals pipeline updates ■ July 15: J&J's results
EPS	DB	First Call										
2014E	\$5.87	\$5.89										
2015E	\$6.23	\$6.34										
Becton Dickinson (BDX) Rating: Hold Target: \$119.00 Est return Price: \$119.47 -0.4% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$6.24</td> <td>\$6.25</td> </tr> <tr> <td>2015E</td> <td>\$6.87</td> <td>\$6.84</td> </tr> </tbody> </table> PE (DB CY15E) 17.0x	EPS	DB	First Call	2014E	\$6.24	\$6.25	2015E	\$6.87	\$6.84	<p>In our view, BD continues to manage its cost structure appropriately and is one of the more geographically diversified companies with over 24% of sales in emerging markets. BD's top line growth has improved, which is encouraging. However, given the valuation relative to its peers and our projected growth rate, we rate BDX Hold.</p>	<p>Upside risks include improved healthcare utilization trends, expense management, or more favorable FX.</p> <p>Downside risks include higher resin/commodity costs, the inability to manage costs and unfavorable FX.</p>	<ul style="list-style-type: none"> ■ July: Read-thrus from other companies on general healthcare trends ■ July 27-31: AACC meeting ■ July 31: BDX's results
EPS	DB	First Call										
2014E	\$6.24	\$6.25										
2015E	\$6.87	\$6.84										

Source: Deutsche Bank, Thomson Reuters



Figure 3: Our take on the stocks (pricing data as of July 9, 2014) continued

Company	Our take on the stock	Risks/what could change our view?	Upcoming Potential Catalysts									
C.R. Bard (BCR) Rating: Hold Target: \$146.00 Est return Price: \$145.81 0.1% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$8.25</td> <td>\$8.26</td> </tr> <tr> <td>2015E</td> <td>\$9.10</td> <td>\$9.17</td> </tr> </tbody> </table> P/E (DB CY15E) 16.0x	EPS	DB	First Call	2014E	\$8.25	\$8.26	2015E	\$9.10	\$9.17	We rate BCR shares a Hold based on the stock's relative valuation. We believe the Gore patent litigation benefits, i.e. the lump sum payment, ongoing royalty and reinvestment opportunities, are already reflected in the stock. We believe the market is pricing in the reacceleration in top and bottom line growth and there is execution risk associated with the pipeline. We also believe Medtronic's drug-coated balloon data was positive and that Medtronic will be more competitive than Bard anticipates presenting some risk to the achievement of DCB sales goals.	Upside risks include an improvement in healthcare utilization trends, better-than-expected earnings, success with the pipeline and M&A. Downside risks include greater competition, pipeline failures, less favorable data than expected on the Moxy drug-coated balloon.	<ul style="list-style-type: none"> Any day now: Publication of the LEVANT II clinical trial in a major peer-reviewed medical journal July 24: BCR's results Aug 19: MDT's results Sept 13-17: TCT conference Late 2014/early 2015: FDA approval of LUTONIX DCB
EPS	DB	First Call										
2014E	\$8.25	\$8.26										
2015E	\$9.10	\$9.17										
Edwards Lifesci (EW) Rating: Hold Target: \$81.00 Est return Price: \$87.89 -7.8% <table border="1"> <thead> <tr> <th>EPS</th> <th>DB</th> <th>First Call</th> </tr> </thead> <tbody> <tr> <td>2014E</td> <td>\$3.16</td> <td>\$3.17</td> </tr> <tr> <td>2015E</td> <td>\$3.69</td> <td>\$3.63</td> </tr> </tbody> </table> P/E (DB CY15E) 23.8x	EPS	DB	First Call	2014E	\$3.16	\$3.17	2015E	\$3.69	\$3.63	We believe the next several years are likely to be challenging as EW faces intensifying competition in TAVR, particularly in the US with MDT's CoreValve's recent launch. Competitive pressures are also likely to build OUS. Net/net we see a more moderated growth forecast in the near-term. Longer-term (2017 and beyond) we see better opportunities for growth through the expansion into the intermediate risk patient population and eventually the mitral opportunity.	Downside risks include FDA labeling or Medicare reimbursement that limits uptake, slower TAVR sales, and competitive TAVR launches. Upside risks include a more successful US launch for SAPIEN, delays in competitors' TAVR program, and, in theory, an acquisition as several companies have expressed interest in structural heart.	<ul style="list-style-type: none"> July 29: EW's results August 19: MDT's results (read-thrus for transcatheter valves) Sept 13-17: TCT conference
EPS	DB	First Call										
2014E	\$3.16	\$3.17										
2015E	\$3.69	\$3.63										

Source: Deutsche Bank, Thomson Reuters





MedTech Mid-Year Check Up

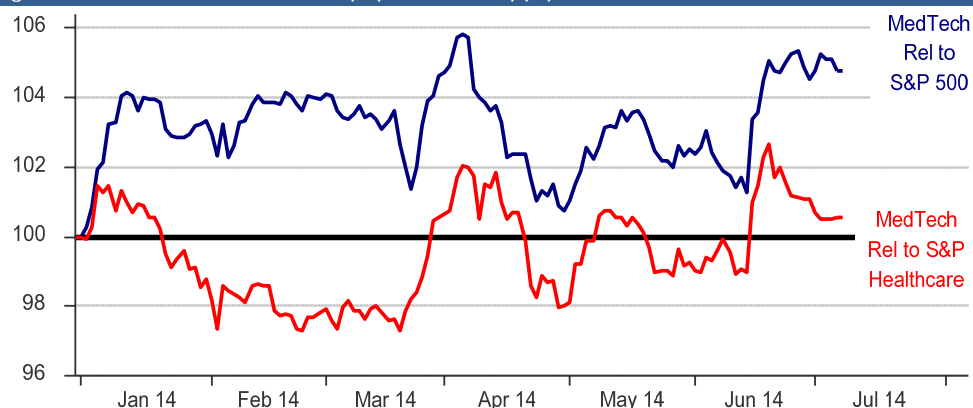
MedTech: Outperforming the Healthcare Index and Broader Market

The S&P 500 Healthcare Equipment & Supply index continues to outperform the broader market. On a year-to-date basis (through July 9), the S&P 500 Healthcare Equipment & Supply Index is up 11.7%, outperforming both the S&P 500 Healthcare Index (up 10.9%), as well as the overall S&P 500 (up 6.7%).

We attribute the relative outperformance to things:

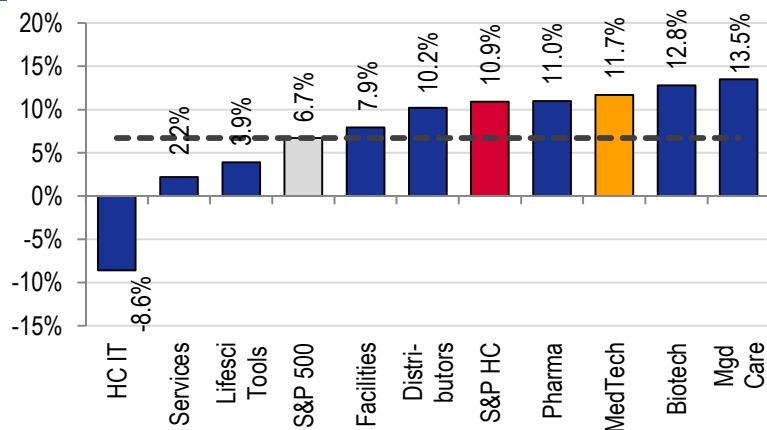
- Positive data points and expectations for pipeline products and the prospects for accelerating growth.
- M&A activity across the space.
- Attractive valuation multiples relative to other segments within healthcare.
- The rotation into more large cap value “defensive names.”

Figure 4: S&P 500 Healthcare Equipment & Supply Relative Performance



Source: Deutsche Bank, Thomson Reuters

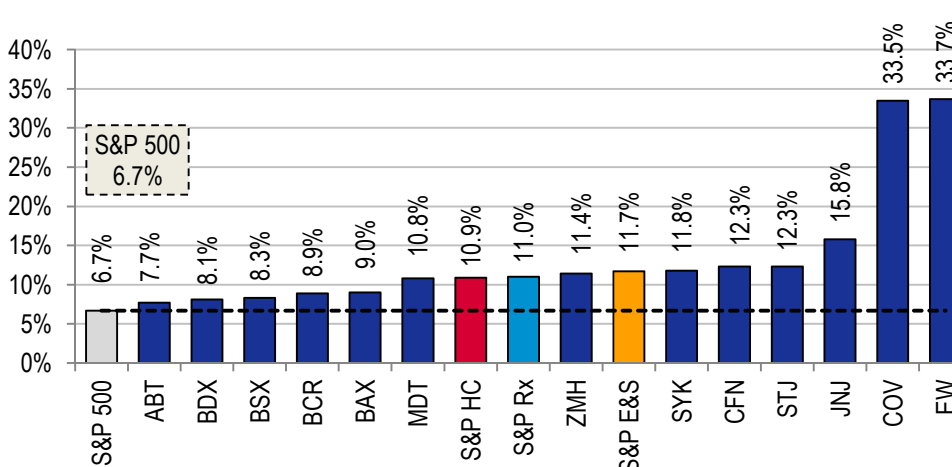
Figure 5: Year-to-date (7/9/14) HC Sub-industry Price Performance



*we note, the S&P 500 Healthcare IT index includes only CERN, and Facilities includes only THC

Source: Deutsche Bank, Thomson Reuters

Figure 6: Year-to-date (7/9/14) Stock Performance – Large Cap Coverage Universe



Source: Deutsche Bank, Thomson Reuters





1H14 Key Themes & Events

Portfolio Management (M&A, Divestitures, and Spins)

In recent years, MedTech company management teams have become more active in their portfolio management activities which we believe is a reflection of the realization that the more challenging operating environment is likely to persist. Several years ago, we believe the more prevalent hope was “when things return back to normal” and now the baseline assumption is that the current environment—characterized by cost containment efforts—is likely to continue.

M&A has always been a part of most MedTech company’s operating strategies but in recent years the pace seems to be picking up. Last year was an active year and this year is shaping up to be just as active and perhaps even more significant. While there have been numerous deals announced and/or closed in the past six months, without a doubt the biggest move was Medtronic’s announced \$42.9 billion acquisition of Covidien on June 15, 2014. In April 2014, Zimmer also announced its \$13.4 billion acquisition of Biomet. On the divestiture side, the only significant action thus far has been J&J’s sale of its Diagnostic business to The Carlyle Group, which closed June 30, 2014. With respect to spins, the more significant and unexpected news was Baxter’s announcement in March that it was going to spin-off its Biosciences business.

Consolidation within orthopedics: Smith & Nephew-Arthrocare and Zimmer-Biomet

On February 3, Smith & Nephew announced its intention to acquire Arthrocare for total deal consideration of \$1.7 billion and an enterprise value of \$1.5 billion. The deal gives Smith & Nephew a more dominant sports medicine franchise, as well as a broader global footprint and an entry into the ear, nose, and throat (ENT) market. The deal closed on May 29, 2014.

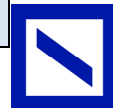
On April 24, Zimmer announced its intention to acquire rival, Biomet (owned by private equity) for approximately \$13.35 billion--\$10.35 billion in cash and approximately \$3 billion in Zimmer stock. The deal values Biomet at approximately 4.2x EV/LTM sales and 12.6x EV/LTM adjusted EBITDA. These valuation metrics are premiums to our MedTech coverage universe average (3.3x 2013 sales, 11.3x 2013 adjusted EBITDA). The transaction is anticipated to close in the first quarter of 2015, upon which Biomet shareholders will own approximately 16% of the combined entity. Zimmer plans to maintain its investment grade credit rating, and anticipates a total debt ratio of 3.7x when including synergies (4.0x excluding synergies). Management anticipates that acquiring Biomet will deliver double digit accretion in year 1, though this is on a cash earnings basis. To be more specific, management commented the accretion would be in the range of \$1.15-\$1.25 per share. This would put 2015 cash EPS on a combined basis around the \$8.00 level using our 2015 standalone EPS estimate and adding back intangible amortization expense (about \$0.40) plus “cash accretion” from the deal (about \$1.20).

The deal sparked significant debate in the market place as to who was next. On May 28, 2014, the Financial Times reported that Stryker was preparing a bid for Smith & Nephew. Stryker acknowledged that it was in early considerations on whether to look at the company but then issued a statement as required by the UK takeover board stating that it did not intend to announce an offer. Management did acknowledge that it was in early stages of considering whether or not to pursue such a deal. On June 4, a Bloomberg report stated that Medtronic was evaluating a takeover of Smith & Nephew, though spokesmen for Smith & Nephew and Medtronic declined for comment. J&J was also mentioned by the media (CNBC) as a potential suitor.

Medtronic-Covidien: The big one... and structured as an inversion

On June 15, Medtronic entered into a definitive agreement to acquire Covidien in a cash-and-stock transaction valued at approximately \$42.9 billion, which values Covidien at approximately \$93.22 per share using Medtronic’s closing stock price on June 13, 2014 (\$60.70). COV shareholders will receive \$35.19 in cash and 0.956 in MDT stock per ordinary COV share. The transaction will be taxable, for US tax purposes, to both MDT and COV shareholders. The deal is structured as a tax inversion. Upon transaction close, Covidien shareholders will own approximately 30% of “New Medtronic”. The deal is expected to close either at the end of the year or in 1Q15.





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Markets Research

North America
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Medical Supplies & Devices

Industry
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Date
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Forecast Change

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Big Blue: Creating A Leading Medical Technology Solutions Company

We continue to see upside, we restate our Buy and raise our PT.

The healthcare industry is in the midst of economic and structural transformation. Simply put, the MedTech sector must evolve. The vision of Medtronic's CEO to reinvent, redefine, and reposition the company as a healthcare technology solutions company. We believe the acquisition of Covidien furthers the transformation. As Covidien's CEO Joe Almeida has described the merger, this is a situation of "1+1=5." We believe the whole is greater than the sum-of-the-parts. Medtronic plc will be a stronger, better positioned company and a more attractive investment for investors.

Why we made this report
In this report, we take a deep dive look at both Medtronic and Covidien and assess the proposed acquisition of Covidien by Medtronic.

As Joe says, this is a "1+1=5" transaction.

On June 16, Medtronic and Covidien announced they entered into a definitive agreement whereby Medtronic would acquire Covidien in a cash-and-stock transaction valued then at \$23 billion. Covidien's CEO described the deal as a "1+1=5" transaction, which we believe captures the essence of the deal--it will create a stronger, better positioned company and in our view, drive create shareholder value over the near and long term.

Strategic, operational, and financial benefits

While the companies argue the strategic and operational benefits (which we see many) more the driving factor, the financial, particularly the benefits of the deal are equally if not more attractive over the longer term. The ability of Medtronic to re-domicile will provide it with a competitive advantage, namely incentivizing it to invest more in the United States in R&D and investment/acquisition. We believe the economies from scope and scale are compelling, and we believe size will increasingly be important in the evolving healthcare environment.

The outlook at Medtronic plc
We expect Medtronic plc to be a mid-single digit sales and double-digit EPS growth profile company. We expect the Covidien acquisition to be roughly 5% in fiscal 2015, 10% accretive in fiscal 2017, and upwards of 15% each accretive beyond. As a combined entity, the two companies will generate substantial cash flows of which we believe at least half will be returned to shareholders in the form of dividends and share repurchases.

Valuation & Risk: seeing PT) and rewording our buy rating.
We believe there is a high (90%) likelihood that the deal closes and value the stocks as such. For Medtronic, we believe the risk/reward is compelling as we see upside irrespective of the deal close. In establishing our price target we have used a peer group multiple whereby the peers including ABT, JNJ, BDX, SYK, BSN, and STJ and their respective PE using 2015 cash EPS estimates (Consensus) are 17.5x for all other. Our revised price targets for MDT and COV are \$85 from \$75 and \$114 from \$85, respectively. The downside risks include the deal not closing, the inability to achieve merger cost synergies, the failure of positive production, product recalls, adverse R&D setbacks, and inability to retain talent. (See our valuation section that begins on page 25).

Deutsche Bank Securities Inc.
Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 140604014.

On July 8, we published a comprehensive report on the MDT-COV merger titled: "Big Blue: Creating A Leading Medical Technology Solutions Company."

The healthcare industry is in the midst of economic and structural transformation. Simply put, the MedTech sector must evolve. The vision of Medtronic's CEO, Omar Ishrak, is to reinvent, redefine, and reposition the company as a healthcare technology solutions company that focuses on therapy innovation, globalization, and importantly economic value. We believe the acquisition of Covidien furthers the transformation. As Covidien's CEO Joe Almeida has described the merger, this is a situation of "1+1=5." We believe the whole is greater than the sum-of-the-parts. Medtronic plc will be a stronger, better positioned company and a more attractive investment for investors.

Operational, financial, and strategic benefits

We believe the deal was first contemplated for the operational and strategic merits, but there are compelling financial aspects as well.

- Economies of scope and scale.** In this evolving healthcare landscape, we believe a company's depth and breadth will increasingly matters and combined, the companies can realize the economies of scope and scale with respect to its revenue generation and cost structure. We also believe the cost synergy target of "at least \$850 million" is just that (at least) as we believe over time there could be further reductions. Though management has not factored any revenue synergies into its forward looking projections, we believe there will be near (e.g. drug-coated balloons) and longer term revenue synergies.
- A more diversified and durable revenue base.** Medtronic's sales are largely implantable devices and some are in mature markets with pricing pressures. Covidien's sales are generally disposables and face less pricing pressure. Medtronic plc's revenue stream will be more stable and sustained in the mid-single digits.
- Tax re-domicile creates a sustainable competitive advantage.** In purchasing Covidien, Medtronic can use its cash and investments that are "trapped outside the United States" and gain access to all of Covidien's cash. On a go forward basis, this brings the percent of cash generated that is "trapped" offshore to 35%-40% from 60% providing greater flexibility/access to its cash flows (which should exceed \$7 billion on a combined basis) for investment opportunities or to return to shareholders. Future acquisitions will then further improve this ratio.

We see upside for MDT shares into the \$80s, hence upside for COV too

We believe there is a high likelihood that the Medtronic-Covidien deal closes and have valued the stocks as such. For Medtronic in particular, we believe the risk/reward is compelling as we see upside even under the less likely chance of no deal. In establishing our price target we have used a peer group multiple whereby the peers including ABT, JNJ, BDX, SYK, BSX, and STJ and their respective PE using 2015 cash EPS estimates (Consensus for ABT, DB for all other). Our price targets for MDT and COV are \$85 and \$114 respectively.

Deal Value	Cash and stock deal. COV holders receive per share \$35.19 in cash and 0.956 in MDT stock, which based on the announcement date totaled \$42.9 billion. Medtronic will also assume Covidien's \$5 billion in debt.
Valuation (based on LTM stats)	EV/Sales: 4.5x EV/EBITDA: 16.8x EV/EBIT: 20.8x
Deal close timing	Medtronic expects the deal to close at the end of calendar 2014 or early 2015.
Post close leadership	Omar Ishrak (Medtronic's current CEO)
Financial Impact	On a pro forma basis, revenues in fiscal 2014 were \$27.4 billion. Medtronic expects to achieve at least \$850M annual pre-tax cost synergies by the end of FY2018. Assuming the achievement of cost, but not revenue synergies, Medtronic expects the deal to be accretive to FY16 cash EPS and significantly accretive thereafter. On a GAAP basis, accretive to FY18 EPS.

Other notable deals announced and/or closed this year

Several Vascular deals

- **Spectranetics' acquisition of AngioScore:** On June 30, Spectranetics acquired AngioScore for approximately \$230 million, plus additional contingent commercial and regulatory milestone payments. AngioScore markets a scoring balloon technology platform that enables it to treat coronary and peripheral blockages. Spectranetics believes the acquisition will enhance its product portfolio in helping physicians treat critical limb ischemia (CLI), in-stent restenosis (ISR), calcified lesions, and chronic total occlusions (CTO).
- **Boston Scientific's acquisition of Bayer's peripheral intervention business:** On May 15, Boston Scientific announced its intention to acquire Bayer's peripheral business for \$415 million or 3.5x 2013 sales. The deal is expected to close in 2H14. The acquired products generated \$120 million sales in 2013 and include thrombectomy and atherectomy systems that should strengthen Boston Scientific's offering in peripheral vascular.
- **Volcano's acquisition of AtheroMed:** On June 18, Volcano acquired privately-held AtheroMed for \$115 million up front, plus a contingent payment of \$15 million. The first generation Phoenix device, indicated for peripheral artery disease, received 510K clearance in January 2014 and has CE Mark (European) approval. It is an over the wire system with a front-cutting feature that shaves material into the catheter. The material is then continuously captures and removed by an internal Archimedes Screw. The device can be used to treat blocked vessels both above and below the knee. The acquisition enables Volcano to take part in the growing atherectomy market, which Volcano believes will grow at least 7% per year.

Technology add-ons

- **St. Jude's acquisition of CardioMEMS:** On May 30, St. Jude acquired CardioMEMS. Recall, in September 2010, St. Jude made a \$60 million investment in CardioMEMS and in doing so acquired the exclusive option to acquire the company for \$375 million (less any net debt payable to St. Jude which we estimate to be approximately \$37 million).
- **Covidien's acquisition of GIVEN imaging:** On February 27, Covidien acquired GIVEN Imaging for \$860 million net of cash acquired. The acquisition of Given Imaging fits with Covidien's vision of expanding its presence in the gastrointestinal (GI) space.
- **Stryker's acquisition of Small Bone Innovations:** On June 30, Stryker announced an agreement to acquire select assets of Small Bone Innovations for up to \$375 million (\$285 million when adjusted for related tax benefits). The primary asset to be acquired will be the Scandinavian Total Ankle Replacement System, or STAR Ankle. Other assets to be acquired include finger, wrist, and elbow products. The transaction is expected to close in 3Q14. Stryker expects the acquisition to be \$0.02 dilutive to its 2014 cash EPS guidance.

Broadening out the portfolio

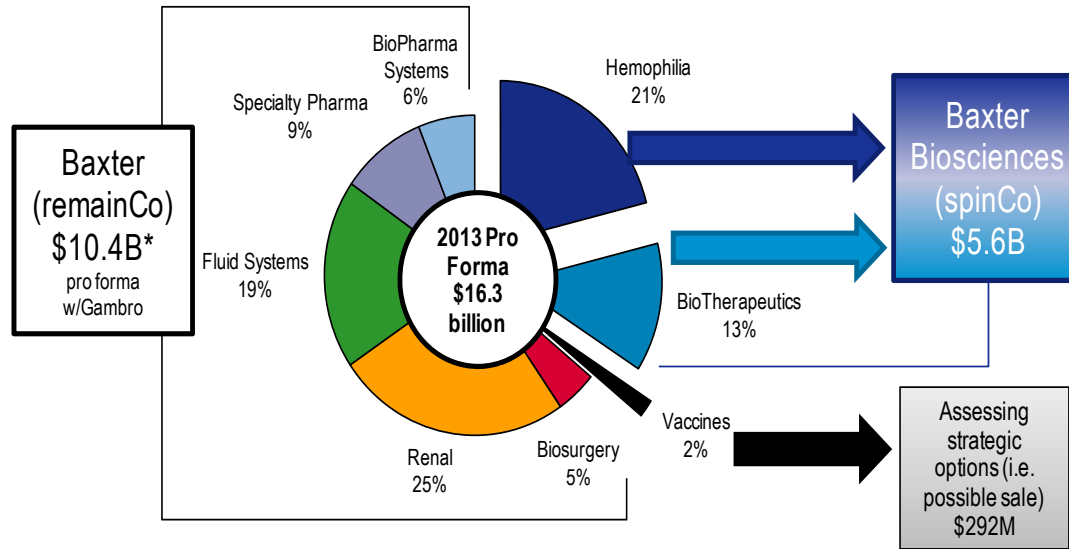
- **Abbott's acquisition of Veropharm:** On June 23, Abbott announced an agreement to acquire Veropharm. Veropharm is one of the largest Russian pharmaceutical manufacturing companies with over 100 products in its portfolio. The final transaction amount is expected to be between \$395-\$495 million and the deal is expected to close in 4Q14. Abbott estimates Veropharm will add \$150 million to 2015 sales.
- **Abbott's acquisition of CFR Pharmaceuticals:** On May 16, Abbott announced a definitive agreement to acquire CFR Pharmaceuticals, a Latin American branded generics pharmaceutical company, for \$2.9 billion plus the assumption of \$430 million in net debt. Abbott expects the deal to close in the 3Q14. Abbott has commented that the deal positions the company as a top 10 pharmaceutical company in Latin America.
- **Stryker's acquisition of Pivot Medical:** On March 17, Stryker acquired Pivot Medical, a private company that develops products for hip arthroscopy. Financial terms of the transaction were not disclosed. The acquisition enables Stryker to build out its sports medicine franchise by giving it access to one of the fastest growing sports medicine procedures.
- **Stryker's acquisition of Patient Safety Technologies:** On March 24, Stryker acquired Patient Safety Technologies for \$120 million. Patient Safety is a provider of the proprietary Safety-Sponge system and SurgiCount 360 compliance software to help prevent retained foreign objects during surgery. The transaction complements Stryker's existing instruments business by adding an additional technology to eliminate unnecessary healthcare costs and improve outcomes for patients and providers.
- **Stryker's acquisition of Berchtold Holding:** On April 15, Stryker acquired Berchtold Holding for an enterprise value of \$172 million. Berchtold's product portfolio consists of surgical tables, equipment booms, and surgical lighting systems that enhance the safety and efficiency of operating rooms and ICUs. The acquisition enhances Stryker's endoscopy business unit, broadening the portfolio to include additional operating room equipment.



Baxter's spin of its Biosciences Business

Baxter announced its intention to spin-off its BioPharmaceuticals business on March 27, 2014. The "Baxter Bioscience SpinCo" would include the hemophilia and biotherapeutics franchises. The Biosurgery business would stay with Baxter while Baxter intends on selling its Vaccine business. Baxter expects the spin to take place in mid-2015.

Figure 7: Overview of the Spin



Company Name	Baxter	SpinCo To Be Named
Company overview	Diversified medical device company aligned on similar call points in the acute and outpatient settings. Strong presence in Renal, Anesthesia, Regenerative Medicine, Injectables, Infusion, and Biopharma Partnering	Diversified bipharmaceuticals company with a leading core plasma-derived products franchise and a growing biopharma franchise focused on Hemophilia, Hematology, Oncology, and Biosimilars
2013 Pro Forma Sales Base	\$10.4 Billion (pro forma Gambro plus Biosurgery revenues)	\$5.6 Billion (excluding Biosurgery and vaccines revenues)
2013 Geographic Mix	~40% US, ~60% OUS, incl ~25% in EM	~50% US/OUS, incl ~15% EM
Valuation Peers	Becton Dickinson, CareFusion, Covidien, Teleflex	AbbVie, CSL, Grifols
Leadership	Robert Parkinson Jr. - Current Chairman/CEO James K. Saccaro - CFO (former CFO of Hill-Rom)	Ludwig Hantson, Ph.D - CEO Wayne T. Hockmeyer, Ph.D - Chairman Robert Hombach - CFO (current Baxter CFO)

Source: Deutsche Bank, Company Reports





The Renewed Hopes for Pipelines

In the late 1990s and early 2000s, several major breakthrough products were introduced. In the mid-2000s, there were some notable medical device recalls (e.g. Guidant's defibrillators, Medtronic's Fidelis leads) and safety scares (e.g. drug-eluting stents and thrombosis). Since then, transcatheter valves were perhaps the more significant new breakthrough product but even then, sales expectations have been dampened by the reimbursement environment.

Over the past few years, there has been building enthusiasm in the investment community for the re-emergence of the "product pipeline story." While the year started out with a major disappointment (i.e. Medtronic's that its renal denervation trial failed it meet its primary efficacy endpoint), there's been several key pipeline product milestones and approvals, a few of which we highlight below:

Medtronic's CoreValve Transcatheter Aortic Valve Replacement (TAVR) Device: FDA Approved January and June 2014

Figure 8: Medtronic's CoreValve



Source: Courtesy of Medtronic

Medtronic's CoreValve device consists of a self-expanding nitinol frame with porcine pericardial tissue leaflets along with a sealing skirt designed to reduce paravalvular leaks. The valve comes in four sizes (23mm, 26mm, 29mm, and 31mm) and delivered via an 18 French profile delivery system.

Medtronic released its Extreme Risk (inoperable) clinical data last fall at the TCT conference and based on this data, the FDA approved CoreValve on January 17, 2014.

At the ACC conference in March, Medtronic released the results from its surgical high risk surgical which showed that the CoreValve system was superior to surgery. Based on the strong clinical data, the FDA determined that a panel review was not required. The FDA approved CoreValve for the high risk indication on June 12, 2014.

Medtronic is also starting its US IDE for its next-generation valve, EVOLUT R.

Edwards' SAPIEN 3 Transcatheter Aortic Valve Replacement (TAVR) Device: CE Mark (EU approval) January 2014

Figure 9: Edwards' SAPIEN 3



Source: Courtesy of Edwards Lifesciences

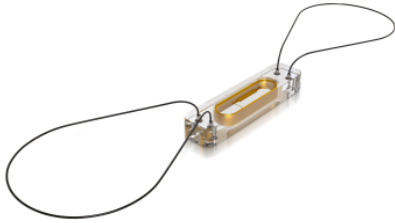
Edwards' SAPIEN 3 transcatheter aortic valve replacement (TAVR) builds upon Edwards' SAPIEN family. The valve is comprised of a cobalt chromium frame that has a different frame geometry and wide strut angles to allow for ultra-low delivery profile. Like the other SAPIEN devices, the leaflets are made of pericardial leaflets. The valve also has a polyethylene terephthalate (PET) outer skirt, which is designed to minimize paravalvular leak. The SAPIEN 3 device is delivered through a 14 French expandable sheath (eSheath).

Edwards announced it had received CE Mark (approval) in Europe on January 27, 2014. The valve is currently under clinical evaluation in the United States. SAPIEN completed enrollment in its high/inoperable risk group in January 2014 and data should be available next spring. Enrollment in the intermediate risk arm is ongoing and follow-up is 1 year putting the possible data release in the spring of 2016.



St. Jude's CardioMEMS: FDA approved May 2014

Figure 10: St. Jude's CardioMEMS



Source: Courtesy of St. Jude Medical

The CardioMEMS' HF (heart failure) monitoring system is a permanently implantable wireless pulmonary arterial (PA) pressure monitoring device measuring diastolic, systolic, and mean PA pressures. The system is comprised of an implantable sensor, a catheter-based delivery system, and an external electronic receiver module and web-based interface in which pressure data can be relayed to medical professionals for review. The device was evaluated in the CHAMPION trial (CardioMEMS Heart Sensor Allows Monitoring of Pressure to Improve Outcomes in NYHA Class III Patients).

On May 28, 2014, the CardioMEMS HF system was approved by the FDA for patients with New York Heart Association (NYHA) Class III heart failure who have been hospitalized for heart failure in the previous year.

St. Jude made an equity investment CardioMEMS in September 2010 for \$60 million acquiring an exclusive option to acquire the company, which it exercised on June 2 acquiring the company for \$375 million (less any net debt payable to St. Jude, which we estimate to be \$37 million).

Boston Scientific's WATCHMAN LAA Device: Additional FDA Advisory Panel Required; Pending FDA Approval

Figure 11: WATCHMAN LAA



Source: Courtesy of Boston Scientific

Boston Scientific's WATCHMAN device is a left atrial appendage closure device.

Boston Scientific acquired WATCHMAN through its January 2011 purchase of Atritech for \$100 million up front and up to \$275 million upon certain regulatory and revenue achievements. WATCHMAN received CE Mark in 2011.

In June 2014, Boston Scientific disclosed that the FDA said its WATCHMAN device will need to go before a third FDA advisory Panel (date TBD). Boston had expected WATCHMAN approval in 1H14 and the latest expectation was approval before the end of June. Boston has updated their approval timing to now 1H15.

WATCHMAN has gone before an FDA Advisory Panel twice before. The first panel was held in April 2009. The FDA's concerns were around confounding effects of concomitant antithrombotic use and subjects not receiving assignment treatment as well as acute safety events. The Panel voted 7 to 5 in favor of "approvable with conditions." Concerns were a lack of long-term data and safety. The FDA issued a Not Approvable letter in March 2010 citing issues with the PROTECT AF trial, which then lead to the PREVAIL trial. The second Panel was held in December 2013. The FDA's concerns were event rates for all of the individual components of the first primary endpoint (all stroke, systemic embolism, and CV or unexplained death) favored the Control group in PREVAIL. However, despite the debate amongst the panelists throughout the day, the Panel voted 13-to-1 that there was reasonable assurance on safety, efficacy, and the benefits outweighed the risks.



Bard's LUTONIX Drug-Coated Balloon (DCB): FDA Advisory Panel Reviewed/Supported; Pending FDA Approval

Figure 12: Lutonix Drug-coated Balloon



Source: Courtesy of C.R. Bard

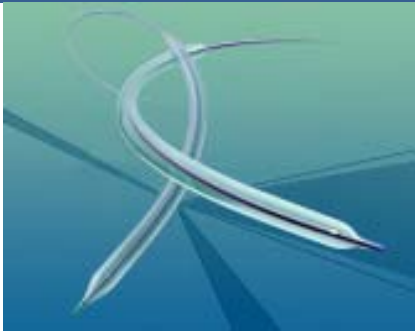
The LUTONIX DCB is similar to a standard angioplasty balloon, but contains a special coating consisting of paclitaxel and a proprietary carrier that allows the drug's transfer to the arterial wall upon inflation. Because of this, the DCB can deliver a therapeutic dose to the artery wall, while keeping the dose of paclitaxel on the balloon as low as possible.

On June 12, 2014, the device went before an FDA panel. Panelists voted unanimously in favor of the device, but did suggest a modification to the original proposed indication to include "pre-dilatation". The positive FDA panel supports Bard's anticipated FDA approval date of early calendar 2015.

Bard acquired the LUTONIX DCB in December 2011 for approximately \$225 million upfront, with an additional \$100 million to be paid upon US approval.

Medtronic's IN.PACT Drug-Coated Balloon: PMA Submitted; Pending FDA Approval

Figure 13: IN.PACT Admiral Balloon



Source: Courtesy of Medtronic

The Medtronic IN.PACT Admiral balloon has been approved in Europe since May 2009. The IN.PACT family of drug-coated balloons uses the drug paclitaxel.

The IN.PACT SFA I and II studies utilize the Admiral balloon. Results were presented that the Charing Cross and EuroPCR conference earlier this year. The primary efficacy endpoint was primary patency at 12 months, where primary patency was defined as freedom from clinically-driven TLR and DUS-derived restenosis ($PSVR \leq 2.4$). The primary analysis was done in both the non-stented intention to treat (ITT) group and all ITT patients. At 12 months in the non-stent ITT group, IN.PACT primary patency was 82.9% versus 52.2% in the standard balloon angioplasty (PTA) arm, $p < 0.001$. In the all ITT group, IN.PACT patency was 82.2% versus PTA arm at 52.4%, $p < 0.001$. Given these results, investigators concluded that IN.PACT had significantly better outcomes than standard PTA.

Medtronic submitted the SFA I and II in support of its PMA approval. Medtronic expects approval in mid-calendar 2015.



St. Jude's Nanostim leadless pacemaker: CE Mark (EU Approval) October 2013; In US Clinical Trials

Figure 14: Nanostim



Source: Courtesy of St. Jude Medical

Nanostim's device is a minimally invasive VVI pacing device. Nanostim is much smaller than current pacemakers at 1cc and 2 grams and can be easily implanted by an interventional cardiologist as its minimally invasive and does not require the traditional surgically created pacemaker pocket. The device is repositionable, retrievable, and is inherently MRI-safe. St. Jude estimates the longevity at approximately 8-10 years.

The device is CE Mark approved and St. Jude has initiated its LEADLESS II US IDE Study with the first implant in the US occurring February 6, 2014. The study will enroll a total of 670 patients. St. Jude expects to file its PMA application for Nanostim once it has six-month follow-up data on 300 patients.

St. Jude acquired leadless pacemaker developer Nanostim in October 2013.

Medtronic's Micra Leadless pacemaker; In Global Clinical Trials

Figure 15: Micra pacemaker



Source: Courtesy of Medtronic

Micra TPS is one tenth the size of a traditional pacemaker and comparable in size to a large vitamin. The device can be delivered to the heart through the femoral vein in a minimally invasive procedure and can be repositioned if needed.

Medtronic is currently evaluating the Micra TPS in a single-arm, multi-center global trial that will enroll up to 780 patients in 50 clinical sites. The trial began in December 2013. The CE Mark portion of the trial has completed enrollment and will follow 60 patients over a follow up period of three months. The US portion of the trial is currently enrolling and will enroll 300 patients and with a follow up period of six months. To date, no safety events have been reported. Medtronic anticipates it will receive CE Mark (European) approval by the end of fiscal 2015 and launch in US and Japan markets in fiscal 2017.





2H14: Themes and Events to Watch For

Affordable Care Act and its impact on admissions

In May and June, at various health care conferences, hospitals commented on the results they have seen in adjusted admission as a result of the Affordable Care Act reform. The message has been generally the same across the hospitals, a positive outlook. So far, Medicaid volumes are up significantly in expansion states while uninsured and charity volumes had large declines. Besides from the impact of the healthcare reform, hospitals noted that volumes appeared to be strengthening, although HCA cautioned that it is too early to call it a trend. We believe as the second half unfolds, we could start to see some volume acceleration as additional individuals gain access to insurance.

Hospitals Commentary on admission trends and expectations with ACA

HCA noted that admission growth was just below 1% for the first quarter; however, the company noted that it is too early to call it a trend. HCA is optimistic that it has several things that are providing some support i.e. recovering economy in many of markets it tends; health reform and to a lesser extent some natural utilization rebound. HCA pointed out that it is optimistic about what it has seen in terms of volumes although it cautioned that it is too early to call it a trend. Additionally, management noted that in 1Q14, the healthcare reform was a growing number for them and it reiterated that it was very encouraged with the trends that it has seen throughout the quarter (HCA reported its health reform numbers along with its 1Q's results).

Tenet noted that the inpatient admissions and outpatient visits in the states that expanded Medicaid were both up 17% in Tenet's facilities. Emergency Department volumes were up 25% while there were substantial declines in the volumes of uninsured charity patients in inpatient, outpatient and the ED (down 33%, 24% and 28% respectively). Based on these results, management noted that there has been a substantial conversion of uninsured into paying status early in the year. Management believes that this is a very helpful indication of how health reform is working, and it thinks that it is also very encouraging to the extent that states that have not yet expanded Medicaid will do so at some point in the future.

In regards of the non-expansion states, Medicaid inpatient admissions declined 1% while outpatient visits and ED volumes grew 1% and 2% respectively. Uninsured and charity volumes in non-expansion states increased 2% in inpatient admissions while decreasing 10% and 6% in outpatient and ED visits, respectively. Net/net the payer mix trends are largely favorable with clear differences in Medicaid expansion states.

Community Health Systems estimates that over the next three years its uninsured adjusted admissions could decrease from about 8% (today) to 4% (2016), which translates into approximately \$800 million (4% of about \$20 billion revenue) of additional revenue before any reductions or bad debt or co-payment issues. Moreover, management expects healthcare reform to contribute 0.5% to 0.8% to its EBITDA in 2014. Management noted that both CHS and HMA are well positioned to participate as a network provider on various health insurance exchanges. Specifically, it noted that it has hospitals located in 9 of the top 10 highest uninsured states and 26 of top 30 highest uninsured states. In 1Q14 and in Expansion states and on a same store basis, self pay adjusted admissions declined 30% while Medicaid adjusted admissions grew 8% (self pay adjusted admission represented 5.3% of admission and Medicaid adjusted admission represented 23.3% in 1Q14). Of note, admissions and adjusted admission from expansion states represent approximately 25% of the total. Lastly, management noted it expected an approximate 15% decline in self-pay adjusted admissions in 2014.



Upcoming Medical Conferences and Investor Days

Below we list some of the key medical conferences and analyst meetings across the Medical Supply & Device space.

- **July 27-31:** American Association for Clinical Chemistry (AACC), Chicago, IL
- **August 30-September 3:** European Society of Cardiology, Barcelona, Spain
- **September 17: Stryker's analyst meeting**
- **September 13-17:** Transcatheter Cardiovascular Therapeutics (TCT) Conference, Washington DC
- **September 14-17:** Heart Failure Society of America (HFSA) Meeting, Las Vegas, NV
- **September 18-20:** National Hemophilia Foundation (NHF), Washington DC
- **September 28-30:** PCR London Valves Course, London, UK
- **October 26-30:** American College of Surgeons, San Francisco, CA
- **November 4-7:** Vascular Interventional Advances (VIVA), Las Vegas, NV
- **November 12-15:** North American Spine Society Annual Meeting, San Francisco, CA
- **November 15-19:** American Heart Association (AHA) Scientific Sessions, Chicago, IL





Healthcare Price Performance & Valuation Statistics

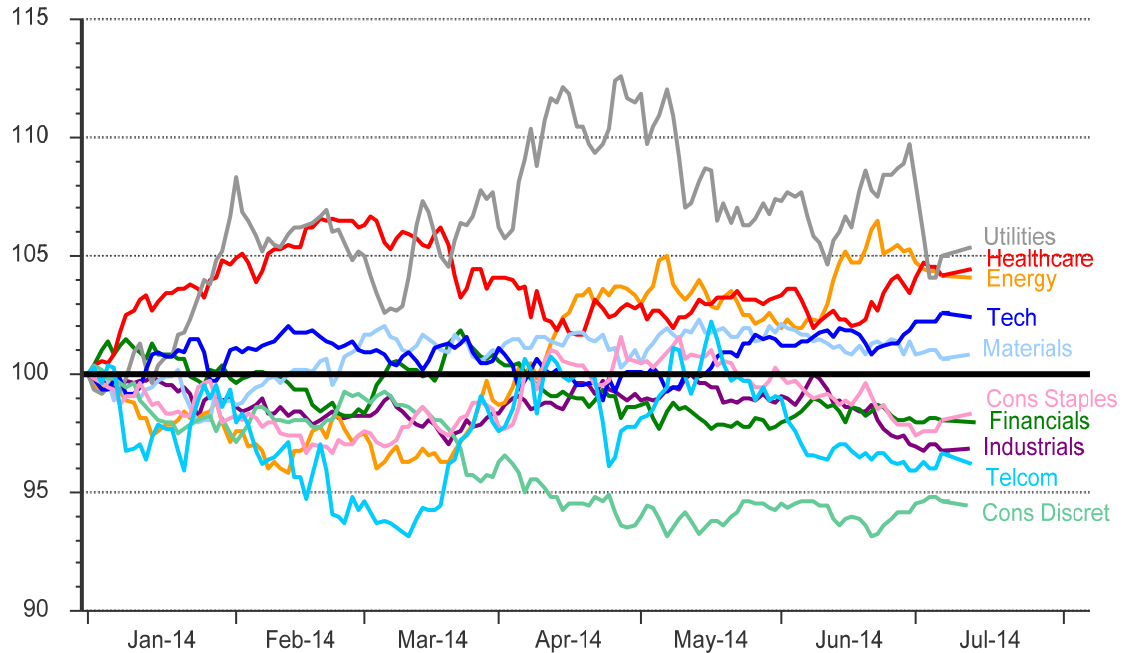
S&P 500: Utilities Maintains the Lead, Healthcare Follows

Figure 16: S&P 500 Performance with Select Economic Sector Performance Relative to the S&P 500

In 2013, the S&P 500 Healthcare and Consumer Discretionary Indices battled it out for most of the year with Consumer Discretionary earning the top spot with the last month of performance. The S&P 500 Healthcare Index (up 38.7%) still outperformed the broader S&P 500 Index (up 29.6%). Utilities and Telecom were the worst performing sectors.

Thus far in 2014 (through July 9), Utilities (up 12.8%) continues to be the top performing sector followed by Energy (up 12.0%), and Healthcare (up 10.9%). Healthcare has outperformed the broader index for the past two months. The worst performing economic sectors were Consumer Discretionary (up 1.4%), Telecom (up 2.1%).

Relative Strength vs. S&P 500



2013	Jan 2014	Feb 2014	March 2014	April 2014	May 2014	June 2014	2014 YTD 07/09/14
Cons Disc: 41.0%	Utilities: 2.9%	Materials: 6.7%	Telecom: 4.7%	Energy: 5.1%	Tech: 3.5%	Energy: 6.0%	Utilities: 12.8%
Healthcare: 38.7%	Healthcare: 0.9%	Cons Disc: 6.1%	Utilities: 3.1%	Utilities: 4.2%	Telecom: 3.4%	Tech: 5.8%	Energy: 12.0%
Industrials: 37.6%	Tech: -2.6%	Healthcare: 6.0%	Financials: 3.1%	Cons Stap: 2.7%	Materials: 2.8%	Healthcare: 4.7%	Healthcare: 10.9%
Financials: 33.2%	S&P 500: -3.6%	Energy: 4.6%	Energy: 2.3%	Industrials: 1.5%	Cons Disc: 2.7%	Cons Disc: 4.6%	Tech: 9.2%
S&P 500: 29.6%	Financials: -3.7%	Tech: 4.3%	Cons Stap: 1.9%	Materials: 0.7%	Healthcare: 2.6%	Materials: 4.3%	Materials: 7.8%
Tech: 26.2%	Telecom: -4.2%	S&P 500: 4.3%	Industrials: 0.8%	S&P 500: 0.6%	S&P 500: 2.1%	S&P 500: 4.0%	S&P 500: 6.7%
Materials: 22.7%	Industrials: -4.5%	Industrials: 3.5%	S&P 500: 0.7%	Telecom: 0.4%	Cons Stap: 1.7%	Financials: 3.5%	Cons Stap: 5.2%
Cons Stap: 22.7%	Materials: -4.7%	Cons Stap: 3.5%	Materials: 0.6%	Tech: 0.2%	Industrials: 1.7%	Utilities: 2.5%	Financials: 4.2%
Energy: 22.3%	Cons Stap: -5.3%	Financials: 2.9%	Tech: 0.2%	Healthcare: -0.6%	Financials: 1.2%	Telecom: 2.1%	Industrials: 2.9%
Utilities: 8.8%	Cons Disc: -6.0%	Utilities: 2.8%	Healthcare: -1.4%	Cons Disc: -1.4%	Energy: 1.0%	Industrials: 1.8%	Telecom: 2.1%
Telecom: 6.5%	Energy: -6.3%	Telecom: -1.0%	Cons Disc: -2.9%	Financials: -1.6%	Utilities: -1.6%	Cons Stap: 1.2%	Cons Disc: 1.4%

Source: Deutsche Bank, Thomson Reuters

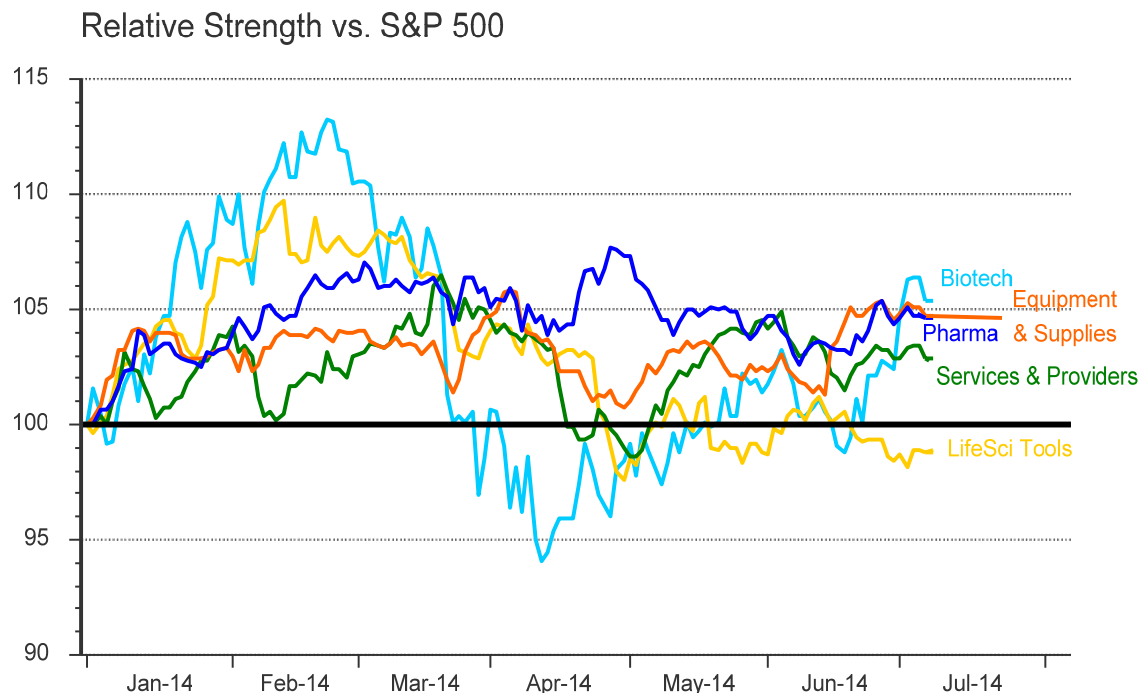


S&P 500 Healthcare: Equipment and Supply Stocks Remain Strong

Figure 17: S&P 500 Healthcare Performance with Selected Industry Performance

After being a top sub-sector for the past three years (the S&P 500 Healthcare Biotech index was up 74.3% in 2013), Biotech's performance started to break down in the end of February 2014, however performance has ticked back up recently.

Despite a weak start in January, S&P 500 Managed Care and Medical Equipment & Supply stocks have performed strong in recent months. Year to Date, Managed Care (up 13.5%), Biotech (up 12.8%), and Equipment and Supply (up 11.7%) have been the top performers. The worst performing sector continues to be Healthcare IT (down 6.8%), though this just includes CERN.



2013	Jan 2014	Feb 2014	March 2014	April 2014	May 2014	June 2014	2014 YTD 07/09/14
Biotech: 74.3%	Facilities: 9.2%	HlthCare IT: 7.9%	Mgd Care: 5.5%	Facilities: 5.3%	Distributors: 8.4%	Mgd Care: 10.8%	Mgd Care: 13.5%
Distributors: 61.8%	Biotech: 5.0%	Pharma: 7.2%	Equip Sup: 1.4%	Pharma: 1.9%	Mgd Care: 8.3%	Biotech: 8.3%	Biotech: 12.8%
Lifesci Tools: 52.1%	Services: 4.3%	Healthcare: 6.0%	Services: 1.1%	Biotech: 0.4%	Services: 6.1%	Equip Sup: 8.0%	Equip Sup: 11.7%
Mgd Care: 45.9%	Lifesci Tools: 3.3%	Biotech: 5.9%	S&P 500: 0.7%	S&P 500: 0.6%	HlthCare IT: 5.4%	Distributors: 6.4%	Pharma: 11.0%
HlthCare IT: 43.6%	Distributors: 3.3%	Mgd Care: 5.2%	Pharma: 0.4%	Healthcare: -0.6%	Biotech: 5.2%	Lifesci Tools: 5.0%	Healthcare: 10.9%
Healthcare: 38.7%	HlthCare IT: 2.1%	Equip Sup: 4.9%	Distributors: -1.3%	Distributors: -2.5%	Facilities: 4.3%	Healthcare: 4.7%	Distributors: 10.2%
Pharma: 31.1%	Healthcare: 0.9%	Lifesci Tools: 4.6%	Healthcare: -1.4%	Equip Sup: -3.1%	Equip Sup: 3.9%	Services: 4.2%	Facilities: 7.9%
Facilities: 29.7%	Pharma: -0.3%	S&P 500: 4.3%	Lifesci Tools: -2.8%	Mgd Care: -5.3%	Lifesci Tools: 3.4%	Facilities: 4.1%	S&P 500: 6.7%
S&P 500: 29.6%	Equip Sup: -0.4%	Distributors: 2.5%	Facilities: -3.0%	Lifesci Tools: -5.3%	Healthcare: 2.6%	S&P 500: 4.0%	Lifesci Tools: 3.9%
Equip Sup: 25.7%	S&P 500: -3.6%	Services: 1.8%	HlthCare IT: -8.3%	Services: -7.8%	S&P 500: 2.1%	Pharma: 1.2%	Services: 2.2%
Services: 20.4%	Mgd Care: -3.7%	Facilities: -4.1%	Biotech: -10.2%	HlthCare IT: -8.8%	Pharma: -0.6%	HlthCare IT: 0.5%	HlthCare IT: -8.6%

NOTE: The Healthcare IT sub-industry includes only CERN and the Facilities sub-industry includes only THC.

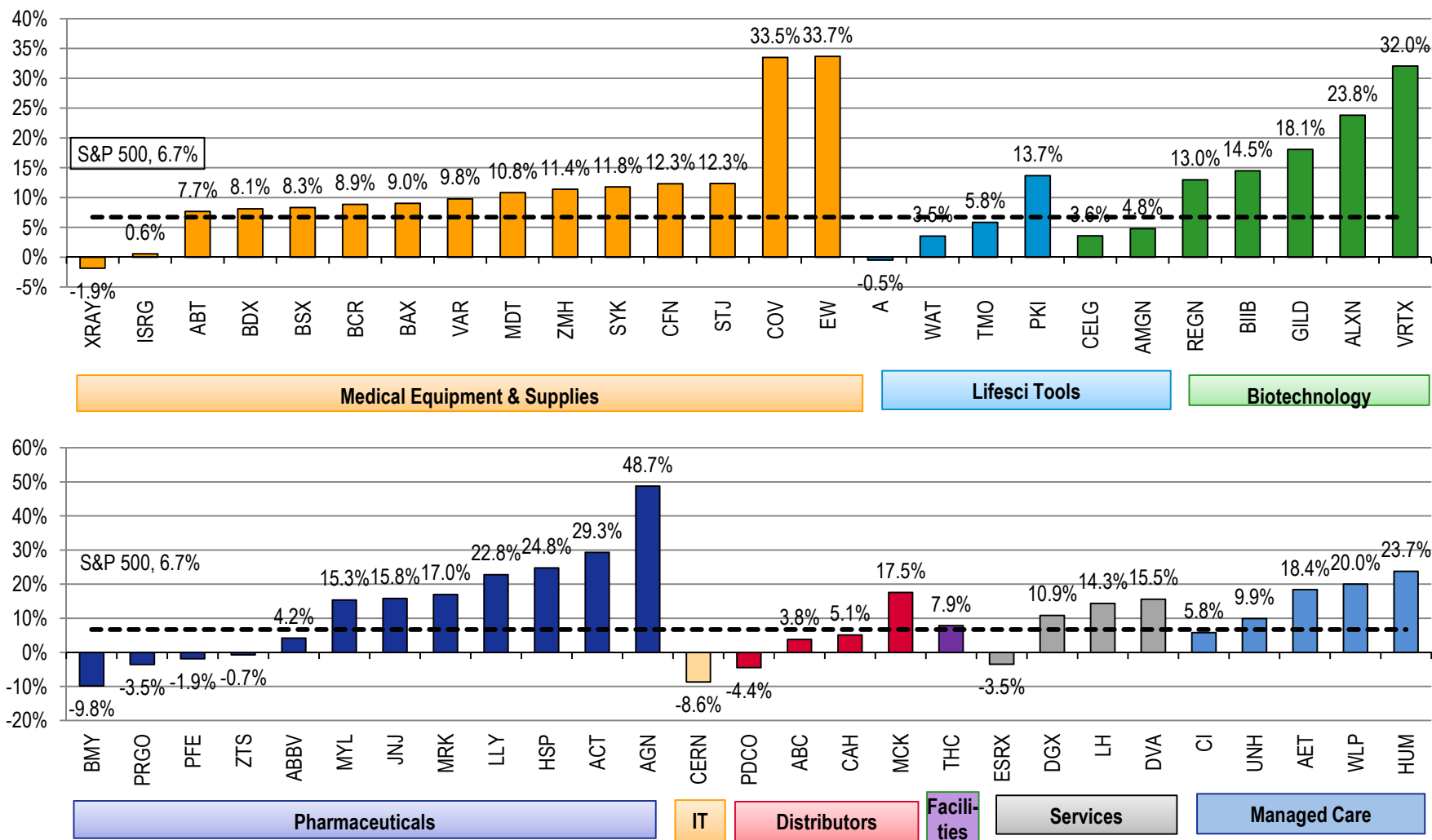
Source: Deutsche Bank, Thomson Reuters



S&P 500 Healthcare Individual Stock Performance

The top performer so far this year include two companies with existing takeover offers: Allergan-AGN (up 48.7%) and Covidien-COV (up 33.7%) The worst performers include Bristol Myers-BMY (down 9.7%) and Cerner-CERN (down 6.8%).

Figure 18: S&P 500 Healthcare Performance, Year-to-Date Through July 9



Source: Deutsche Bank, Thomson Reuters

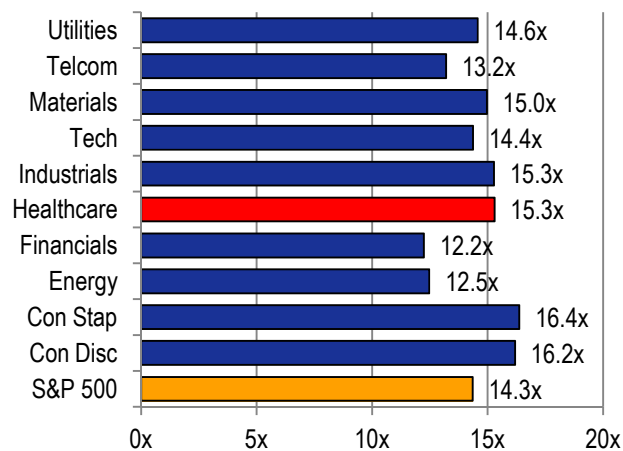


Healthcare trades at a premium to the S&P 500

Healthcare is trading above the S&P 500 on bottoms-up 2015 EPS estimates and is the third most expensive sector on a PE basis behind Consumer Staples and Consumer Discretionary. Using forward Thomson Reuters Consensus estimates for the S&P 500 (top down basis) and the various stocks that we use to create our subsectors, Specialty Pharma, Lifesciences Tools, and Major Pharma are the most expensive sectors. Large Cap Biotech had ranked among the top but the recent pullback has moved it to a lower ranking position. Managed Care, Generics, and Labs are among the least expensive names on a PE basis.

We note, however, that PEs are increasingly inconsistent as some companies are now reporting on a cash basis (excluding amortization expense) while others are reporting more traditional "adjusted" measures.

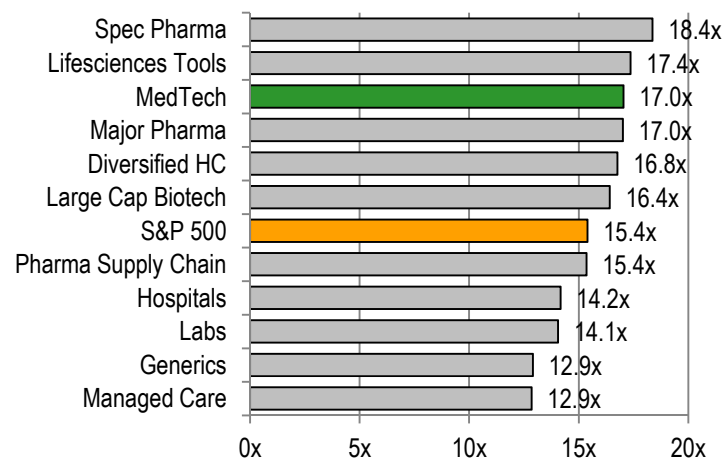
Figure 19: S&P 500 Valuations (Bottoms up 2015 Estimates as of 7/1/14)



Priced as of 7/7/14 using S&P EPS estimates

Source: Deutsche Bank, Company reports, Thomson Reuters

Figure 20: Cross Healthcare Sector PEs (CY2015 Consensus estimates)



Priced as of 7/7/14 using Thomson Reuters Consensus EPS estimates

Source: Deutsche Bank, Standard and Poor's, Thomson Reuters



Figure 21: Cross Healthcare Sector Valuation (All Data Below is Thomson Reuters Consensus estimates)

	Price 7/9/14	Market Cap (\$M)	Thomson PE CY14E	Thomson PE CY15E	Y/Y EPS C15/14		Price 7/9/14	Market Cap	Thomson PE CY14E	Thomson PE CY15E	Y/Y EPS C15/14		Price 7/9/14	Market Cap	Thomson PE CY14E	Thomson PE CY15E	Y/Y EPS C15/14	
S&PCOMP	1,973		16.8x	15.4x	9.2%													
Medical Supplies & Devices																		
BAX-US	\$75.82	\$41,140	14.7x	14.0x	5.7%													
BCR-US	\$145.81	\$11,119	17.7x	15.9x	11.1%													
BDX-US	\$119.47	\$23,082	18.7x	17.1x	9.3%													
BSX-US	\$13.02	\$17,221	16.2x	14.5x	11.7%													
CFN-US	\$44.72	\$9,271	17.9x	16.0x	11.8%													
CNMD-US	\$43.56	\$1,186	22.5x	20.3x	10.6%													
COO-US	\$149.54	\$7,169	21.3x	18.8x	12.9%													
COV-US	\$90.91	\$40,989	22.1x	19.8x	12.1%													
EW-US	\$87.89	\$9,272	27.7x	24.2x	14.4%													
HOLX-US	\$25.51	\$7,049	17.9x	16.5x	8.7%													
HRC-US	\$40.87	\$2,339	17.7x	15.7x	12.7%													
ALGN-US	\$55.06	\$4,495	31.8x	26.8x	18.4%													
IART-US	\$46.18	\$1,504	15.7x	13.8x	13.4%													
ISRG-US	\$386.24	\$14,833	32.9x	25.5x	29.0%													
MDT-US	\$63.60	\$63,331	16.0x	15.0x	6.6%													
NUVA-US	\$34.52	\$1,609	31.7x	25.1x	26.3%													
SNN-US	\$88.14	\$15,677	21.3x	18.9x	12.6%													
STJ-US	\$69.60	\$19,782	17.5x	16.2x	8.1%													
SYK-US	\$83.98	\$31,836	17.5x	15.9x	10.0%													
TFX-US	\$106.21	\$4,394	19.3x	16.5x	16.6%													
THOR-US	\$33.90	\$1,926	19.2x	16.6x	16.2%													
VAR-US	\$85.29	\$8,866	19.2x	17.1x	12.2%													
ZMH-US	\$103.79	\$17,418	17.0x	15.8x	7.2%													
MedTech			18.9x	17.0x	10.4%													
Lifesciences Tools																		
A-US	\$56.90	\$18,963	18.2x	16.3x	11.8%													
PKI-US	\$46.86	\$5,305	19.1x	19.1x	0.0%													
TMO-US	\$117.84	\$47,011	17.4x	17.4x	0.0%													
WAT-US	\$103.53	\$8,778	18.7x	18.7x	0.0%													
Lifesciences Tools			17.8x	17.4x	2.8%													
Diversified HC																		
JNJ-US	\$106.04	\$299,997	18.0x	16.7x	7.6%													
ABT-US	\$41.27	\$61,985	18.9x	16.9x	11.5%													
Diversified HC			18.2x	16.8x	8.3%													
Major Pharma																		
ABBV-US	\$55.01	\$87,580	17.5x	14.4x	21.2%													
BMJ-US	\$47.92	\$79,416	26.9x	28.4x	-5.2%													
MRK-US	\$58.55	\$171,105	16.8x	16.1x	4.6%													
LLY-US	\$62.62	\$70,100	22.5x	19.7x	14.2%													
PFE-US	\$30.05	\$191,485	13.4x	13.3x	0.8%													
Major Pharma			17.8x	17.0x	5.6%													
Spec Pharma																		
AGN-US	\$165.20	\$49,035	29.0x	24.1x	20.1%													
PRGO-US	\$148.06	\$19,810	21.5x	18.2x	18.5%													
VRX-US	\$120.94	\$40,342	13.9x	11.5x	20.7%													
Spec Pharma			22.0x	18.4x	20.0%													
Generics																		
TEVA-US	\$53.87	\$51,059	11.3x	11.2x	1.1%													
ACT-US	\$217.28	\$57,596	16.0x	13.1x	22.3%													
MYL-US	\$50.06	\$18,709	14.8x	12.8x	15.2%													
HSP-US	\$51.51	\$8,610	23.4x	22.2x	5.5%													
Generics			14.5x	12.9x	12.3%													
Large Cap Biotech																		
AMGN-US	\$119.57	\$90,517	14.8x	13.7x	8.1%													
ALXN-US	\$164.52	\$32,541	33.8x	29.4x	14.8%													
BIIB-US	\$320.14	\$75,937	27.8x	22.1x	25.4%													
GILD-US	\$88.68	\$136,184	13.7x	11.1x	23.5%													
CELG-US	\$87.52	\$69,841	23.9x	18.1x	31.9%													
Large Cap Biotech			19.9x	16.4x	21.2%													
Pharmaceutical Supply Chain																		
ABC-US	\$72.98	\$16,482	18.9x	16.5x	14.8%													
CAH-US	\$70.24	\$23,896	17.4x	15.5x	12.2%													
CTRX-US	\$43.44	\$8,989	19.8x	16.5x	19.9%													
CVS-US	\$76.84	\$89,844	17.2x	15.3x	12.7%													
ESRX-US	\$67.81	\$52,456	13.9x	12.3x	13.8%													
MCK-US	\$189.70	\$43,933	18.9x	15.8x	19.4%													
RAD-US	\$7.32	\$7,176	22.2x	16.4x	35.5%													
WAG-US	\$71.95	\$68,825	20.5x	16.9x	20.9%													
Pharma Supply Chain			17.9x	15.4x	16.5%													
Labs																		
LH-US	\$104.45	\$8,857	15.7x	14.5x	7.9%													
DGX-US	\$59.35	\$8,575	14.8x	13.6x	8.6%													
Labs			15.2x	14.1x	8.2%													
Hospitals																		
CYH-US	\$43.35	\$4,997	15.6x	11.2x	38.4%													
UHS-US	\$93.73	\$9,259	18.3x	16.5x	11.1%													
LPNT-US	\$61.22	\$2,723	22.6x	19.6x	15.7%													
HCA-US	\$54.95	\$24,432	14.8x	12.6x	17.5%													
THC-US	\$45.43	\$4,436	37.1x	18.1x	105.1%													
Hospitals			18.2x	14.2x	26.9%													
Managed Care																		
AET-US	\$81.19	\$29,017	12.4x	11.3x	9.7%													
CI-US	\$92.52	\$24,856	12.7x	11.5x	9.9%													
UNH-US	\$82.74	\$81,074	15.0x	13.7x	9.2%													
HUM-US	\$127.70	\$19,766	16.3x	14.5x	12.4%													
WLP-US	\$110.87	\$31,007	12.9x	12.0x	7.5%													
Managed Care			14.1x	12.9x	9.4%													

Source: Thomson Reuters



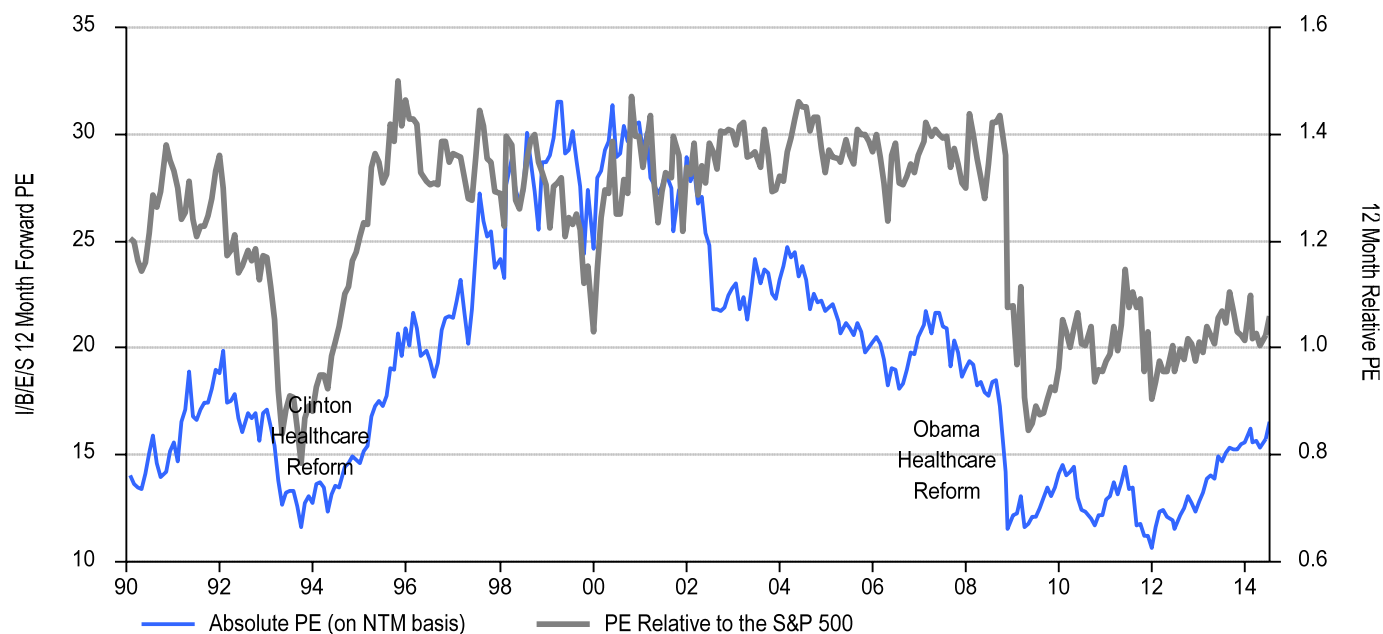
MedTech Valuations: Two Years of Multiple Expansion

In Figure 22, we illustrate the large-cap MedTech sector's forward 12 month PE valuation since 1990. As shown, the sector's multiple was depressed in the 1993-94 period owing to the uncertainties associated with the Clinton healthcare reform efforts. Reform efforts failed and the sector entered into a period of nearly unrestrained growth driven by a favorable pricing environment and new product introductions.

Beginning in 2000, the MedTech industry's multiple started to contract along with the overall market and as the sector's overall growth rate started to decelerate. The sharp decline in multiples in 2009 was driven by Obama Healthcare Reform concerns as well as slow growth driven by the economic environment.

Multiples bottomed at the end of 2011 and started to move higher along with the overall market but also the expectation for improved outlook. The multiple expansion over the 2013-14 period has been fueled by the re-emergence of pipelines and expectation for improved growth through the economic recovery and perhaps some benefits from the Affordable Care Act and expanded healthcare coverage.

Figure 22: Large Cap MedTech Sector Historical Valuation Trends (Forward IBES P/E)



Index market cap weighted and includes BAX, BCR, BDx, BSX, COV, CFN, EW, MDT, STJ, SYK, ZMH

Source: Deutsche Bank, Thomson Reuters



Short Interest trending slightly lower

The figures to the right illustrate the short interest ratios and the total short interest shares across the sector.

Short interest in the group peaked at the end of 2010. Throughout 2011-12 short interest generally trended lower. In 2013, short interest increased in the first part of the year but then moved lower in the second half.

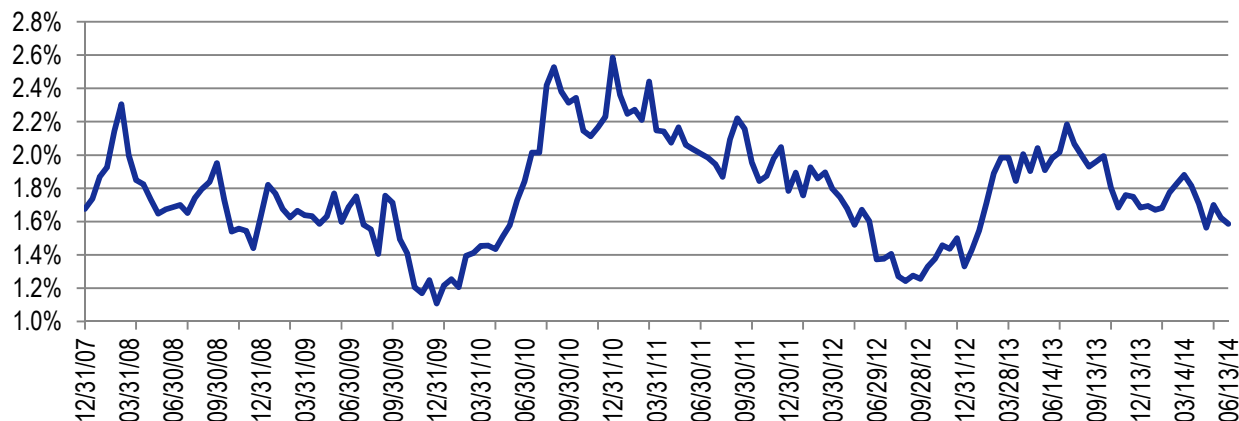
As of June 13 (the latest data available), the highest short interest ratios were:

- C.R. Bard (5.2%)
- Edwards (3.8%)
- Becton Dickinson (3.5%)

Several companies have seen their short interest ratios dwindle to almost none. The lowest short interest ratios are:

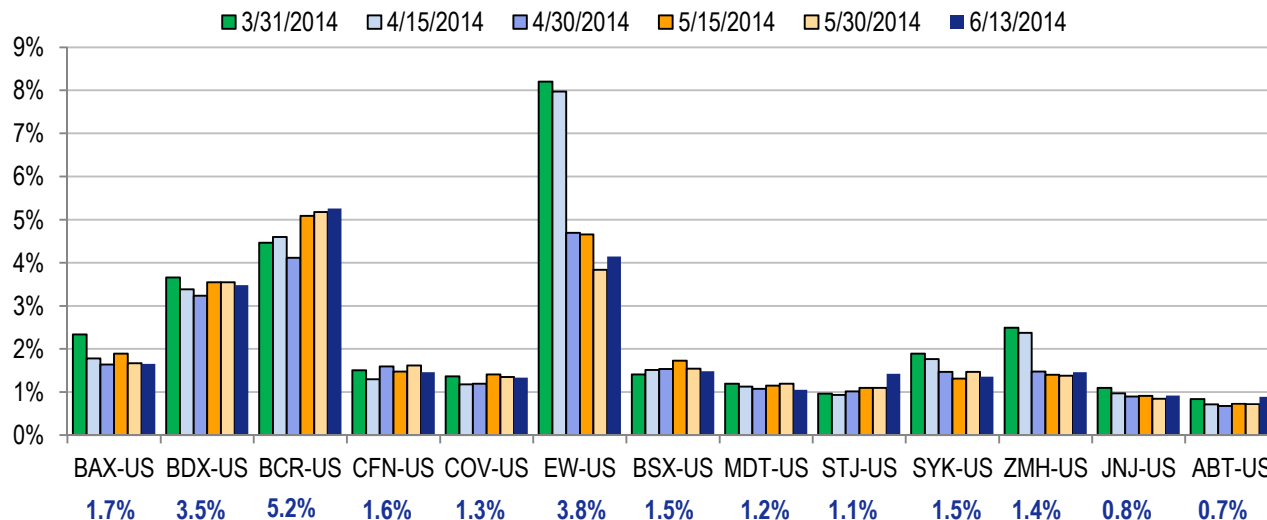
- Abbott (0.7%)
- J&J (0.8%)
- Covidien (1.3%)

Figure 23: Coverage Universe Short Interest Ratio History (ex-ABT and JNJ)



Source: Deutsche Bank, Thomson Reuters

Figure 24: Short Interest Ratio (% of float)



Source: Deutsche Bank, Thomson Reuters





2Q Earnings Preview

What we saw last quarter: 1Q Big Picture Trends

The healthcare environment continues to be somewhat constrained evidenced by soft (and in some cases still declining) admission and surgical trends as well as a decline in lab volumes. There was a weaker flu season relative to the prior year period and in some cases, the harsh weather conditions did have an adverse impact. Regarding healthcare reform, HCA noted that though it was still early, it saw some encouraging signs noting that exchange admissions increased throughout the quarter. Exchange admissions were still a small percent of overall admissions (0.4% to be exact), but exchange volumes doubled month to month in the quarter. It also noted that it had previously seen about half of the individuals with one third being uninsured. Looking ahead, the question remains to what extent the Affordable Care Act and the general economic conditions may lead to an increase in utilization.

Managed Care Commentary on Trends

UnitedHealth's consolidated medical loss ratio (MLR) was 82.5% during the quarter primarily driven by higher MLRs in the government / international segment slightly offset by lower MLRs in the commercial segment. While the company reaffirmed its full year 2014 MLR guidance, it did comment that it may be towards the higher end of the range given the effects of small group renewals in commercial and Sovaldi (the new hepatitis C drug) costs given trends seen in the quarter.

Aetna's commercial medical benefit ratio was 77.2% in the first quarter of 2014, driven by the benefit of higher premiums (owing to the combined effect of pricing actions designed to recover ACA-mandated fees and taxes, strong prior year's reserve development, the favorable impact of a tough winter weather) and a moderate flu season.

Cigna's commercial MLR was 76.1% and its Medicare MLR was 82.7%. The solid Medicare MLR ratio was driven by company specific actions, as well as a maturity of claims following the increased utilization seen in the back half of 2013. Notably, however, Cigna raised its commercial MLR guidance, signaling that the strong performance seen in the first quarter of 2014 may not pull forward to the remainder of the year.

Wellpoint's consolidated MLR was 82.7% in the quarter. Favorable MLR versus the prior quarter was primarily due to improvements in the Medicaid segment, as well as the impact of the premium revenue designed to help cover new healthcare reform fees. Management continues to expect the medical cost trend in the range of 6.5% plus or minus 50bp for full year 2014.

Hospitals volumes remain muted; HCA noted some encouraging early signs from the ACA

HCA commented that the impact of healthcare reform was minimal during the quarter, though the Company continues to be optimistic on its long term benefits. Volumes were somewhat soft. Same-facility total admissions declined 0.6% year over year and equivalent admissions declined 0.3%. The decline in total admissions was primarily due to declines in pulmonary (down 9%) and one-day stays. Adjusting for those declines, same-store admissions grew 0.8%. Total same store surgeries were down 0.7%, with inpatient surgeries up 0.9% and outpatient surgeries down 1.7%.

Regarding healthcare reform and its impact, HCA management commented that it saw encouraging signs in the quarter though it noted that it had a minimal impact on the quarter itself. Relative to exchange volume, HCA noted it saw just over 1,700 exchange admissions, which represented just 0.4% of admissions. HCA noted it was encourage by the progression of the volume in the quarter. HCA noted that it saw twice the number of exchange admissions in February than we saw in January and twice the exchange volume in March than we did in February. With respect to the exchange admissions, HCA noted that it had seen about half of the exchange population previously, and one-third of those served were previously uninsured.

LifePoint's same-store admissions were down 5.3%, while equivalent admissions were down 1.9% and total surgical volumes were down 3.4% in the first quarter of 2014. The company attributed soft volumes in the quarter to the result of a 3.8% decrease in emergency room visits driven partially by a milder flu season and to a lesser extent due to the tough winter as compared to the prior year.



Labs volumes down and impacted by weather trends

Quest Diagnostics noted that volume trends in the first quarter of 2014 were up 0.7% year over year (versus up 2.3% in 4Q13). However, 3.5% of this growth was aided by acquisitions. Additionally, management noted that the harsh winter weather during the quarter depressed volumes by approximately 2%. After adjusting for the impact of acquisitions and weather, organic volumes declined less than 1% year-over-year during the quarter.

Labcorp commented that total volume increased 2.6% during the quarter. Excluding the impact of weather, volume growth was approximately 5% and organic volume would have increased 2.5%. Testing volume was up 2.6%.

1Q14 Major MedTech product category recaps

Underlying sales growth rates across our coverage universe (including the Medical Device businesses for Abbott & J&J) have been generally tracking in the 4%-6% area for the past several quarters. In 1Q14, sales across our coverage universe were up about 5.2% on a reported basis and 6.3% ex-FX. We continue to see more moderate growth in the United States and other developed regions with stronger sales growth trends in emerging markets. The one area worth calling out is the performance within US major joint reconstruction (hips and knees). Overall, sales growth rates decelerated sequentially which was expected given the increasing seasonality seen each year.

Implantable Defibrillators Pacemakers)

- All of the companies have now reported their calendar 1Q results (St. Jude and Boston Scientific for the quarter ending in March and Medtronic for the quarter ending in April). In looking at the results for these three companies, the overall ICD market was down 1.5% in the quarter on a reported basis and down 0.8% in constant currencies vs up 2.2% in 4Q13 vs up 2.9% in 3Q13 and down 1.5% in 2Q13. The US market was down 3.9% which is below the improvement seen in 3Q13 and 4Q13 of +3.4% and +0.2% respectively. International sales were up 3.6% in constant currencies, below the 5% growth seen in 4Q13 but up from the +1.2% reported in 2013. Given the 4Q results, it appears that Medtronic gained ICD share in the quarter on a global basis owing to strong OUS results offset by US results (Medtronic estimated it lost 2%-pts of market share).
- **Medtronic's** ICD sales were down 1.9% y/y excluding FX in F4Q14 (quarter ending April). Similarly as it did during the last quarterly call, Medtronic's management commented on the call it believed it was better to assess trends on a rolling two quarter basis. Medtronic estimated the global ICD market as flat to slightly down (slightly slowing from last quarter), with low single-digit declines in the US offset by low single-digit growth in international markets. Additionally, management estimated it gained about a point of market share internationally, offset by almost two points of US market share loss.
- **St. Jude:** ICD sales were up 3.0% on a constant currency basis driven by 4.7% growth in the US and 0.6% growth in international regions. St. Jude continues to see a stable lead to-port ratio suggesting the impact of the lead recalls have waned. Management continues to believe it can gain 50bps of market share in 2014.
- **Boston Scientific:** ICD sales down 3% on a constant currency basis reflecting a 6% decline in the United States only partially offset by 2% growth internationally. Boston Scientific believes it continues to gain de novo share in the overall US ICD market, however sales experienced a number of headwinds in the quarter, including replacement cycle headwinds and headwinds from not having a competitive CRT-D offering (i.e. no quadripolar system). Results were weaker despite the S-ICD business which management commented was tracking ahead of plan—though no specific quarterly numbers were provided.



Pacemakers

The overall pacemaker market in calendar 1Q was down 0.1% on a reported basis but up 1.3% in constant currencies. The US pacemaker market improved with sales increasing 3.7% in the quarter (vs down 6.3% in 1Q13, down 3.2% in 2Q13, down 1.8% in 3Q13 and down 2.9% in 4Q13). Internationally, Medtronic gained approximately 400bps in market share, while Boston Scientific and St. Jude Medical lost 120 bps and 180 bps respectively. Similarly, in the US, Medtronic gained 570 bps in market share while Boston Scientific and St. Jude Medical lost 270 bps and 300 bps respectively.

- **Medtronic's** pacemaker sales were up 0.4% ex-FX. On a rolling two quarter basis, Medtronic estimated that the global market was flat, a slight improvement from F3Q14, with the US market declining in the low single digits, while the international market grew in the low single digits. US sales of \$211 million were up 9.3% y/y while OUS Sales of \$292M were down 5.1% ex-FX.
- **Boston Scientific:** Pacemaker sales were up 1% on a constant currency basis as 2% international growth was partially offset by flat sales in the US.
- **St. Jude:** Pacemaker sales were up 2.4% on a constant currency basis, as a 9% increase in international sales was offset by a 7% decline in US sales.

Drug-Eluting Coronary Stents

Pricing trends within the drug-eluting stent market remain challenging; we estimate pricing remains down in the mid-to-high single digits. In the quarter, there as some share shifting to Boston Scientific in the United States following its launch of PROMUS PREMIER in late 2013.

- **Boston Scientific's** DES sales were down 3% worldwide on a constant currency basis with US sales up 1% and international sales down 5%. US DES sales growth was driven by the launch of PROMUS Premier, which was approved in November 2013. The performance in international regions reflected a slowdown in the European market, as well as tenders in Germany. Looking ahead, Boston expects the launch of Promus Premier in Japan to help its international performance.
- **Abbott's** Drug eluting stent and BVS (bioresorbable vascular scaffold) sales were down 2.4% operationally worldwide. US sales were down 12.1% due to market share losses to Boston Scientific's new drug-eluting stent, PROMUS PREMIER. Abbott expects performance within the DES/BVS segment to improve through the year as competitor trialing tails off. International sales were up 2.3% ex-FX.
- **Medtronic's** drug-eluting stent sales totaled \$288 million in the quarter, including \$99 million in the US and \$33 million in Japan. Medtronic noted that its DES business grew 2% in the quarter, outperforming the broader market.

Atrial Fibrillation

The Atrial Fibrillation market remains a faster growth market; we estimate sales globally are up in the high single digits.

- **Johnson & Johnson's** Biosense Webster Electrophysiology business grew 15% in the quarter continuing the double-digit sales performance seen throughout 2013.
- **St. Jude Medical's** atrial fibrillation sales were up 10% on a constant currency basis as strong growth internationally (up 13%) was offset by somewhat weaker sales growth in the US (up 6%). Looking ahead, St. Jude expects the TactiCath product to improve growth in the United States (once approved)
- **Boston Scientific's** worldwide electrophysiology sales were up 68% on a reported and constant currency basis. Excluding the impact of Bard EP, sales were down 4% y/y on a constant currency basis. The decline in sales was driven by longer than anticipated sales cycles for certain EP products.
- **Medtronic's** AF solutions grew over 20% and management commented that it continued to gain share in the AF market particularly driven by the Arctic Front cryoballoon system, which grew over 30%.



Heart Valves

- **Edwards' (surgical) heart valve therapies** sales grew 4% on an underlying basis, primarily due to strong unit growth partially offset by a lower average selling price due to regional selling mix. In the US, surgical valve sales were up 6% in the quarter due to favorable market trends.
- **Edwards' transcatheter valve** global sales were \$195 million and grew 14% on an underlying basis, primarily driven by strong international sales (+33%) which represented approximately 60% of total THV sales. Underlying US transcatheter valve sales were \$78 million (-6.0%) for the quarter, but was depressed by about \$8 million due to the change to a consignment basis. Edwards commented that usage grew in the mid-teens year-over-year.
- **St. Jude** commented that its heart valve revenue mix continues to shift from mechanical to tissue valves each quarter. Tissue heart valves up 12% and St. Jude expects it to continue to grow low double digit for rest of year.
- **Medtronic** noted that its Structural Heart franchise sales totaled \$337 million and grew 9% on a constant currency basis primarily driven by CoreValve's launch in the US as well as continued growth in international markets. US sales were up 21% while OUS sales were up 3% on a constant currency basis. Structural heart sales include Medtronic's catheter-based therapies, which primarily include sales from the CoreValve transcatheter aortic valve (and to a much lesser extent, Engager and Melody). Medtronic indicated it estimates that the global TAVR market is growing in the high teens. Additionally, management noted that it has settled down the patent litigation it had with Edwards, thus, the company now expects revenue to continue to ramp up as it allows freedom to operate (Medtronic is able to open new centers and train new physicians).

Orthopedics

Global constant currency underlying sales growth rates for the major product categories in 1Q14 (Biomet's is for the F3Q14). As expected there was some deceleration seen from 4Q13 results in the area of major joint reconstruction, particularly in the results in the United States. US price remained down in the low single digits (we'd estimate down around 3%).

- **Global knees:** We estimate the global knee market was up about 4% in the quarter in constant currency versus up 7% in 4Q13 and versus up 4% in 3Q13. Biomet's knee sales were up 9%, J&J up 3%, Stryker up 2%, Zimmer up 5%, and Smith & Nephew flat.
- **Global hips:** We estimate the global hip market was up about 3% in constant currencies versus up 5% in both 4Q13 and 3Q13. Biomet's hip sales were up 4%, J&J up 2%, Stryker up 5%, Zimmer up 2%, and Smith & Nephew flat.
- **Global spine:** Medtronic's core spine sales were flat globally (excluding BKP, revenue was up 1%), J&J's spine sales were flat, Stryker up 1%, Zimmer up 1%, Nuvasive sales were up 11% and Globus Medical up 9%. Medtronic noted that both the global and US core spine markets appear relatively flat on a year-over-year basis, which is a slight deceleration from the growth the markets saw last quarter

Plasma Markets

- In 1Q14, **Baxter's** BioTherapeutics sales of \$502 million were down approximately 1% on a reported and constant currency basis. US growth was up 7% in the quarter driven by better supply and growth of immunoglobulin, albumin, and Alpha 1 therapies, however, US growth was offset by declines in OUS markets due to lower albumin sales in China and the exit of particular markets due to supply constraints.
- **CSL** 1H14's immunoglobulin revenue totaled \$1,085 million and were up 7% ex-FX. Demand for subcutaneous immunoglobulin's (SCIG) was robust in both the US and Europe. SCIG sales were up 18% compared to the prior comparable period and were led by Hizentra. In regards of IVIG, sales growth was led by robust demand for Carimune in the US and Brazil. Privenge also contributed to growth, benefitting from a new CIDP indication in Europe. Albumin sales totaled \$313 million and grew 7% ex-FX. CSL noted that Albumin demand in Europe was solid driven by cautionary statements released by the regulator in relation to the use of hydroxyethyl starches (sometimes used as an alternative to albumin). Hemophilia sales totaled \$550 million in 1H14 and decreased 4% ex-FX. Strong Humate sales in the US were more than offset by the conclusion of a number of treatment programs for immune tolerance therapy patients. Additionally, the timing of plasma derived hemophilia product sales in tender markets can be uneven. rFVIII sales declined 1% ex-FX, influenced by clinical trials underway for new generation rFVIII products where patients receive clinical trial products for free.



- **Grifols'** Bioscience division sales in 1Q14 grew 2.4% ex-FX vs up 11.0% in 4Q13. Management noted that sales of IVIG and alpha-1 antitrypsin performed strongly in a context of price stability. To some extent, sales were impacted by timing of tenders for Factor VIII and deliveries of albumin to China. However, management indicated that demand for plasma proteins e.g. albumin continued to rise in regions such as Latin America.

Capital Equipment

- **Stryker's** MedSurg sales were up 6.8% ex-FX in 1Q14. Net sales grew by 7.9% due to increased unit volume and changes in product mix. Net sales were unfavorably impacted by 1.2% due to changes in price and 1.0% due to the unfavorable impact of FX.
- **Hill-Rom's** sales were \$415 million and decreased 3% year-over-year on a constant currency basis in F2Q14. Domestic Revenue was \$263 million, down 4% while OUS sales of \$152 million decreased 1% on a constant currency basis. Capital sales of \$314 million were down 1.5% excluding FX and Rental revenue of \$102 million declined about 5.3% year-over-year. North America sales were \$224 million, a decline of 6.3% ex-FX. Surgical and Respiratory care sales of \$66 million were up 7.2% ex-FX. International sales of \$125 million declined 2% ex-FX.
- **GE Healthcare** noted that its first quarter results were softer than expected; specifically management commented that the first quarter in the US was soft. Hospitals and clinics appeared to be delaying purchases in responses to the ACA. Healthcare revenue was down 2% vs. down 1% in 4Q13; Orders of \$4.2 billion were down 1% (vs. up 1% in 4Q13) with the US down 4% offset by continued strength in emerging markets (up 10%). Europe was up 4%. Equipment orders of \$2.3 billion were flat while service orders of \$1.9 billion decreased 2%. Management expects the US softness to continue in 2Q.
- **Siemens'** revenue for healthcare increased 5% y/y ex-FX in F2Q14 on broad-based growth; orders increased 1% y/y. Adjusted profit margin increased 20 bps y/y and reached 15.5%, however, sequentially, adjusted gross margin decreased 100 bps. Diagnostics revenue & orders increased 3% year-over-year. Adjusted profit margin for Diagnostics was 15.2% in F2Q14 vs 15.5% in F1Q14.
- **Philips'** healthcare comparable sales in 1Q14 were down 2% ex-FX y/y vs. up 4% in 4Q13 vs. flat in 3Q13 and flat in 2Q13. Comparable sales in growth geographies declined 5% vs. up 13% in 4Q13. Home healthcare solutions declined mid-single digit, while Customer Services and Patient Care & Clinical Informatics grew low single-digits. Imaging systems decreased double-digits. From a geographical standpoint, Western Europe sales grew low single-digits while North America had a mid-single digit decline.
- **Intuitive Surgical** sales of \$465M were down 24% y/y and down 19% sequentially. Procedures in 1Q14 grew 7% y/y (vs +12% in 4Q13) but were down approximately 5% sequentially. Instrument and accessory revenue of \$255M was down 2%, Systems revenue of \$106M decreased 59% y/y. In the US, Intuitive Surgical sold 45 systems in 1Q14 compared with 115 systems in 1Q13 and 72 systems in 4Q13. The decline in US system sales reflects the impact of lower procedure growth, spending uncertainties associated with the ACA, customer anticipation of a new system being released, and relative to the fourth quarter, seasonality. Management noted that the first quarter was a difficult one in the US; specifically management indicated that certain elective da Vinci procedures in the US have been under significant pressure, driven in part by changing surgical admissions, hospital financial uncertainty, and payer incentives favoring watchful waiting and conservative treatment.



Nutritionals

- **Abbott's Nutritional** sales were down 4.0% on a reported basis and down 1.7% excluding FX though this included a roughly \$75 million impact from the recall in August 2013 (the impact was roughly \$90 million in both 3Q13 and 4Q13) that impacted China and Vietnam. US sales were down 4.0% while OUS sales were down 0.1% operationally. Excluding the recall and FX, international Pediatric Nutritionals would have been up roughly 4.5% (vs down 7.7%), while total global Nutritional sales would have been up around 3.7%.
- In 1Q14, **Mead Johnson** sales totaled \$1,113 million and were up 11% on a constant currency basis. Sales benefited 7% from volume and 4% from Price, reduced by 4% from FX. Gross margin in 1Q14 was 63.6%, up 70 bps year-over-year. The gross margin improvement was primarily driven by pricing and productivity gains, which more than offset higher dairy costs.
 - The Asia segment reported sales of \$592.7 million in 1Q14, up 9% year-over-year on a constant currency basis. Sales increased 6% from volume and 3% from price, reduced by 2% from FX. Volume growth was driven by category growth and market share gains. Several Asian markets, including China, saw a continued benefit from competitors' supply disruptions that occurred in 2013.
 - The Latin America segment reported sales of \$212.4 million in 1Q14, up 21% year-over-year on a constant currency basis. Sales increased 10% from volume with 11% price increases more than offset by an 15% FX decline. Price increases in Venezuela and Argentina substantially mitigated the unfavorable sales impact from weaker local currencies in both markets. Volume growth was driven by share gains across most markets and continued category growth.
 - The North America/Europe segment reported sales of \$308.2 million in 1Q14, up 9% year-over-year on a constant currency basis. Price and Volume contributed to growth 2% and 7% respectively. Volume growth was primarily in the U.S. driven by expanding children's nutrition business, non-WIC market share gains and retailer inventory adjustments
- **Nestle's** Nutrition sales had a 6.4% organic growth in 1Q14 (vs. 8.2% in 2013) driven by the emerging markets, primarily in China and the Middle East. Additionally management noted that infant formula and cereals performed strongly. Nestle also indicated that in the US it has decided to compete more selectively on individual contracts, thus, this has led the company to exit some contracts which has had an impact on the figures.
- In 1Q14, **Danone's** Early Life Nutrition revenue decreased 7.7% ex-FX with a 4.8% decline in volume, reflecting high bases for comparison linked to the false safety alert triggered by Fonterra in August, 2013. Medical Nutrition sales increased 5.2% ex-FX in 4Q13 with volumes up 4.3%. Management mentioned that Turkey, the UK and markets in the Middle East and North America were main contributors to growth.



MedTech 1Q results: sales growth decelerated, but EPS growth improved

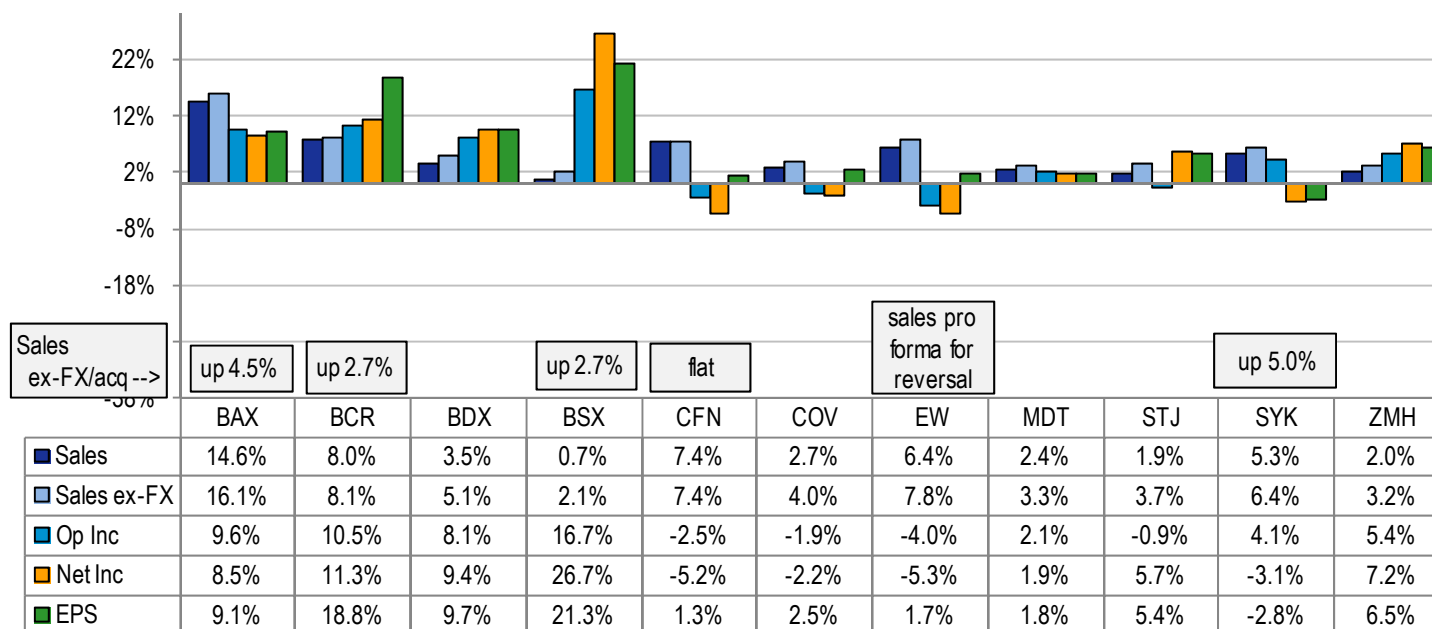
In the figure below, we illustrate the year-over-year change in each company's sales, operating income, net income and EPS for the most recently reported quarter—in most cases calendar 1Q14 results (F2Q14 for BDX and COV, F3Q14 for CFN and F4Q14 for MDT). We have excluded the results of ABT and JNJ, since their results reflect the performance of their more diversified portfolio.

In aggregate and on a reported basis (i.e. including FX and acquisitions), sales were up 5.2%. On an organic basis (e.g. excluding FX and acquisitions), we estimate sales up 3.8% in 1Q14, vs up 5.2% in 4Q13, up 4.2% in 3Q13, 3.3% in 2Q13, and 2.0% in 1Q13. When including the performance of Abbott and J&J's Medical Device businesses, consolidated sales were up 5.1%, which compares to up 6.0% in 4Q13.

Top line growth decelerated sequentially which was expected given the increasing seasonality seen each year; however, aggregate operating income was 4.5% up year-over-year (vs up 1.5% in 4Q13) driven by a number of factors. Most companies saw gross margin compression in the quarter, which was the primary driver behind the operating margin declines y/y. However, the rate of margin compression improved sequentially. There were a number of reasons negatively impacting margins including foreign exchange rates, product mix, as well as pricing pressures. For some, the Medical Device tax was also a headwind (if not in COGS, it is then a headwind for SG&A).

Pretax income was up 2.7% and lower tax rates for some helped to drive net income up 3.8% y/y. Share repurchase activity was a contributor of bottom-line growth on a per share basis, but less so in the past owing to the net effect of higher stock prices and employee option exercises/dilutive impact. We estimate net-income weighted EPS increased about 5.1% vs 2.9% in 4Q13.

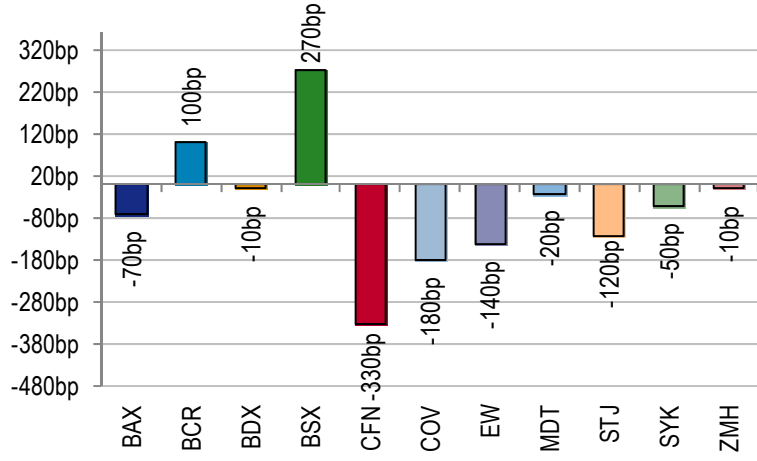
Figure 25: Year-over-Year Percent Change (Most Recent Quarter Reported)



All companies are for 1Q14 except BDX and COV F2Q14, CFN F3Q14, MDT F4Q14
Source: Deutsche Bank, Company reports

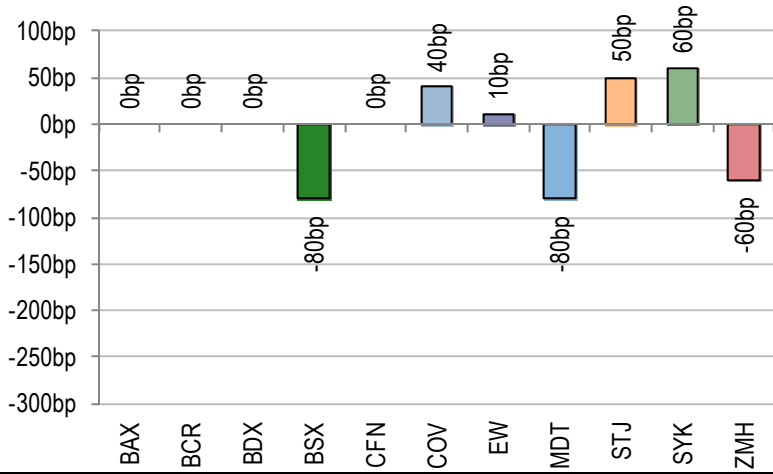


Figure 26: Gross Margin Y/Y



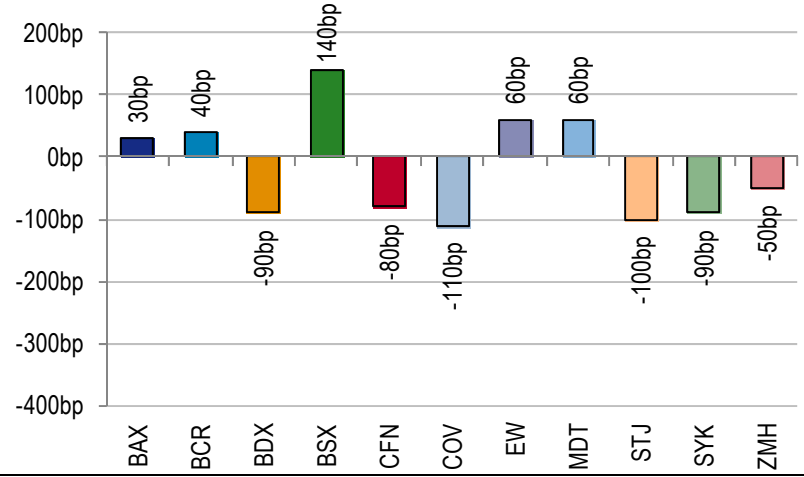
Source: Company Reports, Deutsche Bank

Figure 28: R&D Ratio Y/Y



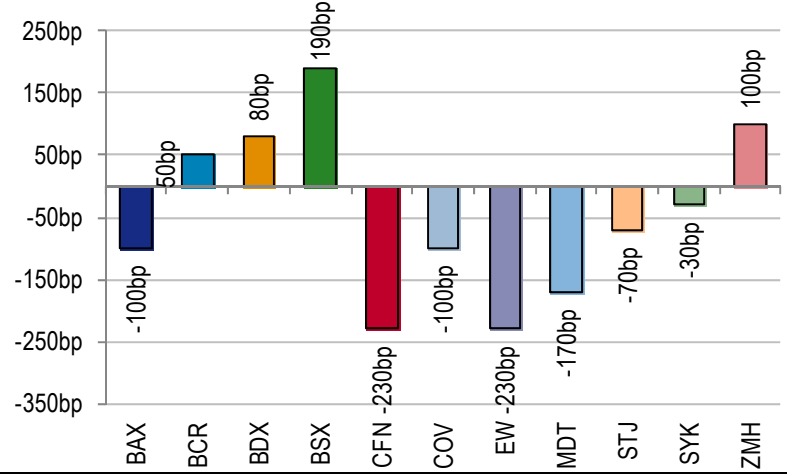
Source: Company Reports, Deutsche Bank

Figure 27: SG&A Ratio Y/Y



Source: Company Reports, Deutsche Bank

Figure 29: Operating Margins Y/Y



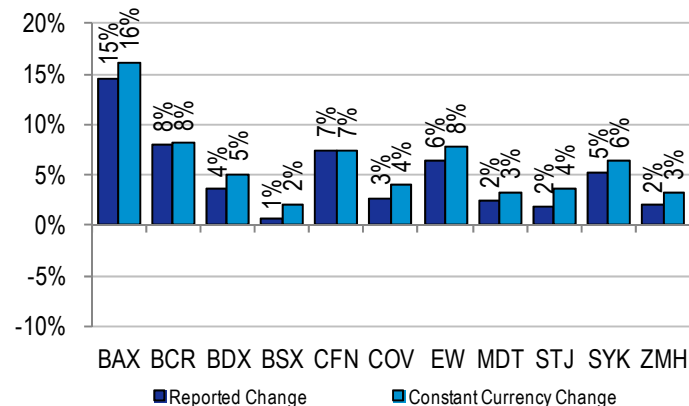
Source: Company Reports, Deutsche Bank



1Q14: Organic Sales growth in the low to mid-single digits range

- BAX.** Sales of \$3,951M were up 15% as reported and up 16% ex-FX. Organically, sales were up 5%, ahead of guidance of +2-3%. Ex-FX, Bioscience sales were +6% with Hemophilia +9%, BioTherapeutics -1%, BioSurgery +3% and Vaccines up 25%. Medical Products sales were +24% ex-FX and when adjusting for Gambro acquisition, Medical products sales grew 4% on cc basis with Fluid systems +3%, Renal +72% (+4 ex Gambro), Spec Pharma +2%, Biopharma solutions +4%.
- BCR.** Sales of \$799M were above TR of \$789M and DB \$790M. Sales were up 8% on a CC basis, above guidance of up 6%-7%. Net impact of acquisitions/divestitures was a positive 40bp, Gore added 5.1%-pts. Ex FX, vascular sales up 8% reflecting Gore royalties of \$38M, urology up 7% (includes Rochester acq), oncology up 6%, and surgical specialty were up 13% (includes Medafor acq).
- BDX.** Total sales of \$2,072M were up 3.6% reported and up 5.1% ex-FX. Pricing in the quarter was flat to slightly down 20bps. Ex-FX, BD medical sales were +6.3%, BD diagnostic sales were + 1.0%, and BD Bioscience sales were + 10.2%.
- BSX.** Total sales of \$1,774M were up 1% on a reported and up 3% on an operational basis. Ex-FX, ICD sales were down 3%, pacemakers up 1%, DES down 3%, other interventional up 9%, peripheral intervention up 5%, EP up 68%, endoscopy up 5%, uro/women's health up 8%, and Neuro up 23%.
- CFN.** Total sales of \$968 million were up 7% y/y ex-Fx and were below TR Consensus at \$987M and DB of \$984M. On an organic basis, we estimate sales were flat. Medical Systems sales decreased 2% on a reported while Procedural Solutions increased 25%.on a reported as well (on an organic basis, Procedural solutions sales were up in the mid-to-high single digits).
- COV.** Total sales of \$2,598M were slightly below TR at \$2,609M and DBe at \$2,602M. Sales were up 3% on a reported basis and up 4% on a constant currency and organic basis. Ex Fx, Surgical Solutions sales grew 6%, Vascular Therapies revenue increased 2% and Respiratory and Patient care sales were up 2%. US sales were up 2% while EM sales grew 14% operationally and non-US developed Market was+4% ex-FX.
- EW.** Total sales of \$522 million were up 5.2% on a reported basis. Excluding foreign exchange and the impact of THV sales reserve, underlying sales were up approximately 7.8%. The adjusted sales figure of \$529 million was just above both TR at \$525M and DBe at \$516M.. After adjusting for a TAVR sales reserve and excluding FX, Surgical Valves sales +4.3%, TAVR +14.0% and Critical care +4.6%.
- MDT.** Total sales of \$4,566 were up 2.4% on a reported and up 3.3% ex-FX. US sales of \$2,421M were up 2.1% while OUS sales of \$2,145M were up 4.6% on a constant currency basis. Ex-FX, CRDM sales were up 2%, Coronary decreased 2%, Structural heart grew 9%, Endovascular increased 3% and Restorative therapies grew 2%.
- STJ.** Total sales of \$1,363M were slightly above TR at \$1,358M and DBe at \$1,342M. Sales were up 2% on a reported basis and 4% ex-FX primarily driven by Atrial Fibrillation (+10%). US sales were flat and OUS were up 6.6% on a constant currency basis. Ex-FX, ICD global sales were up 3%, pacemaker sales up 2%, atrial fibrillation up 10%, neuromodulation flat, and cardiovascular up 2%.
- SYK.** Sales of \$2,305M came in below TR at \$2,326M but more in line with our estimate of \$2,303M. Sales were up 5.3% on a reported basis and up 5.0% on a constant currency basis and excluding the impact of acquisitions. Ex-FX, reconstructive sales were up 6% (hips up 5%, knees up 2%), Medsurg sales were up 7% (instruments sales were up 11%, endoscopy sales up 8%, medical sales were up 1%). Neurospine up 7% (spine up 1% and Neurotech up 12%).
- ZMH.** Total sales of \$1,162M were slightly below TR of \$1,180M and DB of \$1,173M. Sales were +3.2% on a constant currency (CC) basis. Ex FX, knee sales were up 5%, hip sales up 2%, extremities up 9%, dental up 2%, trauma down 1%, spine up 1%, and surgical and others up 3%.

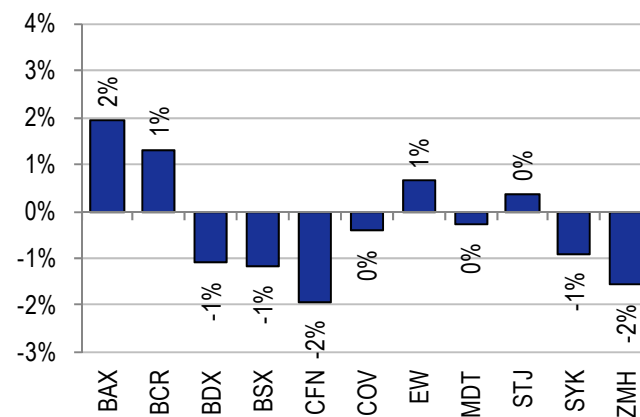
Figure 30: Sales Y/Y % Chg Reported vs. Constant Currency



Source: Deutsche Bank, Company Reports.

All companies are for 1Q14 except BDX and COV is F2Q14, CFN F3Q14; MDT is F4Q14

Figure 31: Sales versus Thomson Reuters Consensus



Source: Deutsche Bank, Company Reports, Thomson Reuters, Thomson One

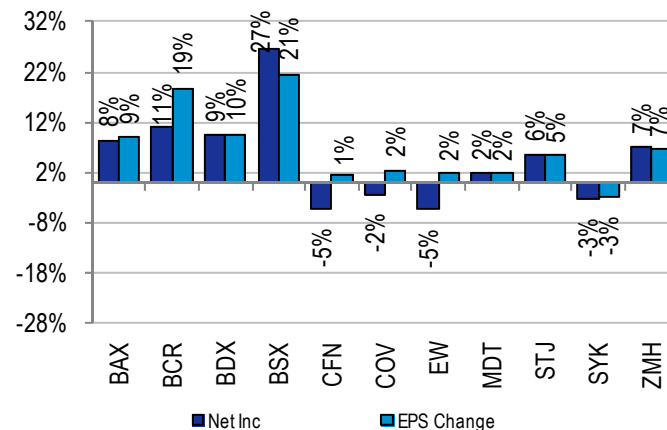
All companies are for 1Q14 except BDX and COV is F2Q14, CFN F3Q14; MDT is F4Q14



Mostly Beats Across the Space; Share Repurchase Continues to Lift EPS Growth Rates, to a lesser extent though

- BAX.** Cash EPS of \$1.19 was well above the Street \$1.09, DBe \$1.08, and guidance of \$1.06-\$1.09. Sales were up 5% ex-FX and Gambio. GM was down 70 bps y/y, SG&A was up 30 bps and R&D was flat y/y at 7.1% leading to OM down 100 bps y/y. Op inc increased 9.6%, taxes came in at 21.4% and net inc was up 8.5% y/y. Shares were down 0.5%, thus adjusted cash EPS of \$1.19; up 9.1% y/y and well above expectations and prior guidance of \$1.06-\$1.09.
- BCR.** Adj Cash EPS of \$1.91 were ahead of TR and DB at \$1.84. Cash EPS excluded \$0.22 in intangible amortization. Sales grew 3% organically. GM was up 100 bps y/y. SG&A was up 40 bps; R&D was up flat. Op inc was up 10.5% y/y. Tax rate was up 40 bps; net income up 11.3%, shares down 4.8%; resulting in adjusted Cash EPS up 18.8% y/y.
- BDX.** EPS of \$1.53 were ahead of TR of \$1.50 and DBe of \$1.49 due to lower S&GA spending and tax rate. Sales were up 5.1% ex-FX. GM was down 10 bps y/y; SG&A was down 90 bps; R&D was flat. Op income was up 8.1% and net income was up 9.4% y/y. Share count was down 0.3%, thus, EPS up 9.7% y/y.
- BSX.** Cash EPS were \$0.20, versus TR at \$0.18 and DBe at \$0.17 and guidance as \$0.16-\$0.18. GM was up 270 bps y/y, SG&A was up 140bps and R&D down 80 bps y/y. Op inc was up 16.7%. Net income was up 26.7%. Shares down 1.2%. Adjusted Cash EPS was up 21.0% y/y.
- CFN.** Cash EPS of \$0.60 were slightly below TR and DBE at \$0.62. We estimate sales were flat on an organic basis. GM was down 330 bps driven by lower margin acquisitions such as GE Vital Signs, product revenue mix (primarily in dispensing), and the impact of a key supplier winding down its business, S&A down 80bps, R&D flat. OM down 230 bps. Operating income was down 2.5%, tax rate was 230 bps lower, Net inc was down 5.2%. Shares down 6.4%. Cash EPS was up 1.3% y/y.
- COV.** EPS of \$0.96 (including \$0.09 in amortization) was higher than the Street \$0.95 and DB \$0.94. Relative to our model, COV beat on other income and lower taxes.. Sales were up 4% ex-FX. GM was down 180 bps y/y due to the negative impact of FX which more than offset positive price/vol/mix, SG&A was down 110 bps as a result of operating leverage from productivity enhancements and R&D up 40 bps. OM down 100 bps but in line with the company's guidance range. Op profits were down 1.9%, net income was down 2.2%, shares down 4.6%, and EPS was up 2.5% y/y.
- EW.** Adjusted EPS of \$0.76 came in ahead of TR \$0.69, DBe \$0.67, and EW's guidance of \$0.61-\$0.71. Sales were up 7.8% ex-FX and after adjusting TAVR sales for a reserve adj. GM was down 140 bps y/y, SG&A up 60 bps while R&D up 10 bps y/y. Op inc was down 4.0% y/y, tax rate was down 40 bps and net inc decreased 5.3%. EPS was up 1.7% y/y.
- MDT.** EPS of \$1.12 were in line with TR/DB. Sales were up 3.3% ex-FX. GM was down 20 bps y/y, SG&A up 60 bps (higher than expected) and R&D was down 80 bps; thus, op margin down up 170 bps. Op inc was up 2.1%, tax rate was lower 330 bps y/y, thus, net income was up 1.9%. Shares were down 1.1% and EPS was up 1.8%
- STJ.** Adjusted EPS of \$0.96 was also slightly above both our / TR estimate (\$0.95) and at the high end of Company guidance (\$0.94-\$0.96). Sales were up 4% ex-FX. GM was down 120 bps; SG&A down 100 bps y/y and R&D up 50bps; thus, OM down 70 bps y/y. Op inc was down 0.9%. The tax rate was down 280 bps y/y, net inc up 5.7%. Shares were up 0.7%; thus, EPS was up 5.4% y/y.
- SYK.** EPS of \$1.06 was also below both TR at \$1.08 and DBe of \$1.07. Relative to our model, the miss was more a function of higher other expense. GM was 50 bps down, SG&A was 90 bps down and R&D was up 60 bps leading to OM down 30 bps y/y. Op income was up 4.1%. The tax rate was 380 bps higher. Net inc was down 3.1% and share count was down 0.1% resulting in EPS declining 2.8%.
- ZMH.** EPS of \$1.50 were \$0.03 above both TR and our estimate of \$1.47. Sales were up 3% ex-FX. GM was down 10 bps y/y; SG&A down 50 bps; and R&D down 60 bps y/y leading to OM up 100 bps y/y. Op income was up 5.4% y/y and pretax income was up 6.6% y/y. Tax rate was down 70 bps y/y and net income was up 7.2%. Share count was slightly up 0.6% y/y resulting in EPS growth of 6.5%.

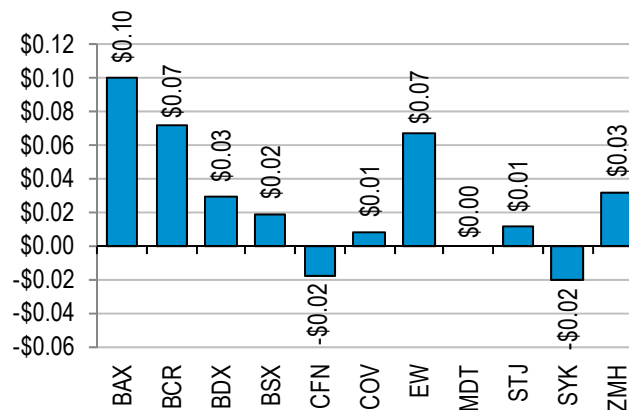
Figure 32: Net Income and EPS Y/Y % Change



Source: Deutsche Bank, Company Reports.

All companies are for 1Q14 except BDX and COV is F2Q14, CFN F3Q14; MDT is F4Q14

Figure 33: EPS versus Thomson Reuters Consensus



Source: Deutsche Bank, Company Reports, Thomson Reuters

All companies are for 1Q14 except BDX and COV is F2Q14, CFN F3Q14; MDT is F4Q14





2Q14 Earnings Preview

What's Been Said and Seen So Far...

Biomet F4Q14 Earnings Review

Biomet reported F4Q14 (quarter ended May 31) sales of \$844.5 million, up 7.7% on a reported basis and up 7.2% on a constant currency basis. The Lanx acquisition contributed 200-250bps to consolidated net sales, though there was one less selling day which negatively impacted results by about 150bps. Hip and knees growth rates sequentially slowed (particularly in the US), though at this point we are less inclined to view it as reflective of the overall market. We await additional results from JNJ (July 15), SYK (July 15), ZMH (July 24), and SN (Aug 1).

Hip and Knee results (particularly in the US) sequentially weaker

Biomet's F4Q14 hip and knee sales growth rates were sequentially weaker, particularly in the United States. On Biomet's results conference call (which was prepared remarks only), management acknowledged the sequentially lower results but noted that there was one less selling day in the quarter and reminded investors that F3Q14 included December (which was a strong month due to seasonality). We also note that F3Q14 had one extra selling day. Even after making all the adjustments to account for selling day differences, US hip and knee growth rates still were sequentially weaker.

Read-thrus for the other orthopedic companies

- We believe Biomet's results are not always the perfect "read-thru" for other companies in our coverage universe for a number of reasons, with one reason being the differences in quarter end (this quarter ended in May) and selling day differences (for BMET, F4Q14 had one less selling day).
- Management did not make any comments on their views of the market. We believe the market is likely stable and Biomet may have lost some of its momentum (it had been gaining share). It's also unclear whether there was any early disruption or lack of focus within the sales force/distributor network due to the announcement of the Zimmer acquisition, which was announced in April.
- Outside of hip and knee, management commented that extremities remained strong with its 26th consecutive quarter of double-digit growth and in spine, it was seeing the benefits of cross selling with Lanx.
- In our view, J&J (reports July 15) will provide a better read on orthopedic market trends. Stryker reports July 17, Zimmer July 24, and S&N August 1.
- Regarding the acquisition, Biomet noted everything remains on track and expects the purchase of the company by Zimmer to occur in C1Q15.



A Summary of Our Expectations for the Quarter Ahead

We expect most companies to show a slight sequential improvement in sales growth rates as compared to the 1Q14 results. We expect J&J to show the most upside in the quarter, reflecting another strong performance from Olysio (Hep C).

Figure 34: Quarter Expectations – Deutsche Bank versus Thomson Reuters (TR) I/B/E/S Consensus Expectations and Company Guidance

Ticker	Company	Q to be		EPS Release	Revenues (\$M)				Y/Y % Chg	Company Guidance	EPS			
		Reported	Release		DB Est	TR	Delta	% Chg			DB Est	TR	Delta	% Chg
JNJ	Johnson & Johnson	2Q	2014	7/15/2014	\$19,305	\$18,861	\$444	8%	No guidance	\$1.58	\$1.54	\$0.04	7%	No guidance
STJ	St. Jude Medical	2Q	2014	7/16/2014	\$1,440	\$1,439	\$1	3%	\$1,380-\$1,460 million	\$1.00	\$1.00	\$0.00	4%	Adjusted EPS: \$0.99-\$1.01
ABT	Abbott Labs	2Q	2014	7/16/2014		\$5,525			Operationally, up in low-to-mid single digits (FX -1.5%)		\$0.51			Cash EPS: \$0.50-\$0.52
BAX	Baxter	2Q	2014	7/17/2014	\$4,103	\$4,118	(\$16)	12%	Up 2-3% ex-FX & ex-Gambro. Up 12%-13% ex-FX	\$1.21	\$1.22	(\$0.01)	1%	Cash EPS: \$1.18-\$1.22
SYK	Stryker	2Q	2014	7/17/2014	\$2,348	\$2,350	(\$1)	6%	No guidance	\$1.08	\$1.09	(\$0.01)	-3%	No guidance
BCR	C.R. Bard	2Q	2014	7/24/2014	\$817	\$815	\$2	7%	Up 6-8% ex-FX	\$1.99	\$2.01	(\$0.02)	25%	Cash EPS: \$1.98-\$2.02
ZMH	Zimmer	2Q	2014	7/24/2014	\$1,206	\$1,206	(\$0)	3%	No guidance	\$1.48	\$1.49	(\$0.01)	4%	No guidance
BSX	Boston Scientific	2Q	2014	7/24/2014	\$1,878	\$1,866	\$13	4%	\$1,840-\$1,890 million	\$0.20	\$0.19	\$0.01	10%	Cash EPS: \$0.18-\$0.20
COV	Covidien	3Q	2014	7/25/2014	\$2,687	\$2,694	(\$7)	4%	No guidance	\$0.99	\$1.00	(\$0.01)	9%	No guidance
EW	Edwards Lifesci	2Q	2014	7/29/2014	\$543	\$545	(\$2)	5%	\$525-\$565 million	\$0.74	\$0.77	(\$0.03)	-9%	Adjusted EPS: \$0.71-\$0.81
BDX	Becton Dickinson	3Q	2014	7/31/2014	\$2,136	\$2,142	(\$6)	4%	No guidance	\$1.69	\$1.67	\$0.02	10%	No guidance
TNDM	Tandem Diabetes	2Q	2014	7/31/2014	\$9	\$11	(\$1)	71%	No guidance	(\$0.93)	(\$0.91)	NA	NA	No guidance
CFN	CareFusion	4Q	2014	8/7/2014	\$1,049	\$1,042	\$7	16%	No guidance	\$0.72	\$0.72	\$0.00	32%	No guidance
MDT	Medtronic	1Q	2015	8/19/2014	\$4,255	\$4,252	\$3	4%	No guidance	\$0.89	\$0.92	(\$0.03)	1%	No guidance

Source: Deutsche Bank, Thomson Reuters, Company Reports



2Q14 Earnings Conference Call and Analyst Meeting Calendar

We have highlighted in yellow those companies that are in our coverage universe and have included other companies where there is a read-through that is relevant to our space. We note, not all companies have disclosed their reporting dates as of the publishing date of this report.

Figure 35: Major Healthcare Company Earnings Conference Calls (All times are Eastern)

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
July 7	July 8	July 9	July 10	July 11
		Biomet (BMET) 4:30pm		
July 14	July 15	July 16	July 17	July 18
	J&J (JNJ) 8:30am	St. Jude Medical (STJ) 8:00am	Danaher (DHR) 8:00am	General Electric (GE) 8:30am
		Abbott Labs (ABT) 9:00am	Baxter (BAX) 8:30am	Lifepoint (LH) 9:00am
			United Health (UNH) 8:45am	
			Stryker (SYK) 4:30pm	
July 21	July 22	July 23	July 24	July 25
Philips (PHG) 4:00am	Mead Johnson (MJN) 9:00am	Biogen (BIIB) 9:00am	Zimmer (ZMH) 8:00am	Danone (BN) 3:00am***
	Kimberly Clark (KMB) 10:00am		Boston Sci (BSX) 8:00am	Covidien (COV) 8:30am
	Intuitive (ISRG) 4:30pm		Quest Diagnostics (DGX) 8:30am	
			C.R. Bard (BCR) 5:00pm	
July 28	July 29	July 30	July 31	August 1
	Aetna (AET) 8:30am	Haemonetics (HAE) 8:00am	Siemens (SIE) 2:30am***	Smith & Nephew (SNN) 3:30am
	Edwards (EW) 5:00pm	Wellpoint (WLP) 8:30am	Grifols results	
		Hospira (HSP) 9:00am	Becton (BDX) 8:00am	
		Sorin (SRN-IT) 11:00am	Cigna (CI) 8:30am	
			Tandem (TNDM) 4:30pm	
August 4	August 5	August 6	August 7	August 8
Tenet (THC) 9:00am			CareFusion (CFN) 5:00pm	
August 11	August 12	August 13	August 14	August 15
		CSL half-year results		
August 18	August 19	August 20	August 21	August 22
	Medtronic (MDT) 8:30am			

Source: Deutsche Bank, Streetevents, Company reports



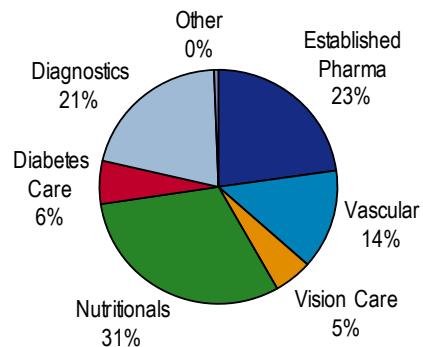


Company Profiles

(Arranged Alphabetically)

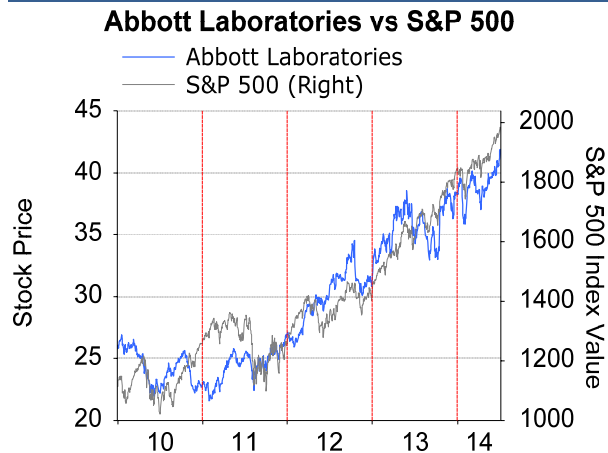
Abbott Laboratories (ABT–Not Rated)

Figure 36: Abbott Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 38: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 37: Summary

Mkt cap (\$M):	\$61,985			
Price 07/09/14:	\$41.27			
52 Wk Range: \$32.70-\$41.96		Dividend Yield: 2.8%		
2013 Price Perf: 22.3%				
YTD 2014 Price Perf: 7.7%				

FY EPS Projections		PE Valuation	
	TR Cons	CY	Abs PE
2013A		NTM	18.2x
2014E	\$2.19	2014E	18.9x
2015E	\$2.44	2015E	16.9x

EPS estimates exclude intangible amort

Source: Thomson Reuters

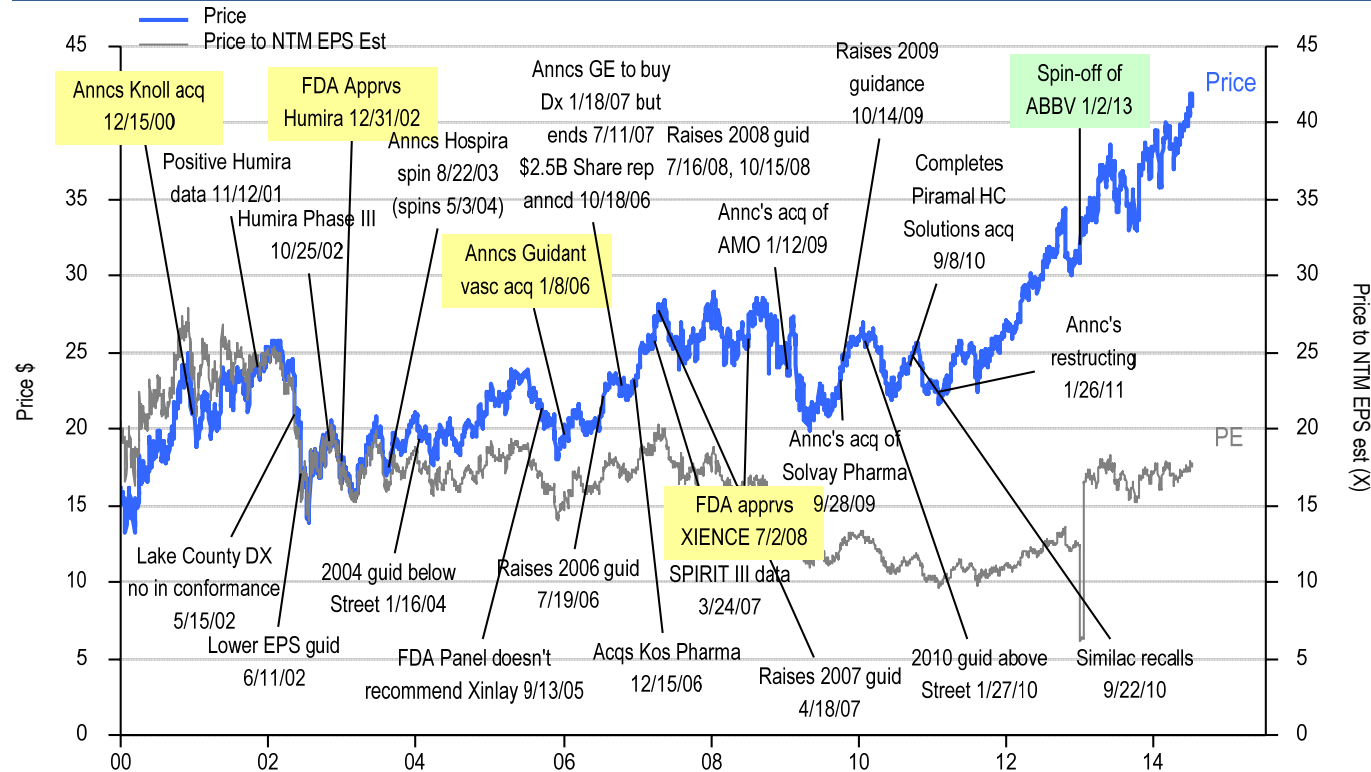
Upcoming Events

- **July 16:** ABT earnings release
- **July 27-31:** American Association for Clinical Chemistry (AACC), Chicago, IL
- **3Q14:** Abbott expects close of CFR Pharmaceuticals acquisition
- **4Q14:** Abbott expects close of Veropharm acquisition



Historical Stock Performance

Figure 39: Stock Price Performance and Company News Events



Historical Price Performance

Commentary

Prior to the ABT / ABBV split, ABT share price performance was largely a function of their success after launching Humira. The stock typically traded on the performance of Humira as well as updates on the competitive landscape. After announcing its intention to split into two companies in conjunction with 3Q11 earnings, Abbott shares traded higher largely through 3Q12 when Abbott provided initial (stand-alone) high-level 2013 guidance. Since the split, shares rose sharply higher, but the stock has come under pressure as of late due to pressures in the nutritionals and EPD business.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09/14
ABT	15.1%	-28.3%	16.5%	7.0%	-15.5%	23.5%	15.3%	-5.0%	1.2%	-11.3%	17.4%	16.5%	22.3%	7.7%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Abbott Product Portfolio Overview

Figure 40: Product Overview

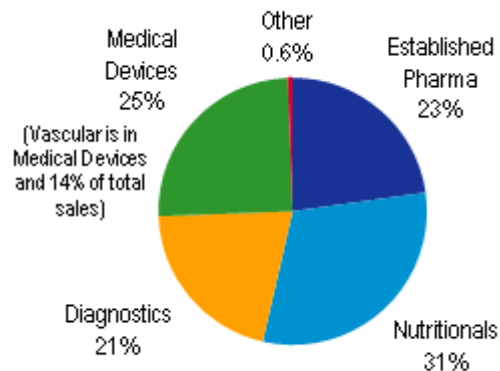
Product	% sales	Description
NUTRITIONALS		
Pediatric Nutritionals	17%	In 2013, sales totaled \$3.8 billion. The pediatric segment is anchored by the flagship Similac brand, which offers a complete portfolio of infant formula products, including those customized for specific needs, such as infant natural immune system support and lactose sensitivity.
Adult Nutritionals	14%	In 2013, sales totaled \$3.0 billion. The adult segment comprises a variety of supplements and meal options for patients with special dietary needs due to injury or disease, for high performing athletes, and for healthy and aging individuals, and includes the Ensure and Glucerna franchises.
ESTABLISHED PHARMACEUTICALS (EPD)		
Established Pharmaceuticals	23%	In 2013, Established pharmaceutical or EPD sales totaled \$5.0 billion. Abbott's Established Pharmaceutical business includes a portfolio of more than 500 established pharmaceuticals brands. This business is entirely outside the United States so it has the greatest impact from foreign exchange rate fluctuations.
MEDICAL DEVICES		
Vascular	14%	In 2013, sales totaled \$3.0 billion. The vascular portfolio includes mainly coronary stents and related products such as guidewires and balloons. Abbott also sells vascular closure devices, carotid stents, and has an emerging structural heart valve.
Diabetes Care	6%	In 2013, sales totaled \$1.3 billion. The diabetes portfolio includes traditional and continuous blood glucose monitors as well as related testing strips.
Medical Optics (Vision Care)	5%	In 2013, sales totaled \$1.1 billion. The business markets devices to treat a wide range of eye disorders such as myopia (near-sightedness), hyperopia (far-sightedness), astigmatism, contact lens care, and overall eye health.
GLOBAL DIAGNOSTICS		
Core Lab Diagnostics	17%	In 2013, core laboratories sales totaled \$3.7 billion. The division includes immunoassay and hematology products.
Point of care diagnostics	2%	In 2013, point of care diagnostics sales totaled \$403 million
Molecular diagnostics	2%	In 2013, molecular diagnostics sales totaled \$473 million.

Source: Deutsche Bank, Company reports



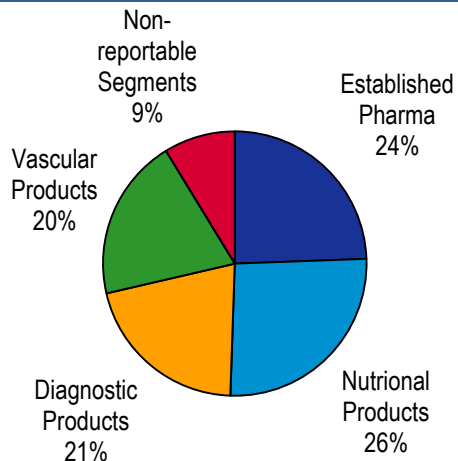
Abbott Sales and Operating Margin by Segment

Figure 41: Sales Split, 2013



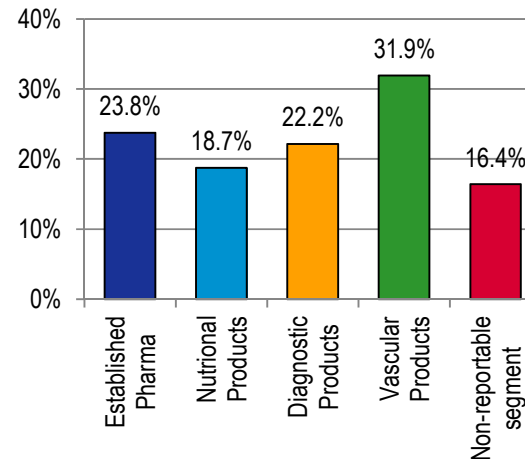
Source: Company reports

Figure 42: Operating Profit Split, 2013



Source: Company reports

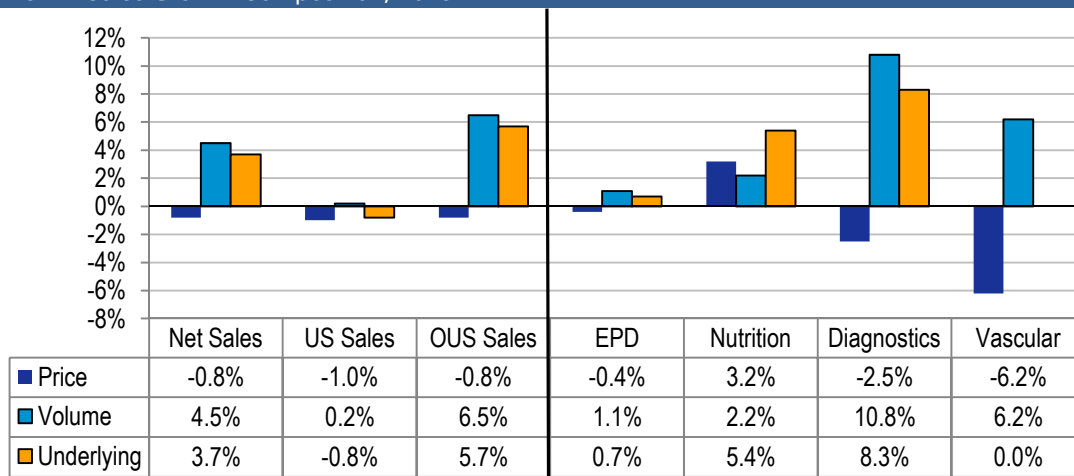
Figure 43: Operating Margins, 2013



Source: Company reports

Price and Unit Volume Trends

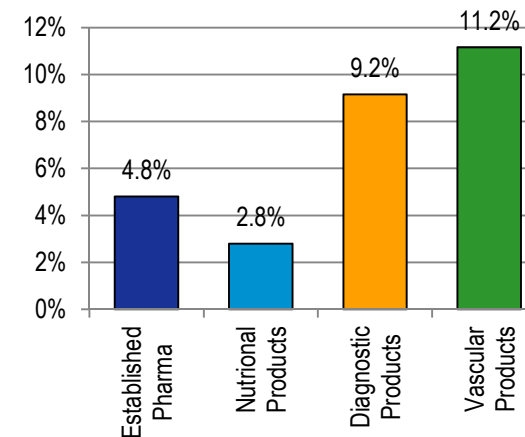
Figure 44: Sales Growth Composition, 2013



Source: Company reports

R&D Spending Trends

Figure 45: R&D (% of sales) by segment, 2013



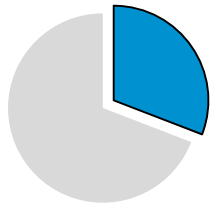
Source: Company reports



Abbott's Nutritional Business

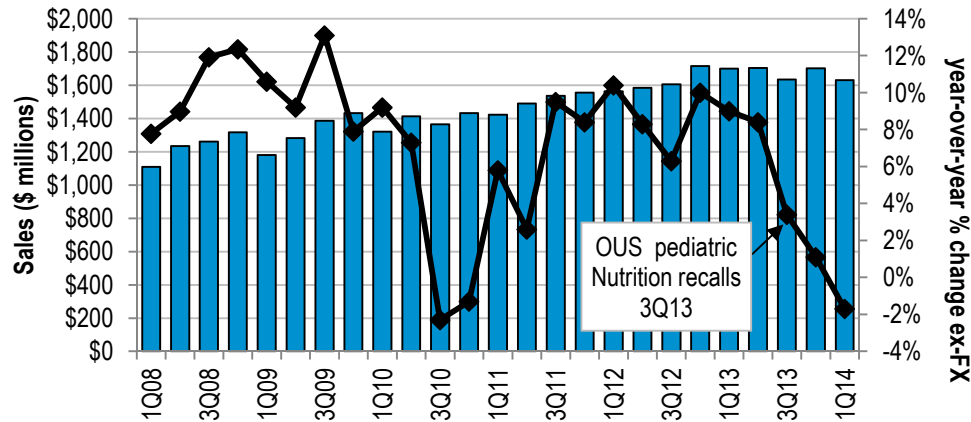
Figure 46: Sales mix

Nutritionals
31% of Abbott's
total sales in 2013



Source: Deutsche Bank, Company reports

Figure 47: Year-over-Year Change in Sales, Constant Currency

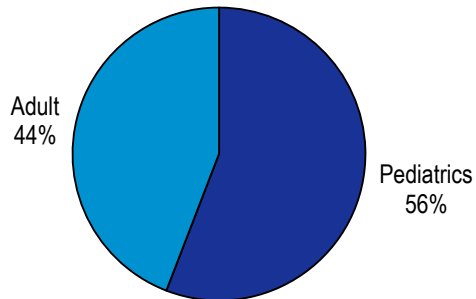


Source: Deutsche Bank, Company reports

In 2013, Abbott's worldwide nutritionals revenue totaled \$6.7 billion, or 31% of total company revenues.

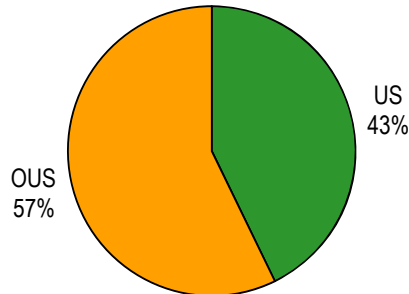
Abbott's Nutritional franchise includes sales from its pediatric and adult nutritional business. Key brands include Similac, PediaSure, Ensure, Glucerna, Zone Perfect and EAS.

Figure 48: Product Mix, 2013



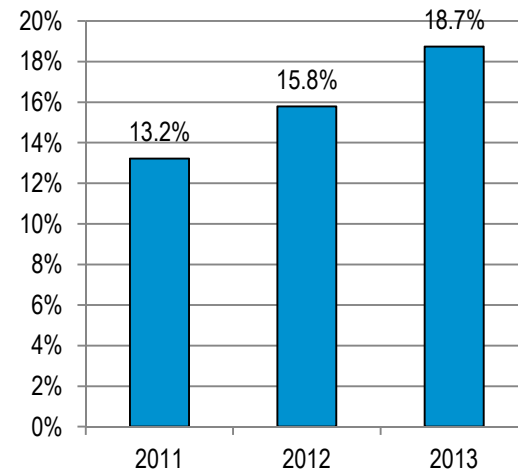
Source: Company reports

Figure 49: Geographic Mix, 2013



Source: Company reports

Figure 50: Operating Margins



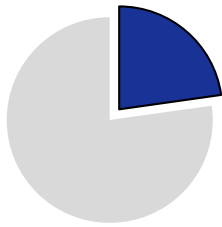
Source: Company reports



Abbott's Established Pharmaceuticals Segment

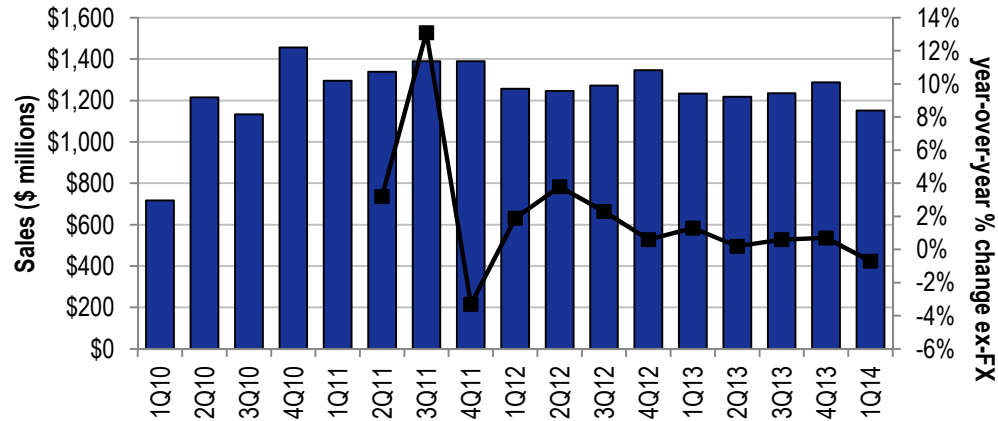
Figure 51: Sales mix

Established Pharmaceuticals
 23% of Abbott's total sales in 2013



Source: Company reports

Figure 52: Year-over-Year Change in Sales, Constant Currency

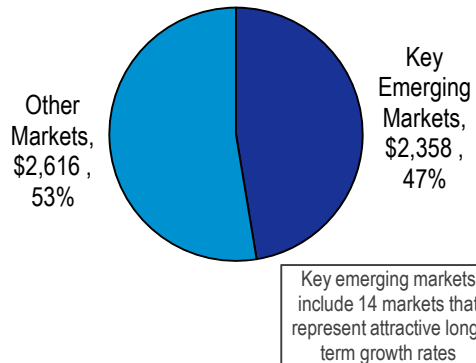


Source: Company reports

In 2013, Abbott's established pharmaceuticals segment generated revenues of \$5.0 billion, or 23% of total company revenues. Sales are from the following therapeutic areas:

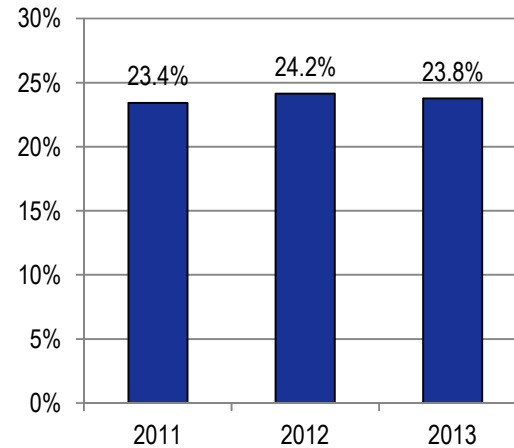
- Gastroenterology
- Women's Health
- Cardiovascular and metabolic
- Pain and central nervous system
- Respiratory drugs and vaccines

Figure 53: Product & Geographic Mix, 2013



Source: Company reports

Figure 54: Operating Margins

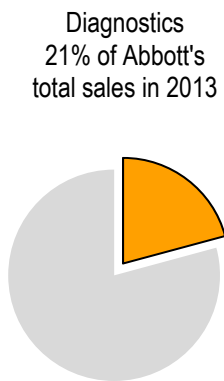


Source: Company reports



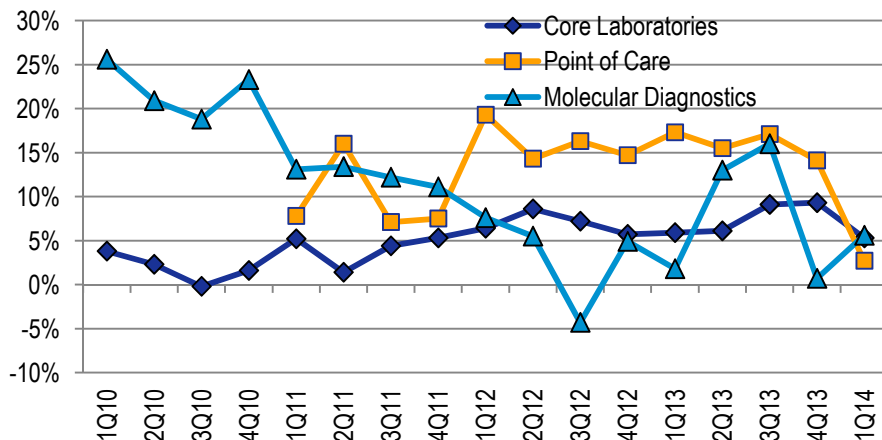
Abbott's Diagnostics Segment

Figure 55: Sales mix



Source: Deutsche Bank, Company reports

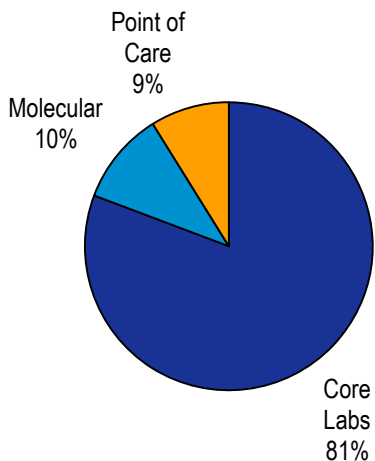
Figure 56: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

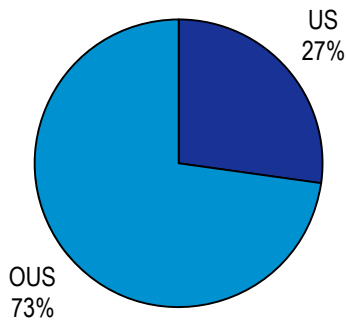
In 2013, Abbott's worldwide Diagnostic business generated sales of \$4.5 billion and represented 21% of total sales. Abbott's diagnostic business includes sales of diagnostic systems and tests sold to blood banks, hospitals, commercial labs, clinics, physician offices, and alternative-care. The segment has three product categories: core labs, molecular diagnostics and point-of-care.

Figure 57: Product Mix, 2013



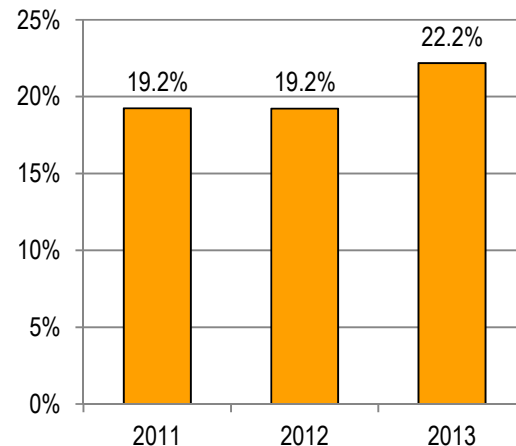
Source: Company reports

Figure 58: Geographic Mix, 2013



Source: Company reports

Figure 59: Operating Margin



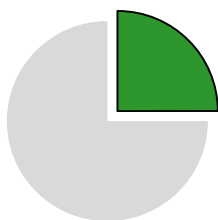
Source: Company reports



Abbott's Medical Devices

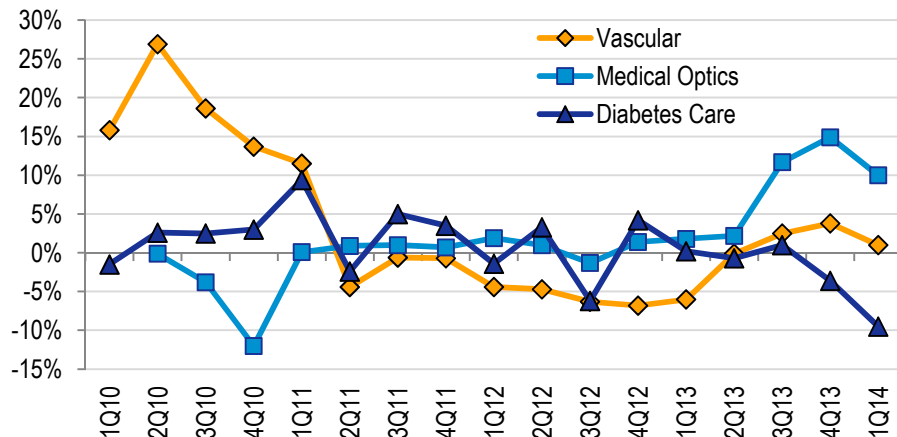
Figure 60: Sales mix

Medical Devices
25% of Abbott's
total sales in 2013



Source: Deutsche Bank, Company reports

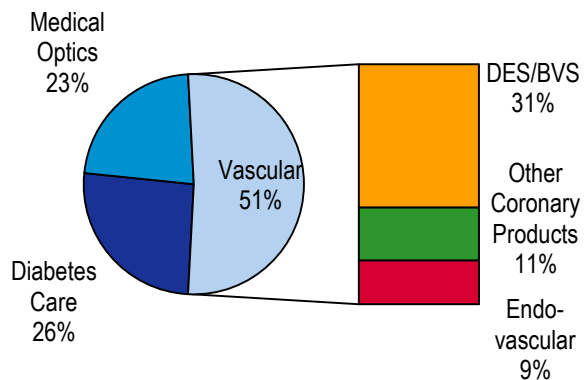
Figure 61: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

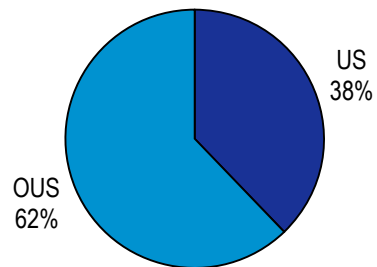
In 2013, Abbott's Medical Device business generated sales of \$5.5 billion, representing 25% of Abbott's total sales. Medical products includes the vascular business (14% of total sales), Diabetes (6% of sales), and Medical Optics.

Figure 62: Product Mix, 2013



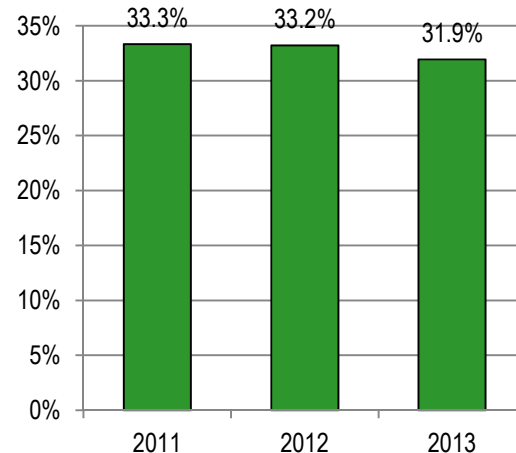
Source: Company reports

Figure 63: Geographic Mix, 2013



Source: Company reports

Figure 64: Vascular Operating Margin



Source: Company reports



Abbott's 1Q14 Results

Summary of the quarter

Sales of \$5,244M were slightly below Thomson Reuters Cons. of \$5,293M and DB of \$5,298M. Sales grew 0.5% ex-FX but fell 2.5% reported. As with 4Q13, 1Q14 sales were impacted by challenging comps, a recall in Nutrition (~\$75M impact), and plant shutdown in EPD, the latter two reducing int'l sales by ~2.6%. EPS of \$0.41 came in ahead of TF of \$0.36, DB \$0.35, and guidance of \$0.34-\$0.36. Relative to our model, the beat was a function of lower SG&A and R&D expenses. .

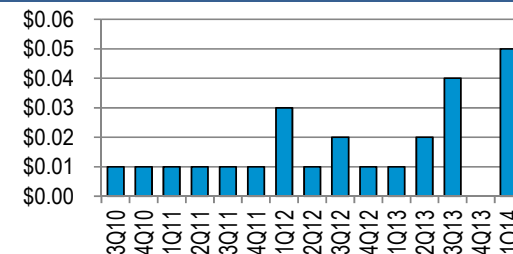
Figure 65: Quarter Variance

(\$ in mil except per share)

	Actual	TR Consensus	DB Estimate
Sales	\$5,244M	\$5,293M	\$5,298M
EPS	\$0.41	\$0.36	\$0.35

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 66: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

P&L Recap

- Total sales of \$5,244M were down 2.5% reported but up 0.5% ex-FX, as growth in Medical Optics, Diagnostics, and Vascular narrowly offset weakness in EPD, Nutritionals, and Diabetes. US sales fell 2.9% while OUS sales grew 1.8%.
 - Nutrition sales of \$1,631M fell 1.7% ex-FX, as challenging comps as well as the int'l pediatric recall in China/Vietnam weighed on sales growth
 - Diagnostics sales of \$1,117M were up 5.1% ex-FX, driven mainly by Core Lab +5.3%, Molecular +5.6%, and to a lesser extent POC +2.7%.
 - Est. Pharma sales of \$1,151M were down 0.7% ex-FX. Sales were challenged by a plant shutdown for capacity expansion, which is expected online in 2Q14.
 - Med Devices sales of \$1,312M were roughly flat, as growth in Optics +10% and Vascular +1.0% were essentially offset by Diabetes -9.5% which suffered from US Medicare competitive bidding pressures.
- Gross margin of 54.0% was down 180bps y/y but in-line with guidance.
- SG&A expense of 31.9% was down 70bps y/y and came below guidance of 33.5%. ABT noted it was \$80M below expectations, attributing half to timing and the other half on cost containment execution
- R&D expense was 6.4% of sales, down 10 bps y/y and below guidance of 7%. Abbott cited timing as the reason.
- Operating margins were 15.6% of sales, down from 16.7% in the prior year.
- Tax rate was 19.0%, in-line with guidance for the full-year.
- Share count of 1,548M was down 2.4% from 1,586M in the prior year.
- EPS of \$0.41 came in well above the Street at \$0.36. While about half was due to timing of expenses, the other half was due to underlying cost savings

Figure 67: Key Product Sales Trends

	Actual (\$ mil)	Y/Y % Change	
		Ex-Fx	Rptd
Nutritionals	\$1,631	-1.7%	-4.0%
Pediatrics	\$909	-6.7%	-7.9%
Adult	\$722	5.2%	1.4%
Est Pharma	\$1,151	-0.7%	-6.7%
Core Lab Dx	\$905	5.3%	2.5%
Molecular Dx	\$111	5.6%	4.7%
Point of Care Dx	\$101	2.7%	2.0%
Vascular	\$738	1.0%	-0.5%
Diabetes Care	\$283	-9.5%	-10.4%
Medical Optics	\$291	10.0%	7.8%
Other Sales	\$33		
Total Sales	\$5,244	0.5%	-2.5%

Source: Deutsche Bank, Company reports



2014 Guidance

Following 1Q14 results, Abbott reiterated its sales and EPS guidance for 2014. Specifically, Abbott expects constant currency sales growth in the mid-single digits (compared with 2013's run rate of 3.7%). FX is still expected to be a negative impact of "somewhat more" than 1%, thus reported sales growth is still expected in the low-to-mid single-digits. By segment, Abbott expects strength Diagnostics and Vision Care (the latter of which is expected to grow double-digits), while Vascular, Est. Pharma, and Nutrition growth is expected to improve throughout the year. In contrast, Diabetes Care sales are still expected to suffer high single-digit declines from US competitive bidding as well as competitive dynamics in US. Abbott still expects sales and EPS growth to be weighted to the back half of 2014, though after 1Q14's outperformance, the divergence between the two is expected to be less acute. Sales growth is expected to trend towards the mid-to-upper single-digits throughout the course of the year.

By segment (and on an ex-FX basis):

- In Nutrition, Abbott expects high single-digit sales growth operationally, with low double-digits growth in OUS. We note, the recalls are estimated to have reduced sales growth by approximately 280bp.
- Established Pharma sales are expected to grow in the low single digits operationally.
- Global Diagnostics sales are expected to grow in the mid-to-high single-digits with mid-to-high single-digit growth in both Core Lab and Molecular, and double digit growth in Point of Care Dx.
- Global diabetes sales are expected to decline in the high single-digits on an operational basis, largely as a result of Medicare competitive bidding in the US.
- Vascular sales are expected to increase in the low-to-mid single-digits on an operational basis. In 2013, vascular sales were flat globally.

Gross Margin is still expected to be roughly 55% of sales. FX is expected to be a 50 bps headwind for the year. **SG&A Expense** is still expected to be around 30% of sales for 2014. **R&D Expense** is still expected over 6% of sales for the year. **Operating Margins** are still expected to increase 60bps over the 2013 op margin of 18.4%. **Non-operating income** is expected to total roughly \$10 million. **Foreign Exchange** related losses are expected to be a headwind slightly above 1%-pt. **Tax rate** is expected to be 19.0% for the year. **Share repurchases** are expected to be over \$2 billion for the year. Adding it all up, **adjusted EPS** is still expected in the range of \$2.16-\$2.26, which excludes \$1.03 per share in net special items consisting of intangible amortization, restructuring programs, as well as tax related to repatriation of ex-US earnings expected during 2014.

2Q14 Guidance

For 2Q14, Abbott expects operational sales growth in the low-to-mid single-digits. FX is still expected a headwind of 150bps. Adjusted EPS is now expected to be in the range of \$0.50-\$0.52 vs prior guidance of \$0.49-\$0.51. In looking at the P&L, gross margin is expected to be 54.5%, SG&A 30.5% of sales, and R&D slightly over 6.0% of sales.

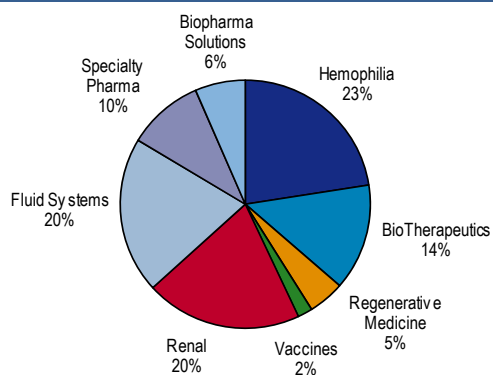
By segment:

- Global Nutritionals sales are expected to grow in the mid single-digits operationally in 2Q14. In addition, Abbott expects to open 3 new manufacturing centers with 1 each in China, India, and the US.
- Worldwide Diagnostics are expected to in the mid-to-high single-digits, consistent with guidance for the year. Growth is expected in each of the 3 diagnostic segments.
- In Devices, Vascular sales are expected to grow in the low single-digits, Vision Care sales are expected to grow in the double-digits, and Diabetes Care sales are expected to decline in the high single-digits.
- Established Pharma sales are expected grow in the low single-digits on an operational basis, consistent with guidance for 2014.



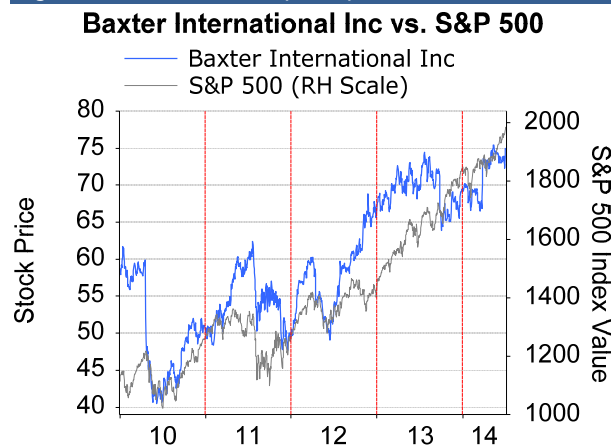
Baxter International (BAX-Hold)

Figure 68: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 70: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 69: Rating and Valuation Summary

Mkt cap (\$M):	\$41,140	DB Rating:	Hold	FY EPS Projections		PE Valuation	
Price 07/09/14:	\$75.82	DB Target Price:	\$74.00	DB	TR Cons	CY	Abs PE
52 Wk Range: \$62.80-\$76.05		implied % chg: -2%		2013A	\$4.86	NTM	14.8x
2013 Price Perf: 4.3%		Dividend Yield: 2.9%		2014E	\$5.16	2014E	14.7x
YTD 2014 Price Perf: 9.0%		Target PE (C15E): 14.1x		2015E	\$5.25	2015E	14.4x

EPS estimates exclude intangible amort

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

Baxter's stock has historically traded on the performance and prospects for its Bioscience division, particularly prospects for the antibody therapy (IVIG) and hemophilia businesses. We believe the potential new entrants into the recombinant markets is likely to be an overhang for the stock and presents a real risk to the growth profile of the company. We also believe there is near-term earnings risk associated with generic competition for cyclo and suprane. We believe the Street estimates are too high for 2015. We rate BAX a Hold.

Upcoming Potential Catalysts

- **Ongoing:** Updates on BAX 855 program, rFVIII competition updates
- **Mid-July:** Biogen's US launch of Eloctate
- **July 17:** BAX earnings release
- **July 31:** HyQvia FDA Advisory Panel and Grifol results
- **Aug 13:** CSL results
- **Sept 22:** FDA Hemophilia meeting
- **3Q14:** Top line data from BAX-855 (long-acting) trial
- **Late-2014:** FDA filing for BAX-855
- **Late 14/Early-2015:** Form 10 filings for the spin
- **Mid-2015:** Spin-off of Biopharmaceuticals business

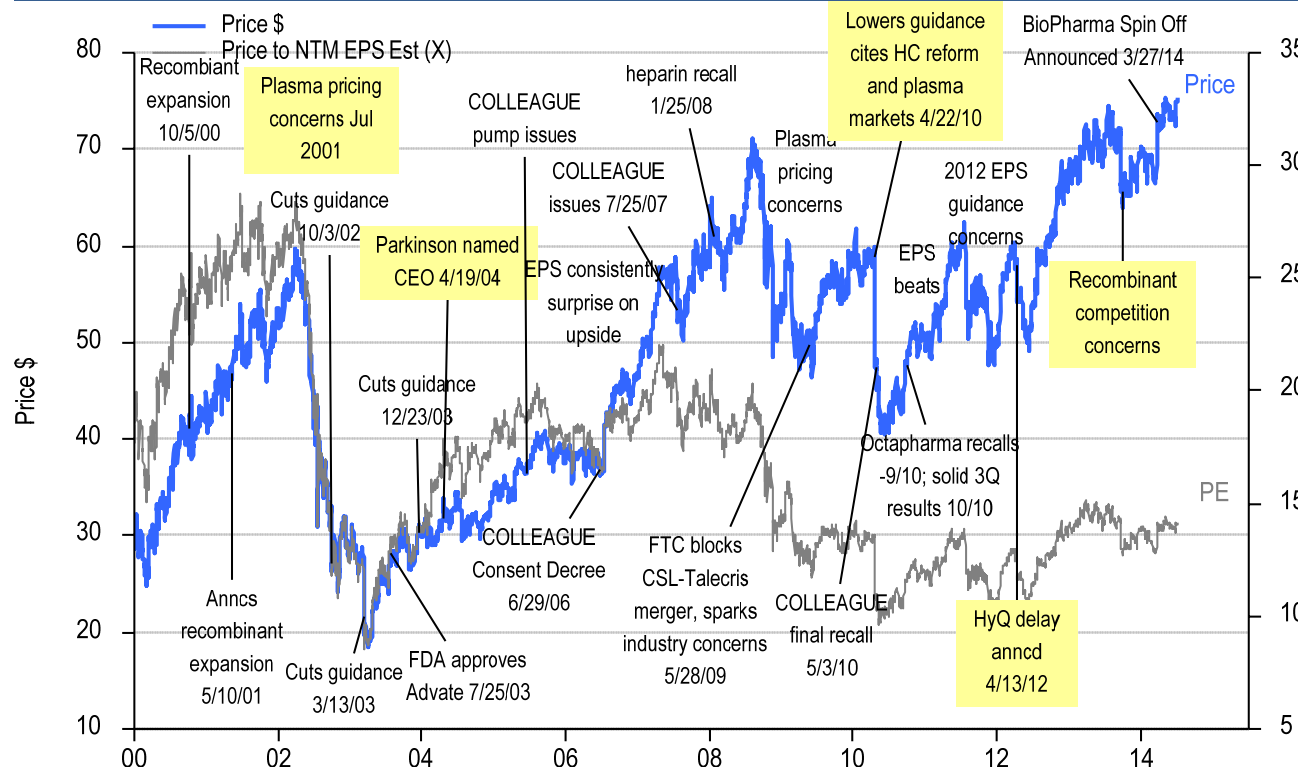
Valuation and Risks

Our price target applies a PE of 14x our cash 2015E EPS, which is in line with our coverage universe and we believe reflective of a peer sum-of-the-parts valuation when discounted taking into the greater risks with recombinant competition. Downside risks include competitor's success with long-acting recombinant Factor VIII products, pricing pressures in the blood plasma markets, IVIG or recombinant share losses, slower-than-expected new product launches, action/issues from the FDA, greater gross margin pressure, inability to manage costs and achieve Gambro synergies, and government austerity measures. Upside risks: delays or failures with competitor's long-acting recombinant programs, greater Gambro cost/tax synergies, and pipeline successes.



Historical Stock Performance

Figure 71: Stock Price Performance and Company News Events



Performance Commentary
 The plasma/IVIG market conditions have been a significant driver behind BAX share price performance. The fall in the 2002-03 period was a function initially of the downturn in plasma and IVIG pricing, though other matters also impacted the stock (like the equity forward contracts). The fall in the stock in April-May 2010 was a result of reduced guidance due to the plasma/IVIG market conditions and the impact of healthcare reform, along with the FDA's final recall and settlement regarding COLLEAGUE. Since then conditions in the plasma/IVIG markets have improved along with the market's view of these markets leading to an appreciation in the stock. High expectations for 3Q11 results and guidance prompted the stock to trade lower after results. Since the beginning of 2012 the stock generally recovered. The stock pulled back following the HyQ news in April 2012 but later recovered, trading higher on 3Q12/4Q12 earnings, long-term guidance, as well as the broader market. Shares sold off in early 2013 on the failed Ph. III Alzheimer's trial and again in late 2013 as concerns for the recombinant business and 2014 guidance intensified. After announcing its intention to split into two businesses in March 2014, shares appreciated to new highs.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
BAX	21.5%	-47.8%	9.0%	13.2%	9.0%	23.2%	25.1%	-7.7%	9.5%	-13.7%	-2.3%	34.7%	4.3%	9.0%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Baxter Product Portfolio Overview

Figure 72: Product overview

Product	% sales	Description	Competitive landscape
BIOSCIENCES			
Hemophilia	23%	In 2013, sales totaled \$3.4 billion. The Hemophilia franchise includes Recombinate (FDA approval 1996) and ADVATE (FDA approval July 2003). It also includes plasma-derived hemophilia (primarily FVIIa, FVIII, and FEIBA) products.	Main competitors include Bayer, CSL, and Pfizer (ReFacto/Xyntha). Several other companies are developing products including Novo Nordisk and Biogen.
BioTherapeutics	14%	In 2013, sales totaled \$2.1 billion. The BioTherapeutics business includes sales of Albumin, Alpha-1 antitrypsin, Immunoglobulins (IG) and plasma to 3 rd parties.	Baxter's main competitor in plasma includes CSL, and to a lesser extent Grifols and Octapharma.
Regenerative Medicine	5%	In 2013, sales totaled \$717 million. These are products used in surgery and include COSEAL, FLOSEAL, TISSEL, among others.	Competitors include J&J, Pfizer, and Stryker.
Vaccines	2%	In 2013, sales totaled \$292 million. Baxter's vaccines include FSME-IMMUN (tick-borne encephalitis) and NEISVAC-C (meningitis C). Baxter also is working on flu vaccines. Baxter announced that it was exploring strategic alternatives to this business in January 2014.	Baxter competes against several vaccine manufacturers including Novartis, Pfizer, GSK, Sanofi, and CSL.
MEDICAL PRODUCTS			
Renal	20%	In 2013, sales totaled \$3.1 billion. Baxter sells dialysis solutions and delivery systems. Additionally, Baxter distributes Gambro's hemodialysis (HD) products.	Competitors include Fresenius.
Fluid Systems	20%	In 2013, sales totaled \$3.1 billion. Fluid Systems franchise comprise of IV solutions, Infusion pumps administration sets as well as premixed and oncology drugs.	Main competitors in intravenous solutions include Hospira and B. Braun. Competitors in infusion pumps include CareFusion's Alaris business as well as Hospira.
Specialty Pharma	10%	In 2013, sales totaled \$1.5 billion. This franchise comprises of Nutritional and Anesthesia products. Baxter's anesthesia business includes sales of three inhalation anesthetic agents—SUPRANE, Sevoflurane, and FORANE.	Competitors include AbbVie, Fresenius Medical, and Hospira.
Biopharma Solutions	6%	In 2013, sales totaled \$992 million. Baxter's Biopharma Solutions comprises of Pharmacy Compound and Pharma Partnering services.	Competitors include Hospira, Bedford Labs, Fresenius, Sandoz, and Piramal Healthcare (contract manufacturing).

Source: Deutsche Bank, Company reports

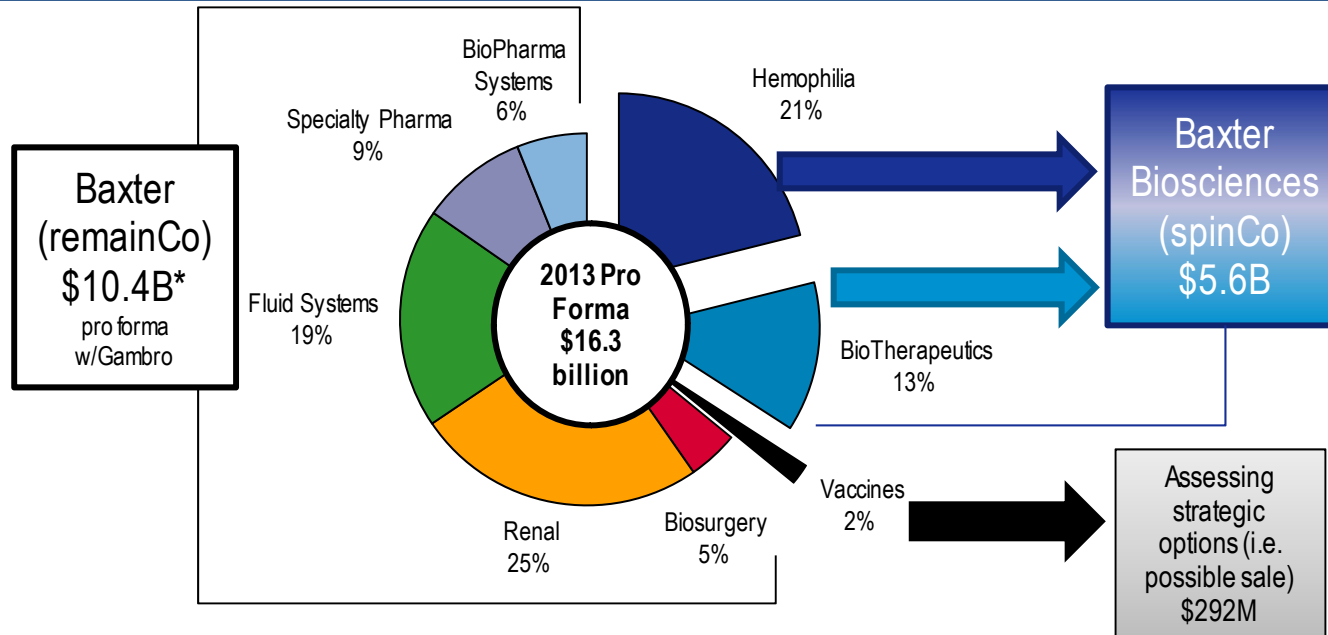


Baxter announces plans to split into two companies

On March 27, 2014, Baxter announced its intention to separate into two independent healthcare companies- a medical products business (\$9.4 billion in sales) and a biopharmaceuticals business (\$5.8 billion in sales). BAX shares have been trading at a discount to the rest of the MedTech and Biosciences sectors and this transaction is designed to unlock trapped value. We believe this split most closely resembles that of Abbott and AbbVie as ABT shares had been trading at a discount due to the overhang of Humira. In Baxter's case, the overhang is due to the pending competition for its Factor VIII business from Biogen and others.

Baxter intends to structure the transaction as a tax-free distribution to BAX shareholders of the biopharmaceuticals stock. The company expects the transaction to be completed by mid-2015 and other than one-time charges related to the transaction, does not see the spin off impacting 2014 financial guidance. Bob Parkinson, current Baxter CEO, will serve as CEO and chairman of new Baxter, or the medical products business. James Saccaro, former CFO of Hill-Rom Holdings will serve as CFO of new Baxter. Ludwig Hantson, who is currently President, Biosciences will serve as CEO and Robert Hombach, current CFO of Baxter, will serve as CFO of the new spin co, which will be named at a later date.

Figure 73: Product overview



Source: Deutsche Bank, Company reports



Baxter Sales and Profit Mix by Operating Division

As shown below, Baxter's Bioscience division has grown in importance representing a greater percentage of sales and profits. While margins in Medication Delivery and Renal have been fairly steady over the past 10 years, Bioscience profit margins have significantly increased since 2004, which we attribute to the more favorable mix and pricing environment, particularly within the antibody therapy (IVIG) franchise. We note, Baxter no longer breaks out Med Delivery and Renal separately.

Figure 74: Sales Mix By Division

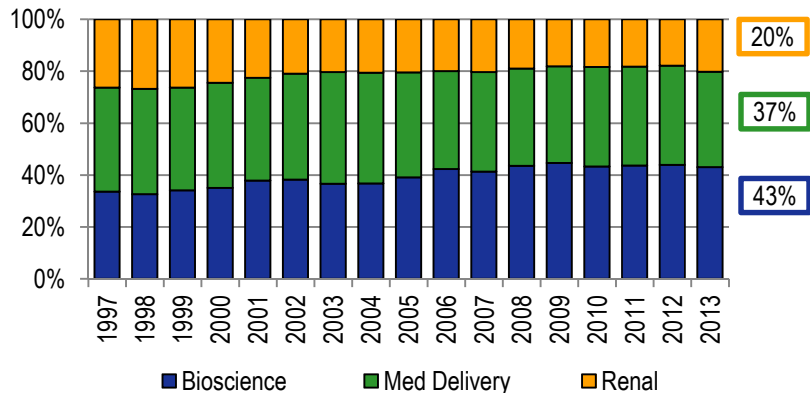
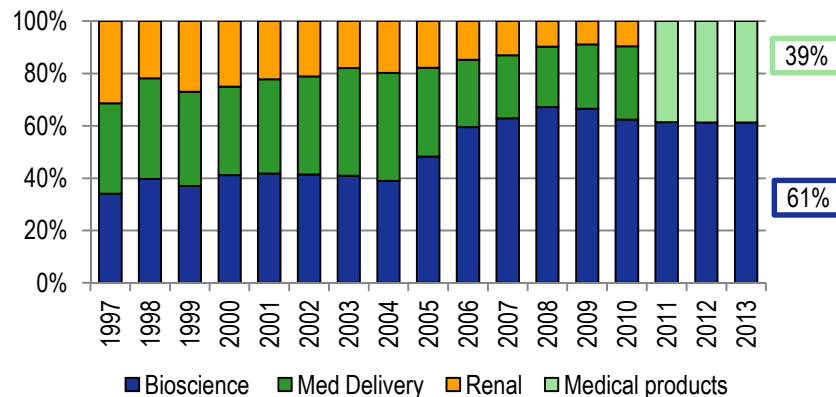


Figure 75: Pretax Income by Division



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 76: Pretax Income Margin

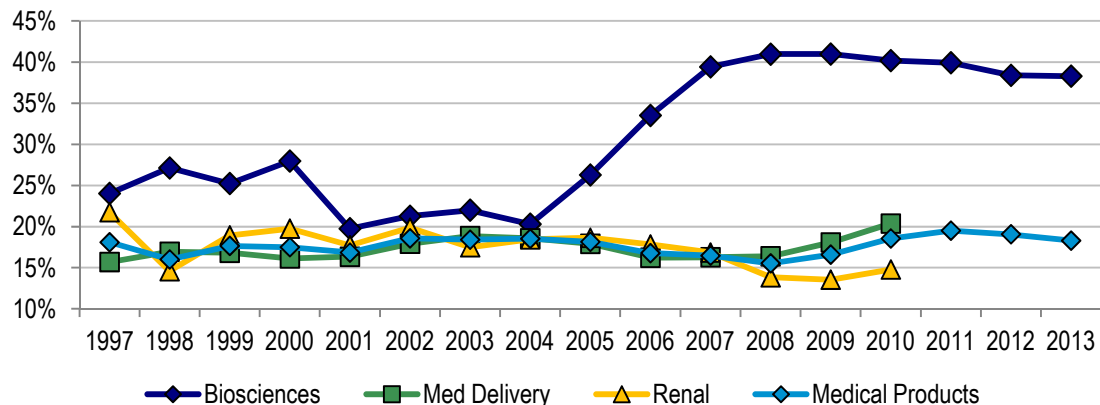
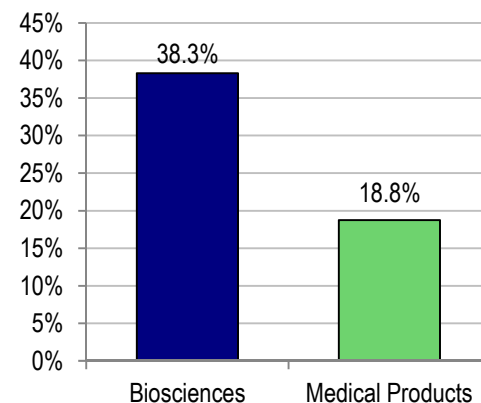


Figure 77: Pretax Income Margins, 2013



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports



Biosciences

Baxter's Bioscience business comprises four main product categories—Hemophilia, BioTherapeutics, Regenerative Medicine and Vaccines. In 2013, Biosciences accounted for 43% of Baxter total sales but 61% of total profits.

Figure 78: Sales and Pretax Profit, 2013

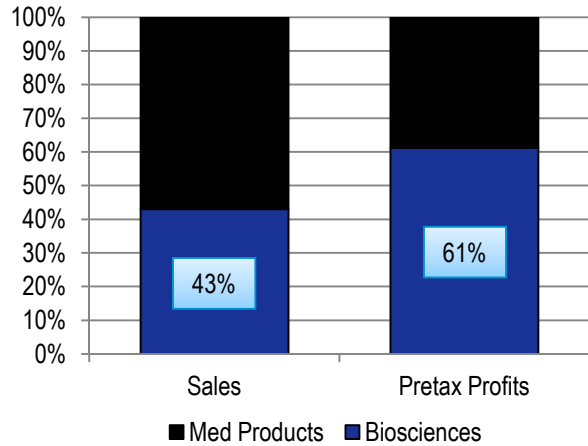
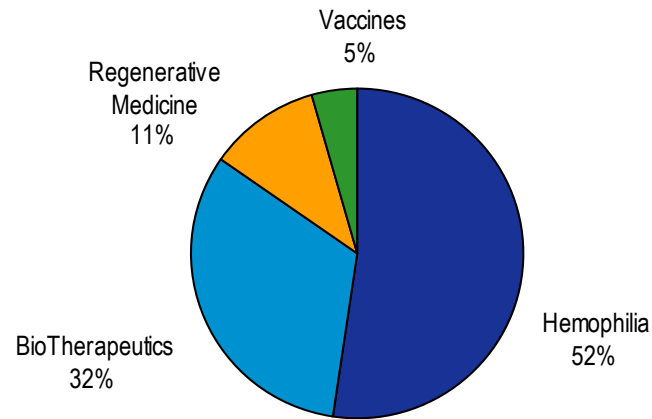


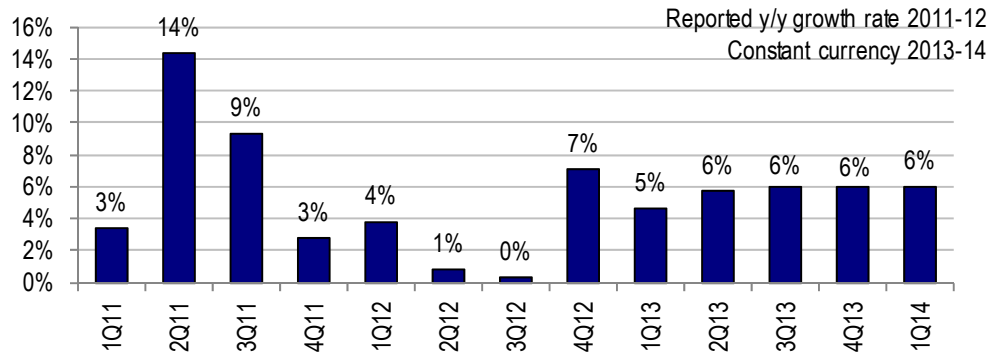
Figure 79: Biosciences Sales mix, 2013



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 80: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports



Bioscience: Product Sales Trends

Hemophilia

Figure 81: Sales mix

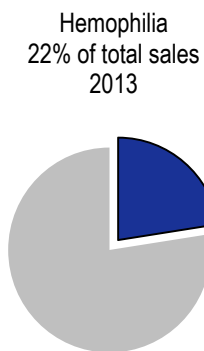
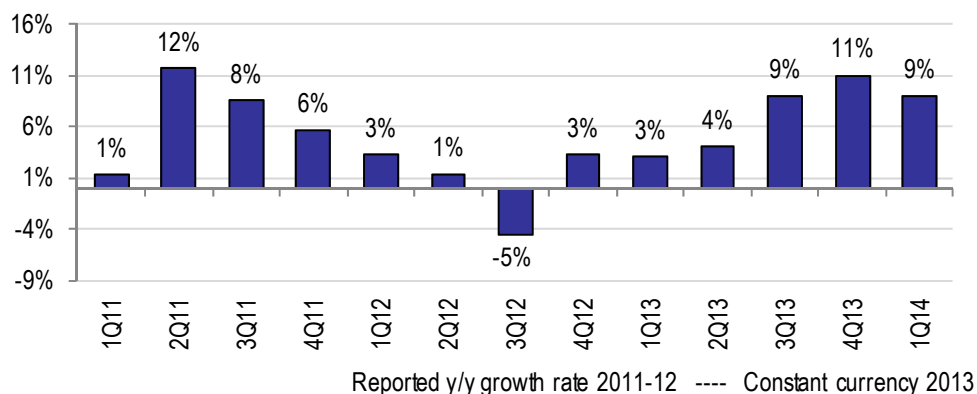


Figure 82: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

This category includes recombinant Factor VIII sales as well as plasma-derived factor VII, VIII (ADVATE and RECOMBINATE), and FEIBA sales.

BioTherapeutics

Figure 83: Sales mix

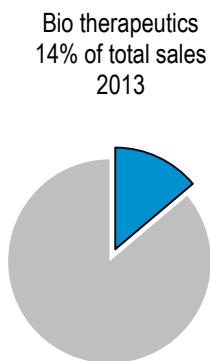
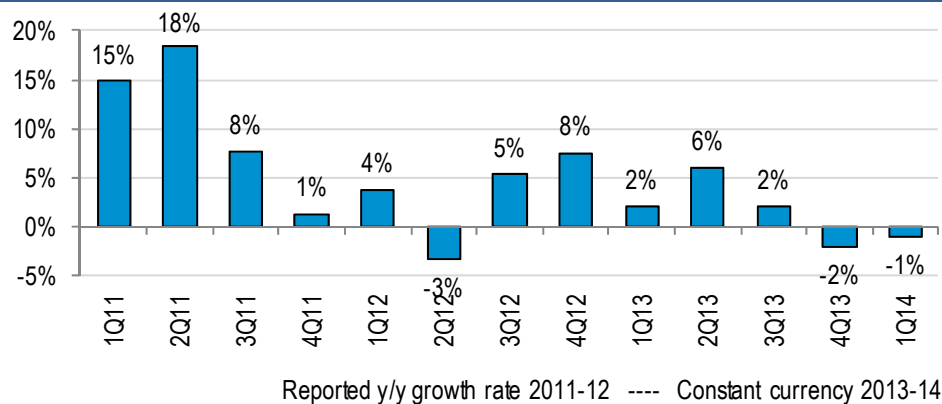


Figure 84: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

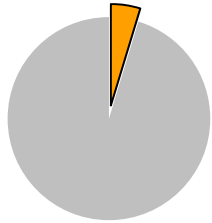
This includes sales of Baxter's antibody-replacement therapy immunoglobulin product (GAMMAGARD LIQUID) and other plasma products, such as Albumin and alpha-1 antitrypsin.



Biosurgery

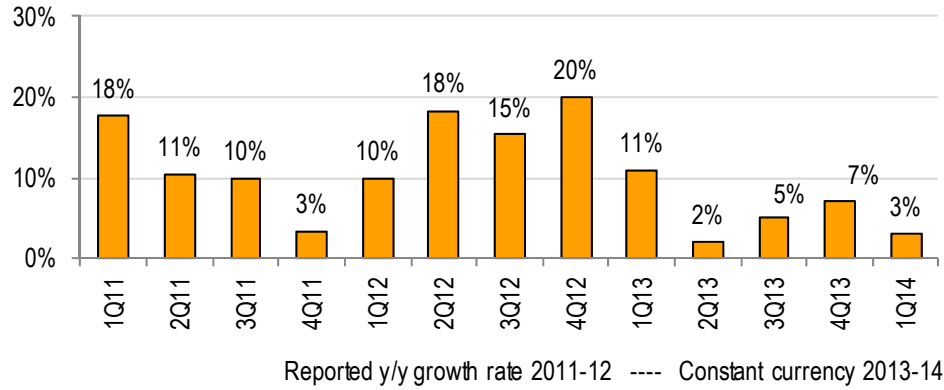
Figure 85: Sales mix

Regenerative Medicines
5% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 86: Year-over-Year Percent Change in Sales



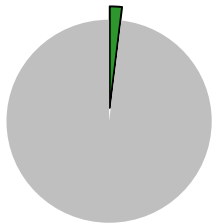
Source: Deutsche Bank, Company reports

Includes biological products and devices used for hemostasis, tissue sealing, adhesion reduction, and hard tissue regeneration. Also includes soft tissue repair and microsurgery products.

Vaccines

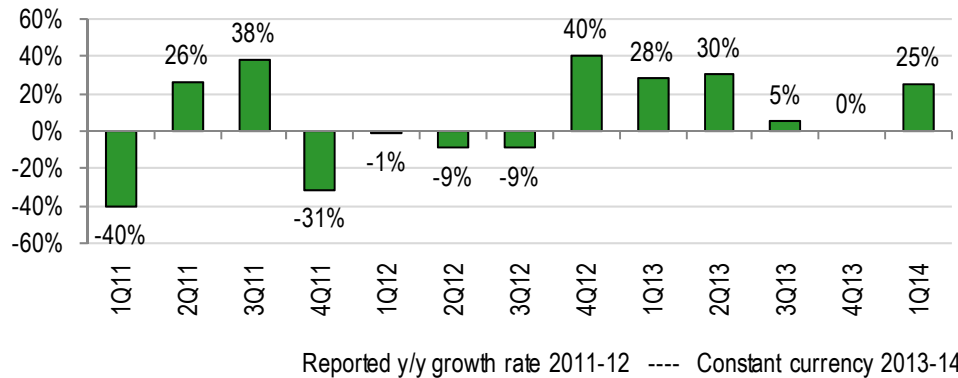
Figure 87: Sales mix

Vaccines
2% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 88: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports

Includes flu vaccines, as well as meningitis C and tick borne encephalitis.



Medical Products

Baxter's Medical Products business has four main business units—Renal, Fluid Systems, Specialty Pharma and Biopharma Solutions. In 2013, Baxter's Medical Product revenue accounted for 57% of total sales but just 39% of pre-tax profits.

Figure 89: Sales and Pretax Profit, 2013

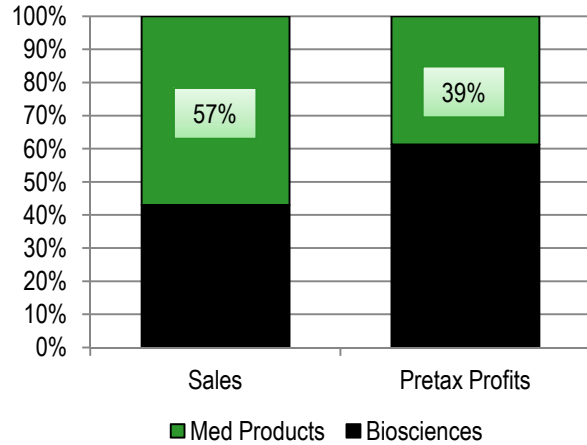
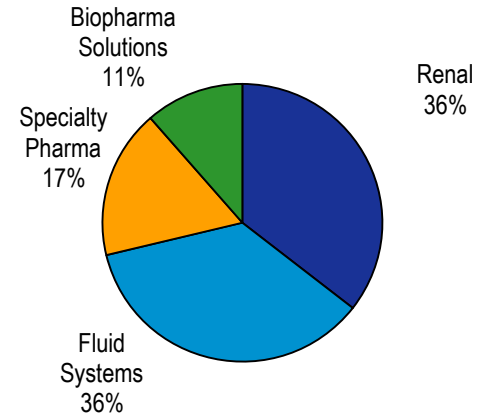


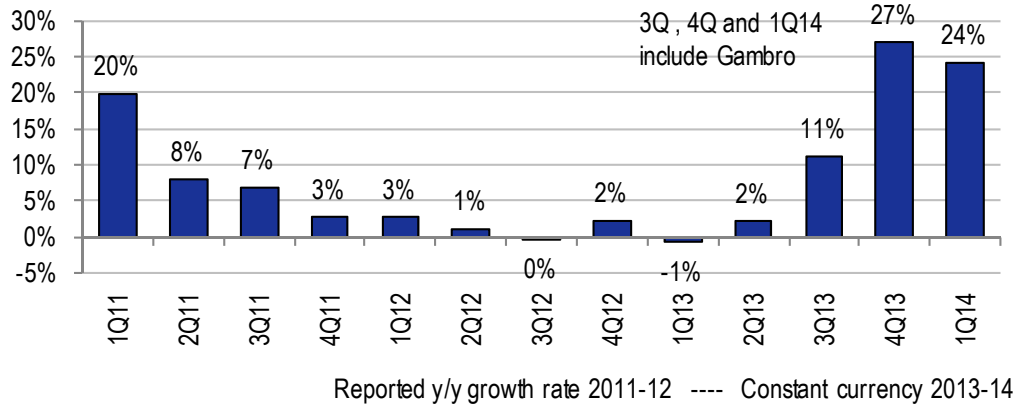
Figure 90: Medical Product Sales Mix, 2013



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 91: Year-over-Year Percent Change in Sales



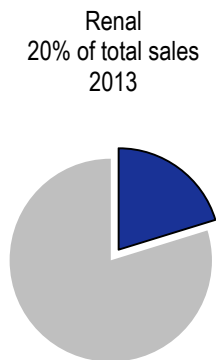
Source: Deutsche Bank, Company reports



Medical Products: Product Sales Trends

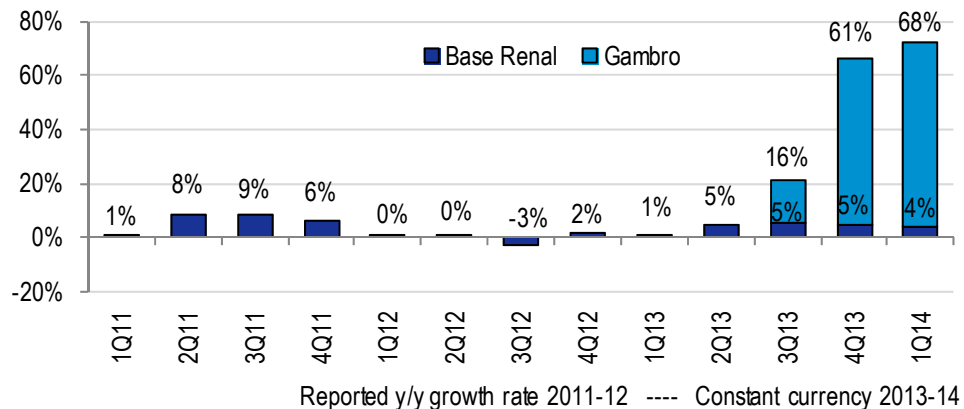
Renal

Figure 92: Sales mix



Source: Deutsche Bank, Company reports

Figure 93: Year-over-Year Percent Change in Sales

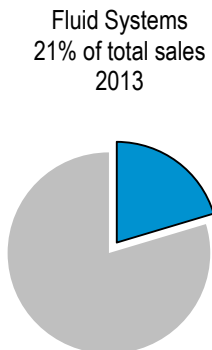


Source: Deutsche Bank, Company reports

Historically, Baxter's Renal sales primarily included peritoneal dialysis products. However, with the acquisition of Gambro, Baxter's business mix now includes both peritoneal dialysis and hemodialysis products, as well as HHD and CRRT products.

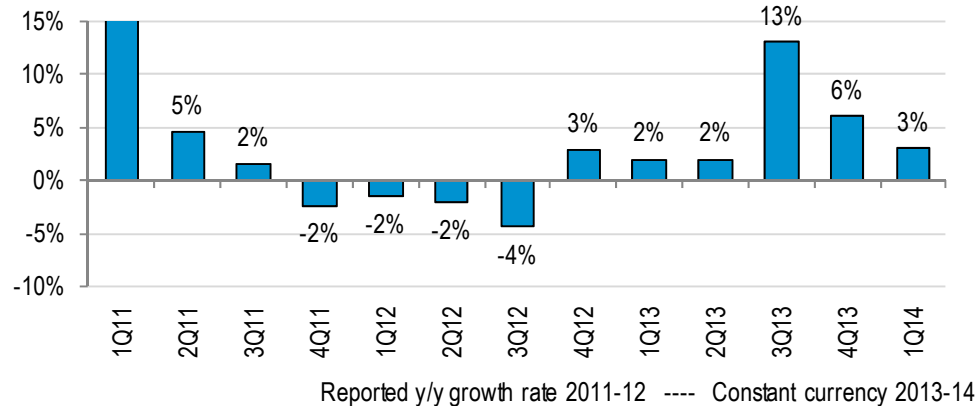
Fluid Systems

Figure 94: Sales mix



Source: Deutsche Bank, Company reports

Figure 95: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports

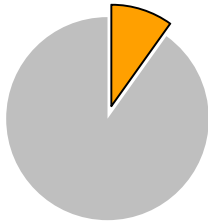
Baxter's Fluid systems sales include IV solutions, infusion pumps, administration sets and premixed and oncology drug platforms.



Specialty Pharma

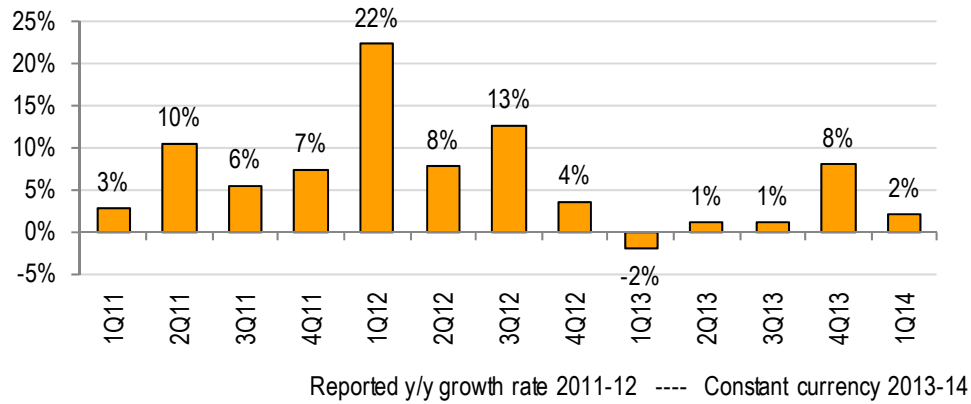
Figure 96: Sales mix

Specialty Pharma
10% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 97: Year-over-Year Percent Change in Sales



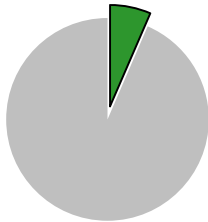
Source: Deutsche Bank, Company reports

Baxter's specialty pharma sales include nutrition and anesthesia products.

Biopharma Solutions

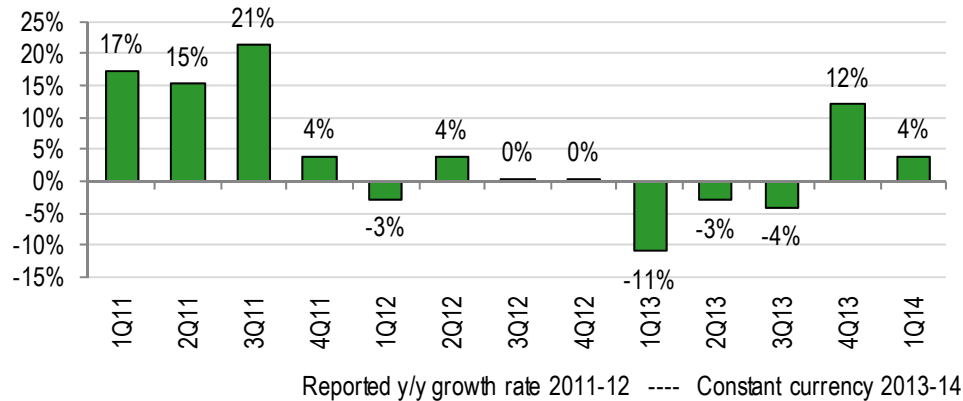
Figure 98: Sales mix

Biopharma Solutions
6% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 99: Year-over-Year Percent Change in Sales



Source: Deutsche Bank, Company reports

Biopharma solution sales includes pharmacy compound and pharma partnering.



Baxter's 1Q14 Results

Our Take on the Quarter

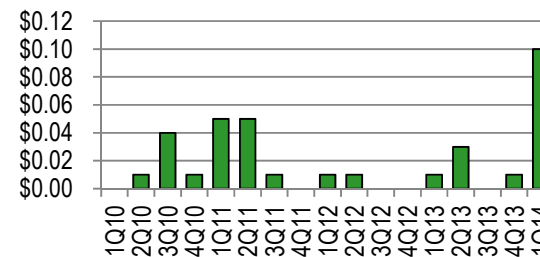
Baxter's 1Q14 sales of \$3,951M were ahead of Thomson Reuters of \$3,877M and our estimate of \$3,858M. Ex-FX and Gambro, sales were up 5%, ahead of guidance (+2%-3%). Bioscience sales of \$1.61B were ahead of both the SA estimate of \$1.54B & DBe of \$1.52B while Medical Products sales were right in line with SA and DB estimate of \$2.34B. The upside in sales was primarily driven by higher hemophilia, fluid systems, and vaccine sales, which we note are higher margin franchises helping to drive EPS above expectations along with a \$0.06 gain from the sale of equity investments. Cash EPS of \$1.19 was well above the Street \$1.09, DBe \$1.08, and guidance of \$1.06-\$1.09.

Figure 100: Quarter Variance

(\$ in mil except per share)	Actual		
	Actual	TR Consensus	DB Estimate
Sales	\$3,951M	\$3,877M	\$3,858M
EPS	\$1.19	\$1.09	\$1.08

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 101: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Strong sales performance across multiple product lines, most notably hemophilia (+9.0%) and vaccines (+25.0%).
- Baxter management affirmed that no inhibitors were seen in the BAX-855 trial.
- 1Q saw the benefit of tenders and timing of milestone payments.

Negatives

- Upside to earnings does not flow through as BAX reiterated FY guidance.

Quick P&L Recap

- Total sales** \$3,951M were up 14.6% on a reported basis and up 16.1% on a constant currency basis. US sales of \$1,660 million were up 12.0% and international sales of \$2,291 million were up 19.1% ex-FX. Excluding Gambro, sales were up 5% on a constant currency basis. Individual product sales performances are shown in the figure to the right.
- Gross margin** was 51.0%, down 70 bps y/y, reflecting margin expansion in the base Baxter business offset by the lower margin Gambro business as well as FX.
- SG&A expense** was 22.9% of sales, up 30 bps y/y primarily due to Gambro. Leverage from BAX's business optimization initiatives were partially offset by certain investments in promotional and marketing initiatives for new products and OUS markets.
- R&D expense** was 7.1% of sales; in-line y/y as Baxter continues to make investments in the pipeline, primarily including hemophilia, hematology, oncology, immunology, and investments in renal.
- Operating margin** of 21.0% was down 100 bps y/y primarily due to the impact of Gambro. Excluding Gambro, operating margin improved 80bps as a result of leverage in the BAX base business.
- Interest exp** was \$43M, up \$18M y/y, due to new debt issuances to fund the Covington manufacturing site and Gambro acquisition.
- Other income** was \$41M attributable to \$44M of pretax gains due to the sale of particular equity investments.
- Tax rate** was 21.4%; in line with Baxter's prior expectations.
- Share count** of 548M was down 0.5% y/y. During the quarter, BAX repurchased 3.7M shares for \$250M.
- EPS** of \$1.19; up 9.1% y/y and well above expectations and prior guidance of \$1.06-\$1.09. Adjusted results exclude approximately \$0.18 of special items.

Figure 102: Key Product Sales Trends

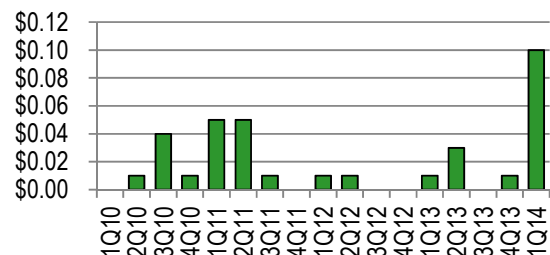
	Actual (\$ mil)	Y/Y % Chg	
		Rptd	Ex-FX
Biosciences	\$1,608	5%	6%
Hemophilia	\$827	8%	9%
BioTherapeutics	\$502	-1%	-1%
BioSurgery	\$176	3%	3%
Vaccines	\$103	25%	25%
Med Products	\$2,343	22%	24%
Fluid Systems	\$757	2%	3%
Renal	\$991	68%	72%
Spec Pharma	\$367	1%	2%
Biopharms Solutions	\$228	1%	4%
Total Sales	\$3,951	15%	16%

Source: Deutsche Bank, Company reports



Baxter 2Q14 Results Preview

Figure 103: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 106: DB versus Thomson Reuters Estimates

Revenues					
	2013A	2014E		2015E	
		DB est	TR Est	DB est	TR Est
1Q	\$3,448	\$3,951		\$3,930	\$4,010
2Q	\$3,669	\$4,103	\$4,118	\$4,093	\$4,164
3Q	\$3,774	\$4,157	\$4,109	\$4,181	\$4,222
4Q	\$4,368	\$4,402	\$4,426	\$4,481	\$4,499
FY	\$15,259	\$16,612	\$16,613	\$16,686	\$17,070

Guidance: (04/17/14)

2Q14: up 2-3% ex-FX and ex-Gambro. Up 12%-13% ex-FX

2014: up 2% ex-FX and ex-Gambro. Up 9%-10% ex-FX

Earnings Per Share

	2013A	2014E		2015E	
		DB est	TR Est	DB est	TR Est
1Q	\$1.09	\$1.19		\$1.16	\$1.24
2Q	\$1.20	\$1.21	\$1.22	\$1.25	\$1.32
3Q	\$1.24	\$1.32	\$1.32	\$1.34	\$1.38
4Q	\$1.33	\$1.44	\$1.43	\$1.50	\$1.50
FY	\$4.86	\$5.16	\$5.14	\$5.25	\$5.44

Guidance: (04/17/14)

2Q14: Cash EPS: \$1.18-\$1.22

2014: Cash EPS: \$5.05-\$5.25 (up 4%-8%)

Source: Deutsche Bank, Thomson Reuters

Figure 104: Earnings Release and Conference Call Information

Earnings Release Date: Thursday, July 17, 2014 before market open

Conf Call Date & Info: Thursday, July 17, 2014 at 8:30am
Dial In: +1 866 837 9782
<http://investor.baxter.com>

Source: Company reports, Thomson Reuters

Figure 105: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Chg	
		Rptd	Ex-FX
Biosciences	\$1,642	0%	1%
Hemophilia	\$864	2%	3%
BioTherapeutics	\$519	1%	1%
BioSurgery	\$191	8%	8%
Vaccines	\$68	-25%	-25%
Med Products	\$2,460	21%	22%
Fluid Systems	\$764	1%	1%
Renal	\$1,063	63%	66%
Spec Pharma	\$380	4%	4%
Biopharms Solutions	\$253	-1%	0%
Total Sales	\$4,103	12%	13%

What to focus on:

- Update on the spin-off
- 2014 guidance update: particularly around timing for generic competition for cyclo and Suprane
- Recombinant performance in the quarter
- Pipeline Opportunities
- BAX 855 (long acting Factor VIII) program update (listen for an update on inhibitors)
- Gambro contribution and updates on integration/cost savings

Source: Deutsche Bank



Our Take on the Outlook; 2014 Guidance

For 2014, Baxter estimates constant currency sales growth of approximately 9%-10%. On a reported basis, sales are expected to grow 8%-9%. Excluding Gambro, Baxter base sales should see growth of approximately 2% in constant currencies. Baxter anticipates 2014 Cash EPS in the range of \$5.05-\$5.25 (up 4%-8%) which excludes \$0.25 in amortization. There are a number of factors impacting Baxter's expectations for the year:

Negatives	Positives
<ul style="list-style-type: none"> ■ Government austerity measures: In 2014, management anticipates that it will face significant government austerity measures defined as mandatory price cuts. This impact is expected to weigh on EPS by approximately \$0.10. ■ Negative foreign exchange: Foreign exchange is expected to impact EPS by approximately \$0.15. ■ Generic competition of Cyclophosphamide: Baxter is likely to see generic competition emerge for its cancer drug cyclophosphamide in the 2014-15 horizon, though the timing and number of entrants is still somewhat uncertain. The business is now roughly \$400 million in size versus \$200 million at the time of the company's analyst day in late 2012, and the drug's margin profile is well above Baxter's corporate average. Baxter's assumptions are that at mid year it will have two competitors and it will lost about \$150-\$200M pretax (\$0.20-\$0.30 per share). ■ Hemophilia Competition: Novo Nordisk received European approval of N8 in November 2013 and Germany was the first country to launch the product in January 2014. With respect to the long-acting products, Biogen Idec is the furthest competitor along in development and expects to launch its rFVIIIFc hemophilia A candidate ELOCTATE in the US in July 2014. Octapharma (private) submitted a marketing authorization application to the EMA in May 2013 for its new recombinant FVIII product produced from a human cell line (Human cl-rhFVIII) and could receive European approval this year as well. ■ Generic Suprane: Baxter could see generic competition for this \$300M franchise (two-thirds of which is in the United States). Baxter expects a modest impact to 2014 but it could be more meaningful in 2015. 	<ul style="list-style-type: none"> ■ Benefit from Pension expense: Due to low and falling interest rates, greater incremental pension expense has been a headwind over the past several years. Baxter estimates that reduced pension expense should help EPS by about \$0.14 (or about 3%pts). ■ Business Optimization Initiatives: Baxter implemented two restructuring programs, one in 2012 and another in 2013. In total Baxter expects an incremental benefit of \$0.18 in 2014 (\$0.05 from the 2012 and \$0.13 from the 2013 programs). The business optimization initiatives include the removal of a number of positions as Baxter streamlines operations, manufacturing, and G&A functions. ■ Gambro Acquisition: The Gambro acquisition, completed in September 2013, is accretive to EPS by \$0.20-\$0.25 which is in line with original expectations. ■ Pipeline Opportunities: Baxter has made a number of investments in its pipeline and management expects it will launch five new products in 2014.

2Q14 Guidance

For 2Q14, Baxter expects sales growth of approximately 12%-13% on a constant currency basis. Excluding Gambro, Baxter base sales are projected to increase by approximately 2%. 2Q14 Cash EPS is projected to be \$1.18-\$1.22 excluding the impact of special items and intangible amortization.

In our view, 2015 looks challenging as well

We believe that 2015 growth is also likely to be challenging. Baxter will continue to see the impact of generic Cyclophosphamide with a more meaningful impact likely in 2015 versus 2014 from a generic Suprane. But even more important, Baxter is likely to face increased and intensified competition for its existing recombinant Factor VIII business (which we estimate represents about 15% of total sales and more as a percent of profits).



The Hemophilia market is becoming more crowded

- **Biogen:** Biogen is the furthest along in the long-acting hemophilia commercialization process. On June 6, 2014, the FDA approved ELOCTATE for Hemophilia A and the company expects to commercially launch the product in mid-July 2014. Pricing will be on par with existing therapies, which we believe could facilitate a fairly rapid conversion in our view. Earlier in the year, on March 28, 2014, the FDA approved Biogen’s ALPROLIX (a long-acting recombinant Factor IX), which is also priced in parity with existing therapies.
- **Baxter:** Baxter has a number of key products in its pipeline, including BAX-855, BAX-111, BAX-817, and OBI-1. **BAX-855** is a long-acting rFVIII product in Phase III clinical development. Baxter believes it will file in late 2014 with approval expected in 2015. **BAX-111** is a recombinant von Willebrand factor currently in Phase III clinical development. The drug has been granted orphan drug designation and Baxter estimates the market to be around \$300 million. **BAX-817** is a recombinant FVIIa product also in Phase III. Baxter anticipates it will seek approval for the drug in 2015 with a launch thereafter. Finally, **OBI-1** is a recombinant antihemophilic porcine sequence factor VIII that it acquired from Inspiration Biopharma in January 2013. The drug has been granted fast-track approval and orphan-drug status with approval anticipated in 2014 and a launch immediately after. Baxter also recently restructured its ongoing agreement with Xenetic Biosciences for the development of **BAX 826**, which uses Xenetic’s proprietary polysialic acid (PSA) technology.
- **Novo Nordisk:** received FDA approval for N8 (rFVIII) in October 2013 but has stated it will wait until April 2015 to launch the product due to outstanding patents. N8 received European approval in November 2013 and Germany was the first country to launch the product in January 2014. N8 was also recently approved in Japan. The company is planning to launch the product in a wide array of European countries and Japan over 2014. N8-GP, Novo’s longer acting glycopegylated Factor VIII product, recently announced positive results from its Phase III trial- Pathfinder 2. PK data showed a half-life extension (1.4x-1.5x) similar to other long-acting products, though one patient developed an inhibitor. During its most recent earnings call, Novo announced that it was pushing out its launch date for N8-GP by two to three years due primarily to capacity constraints.
- **OctaPharma:** is currently developing a recombinant human Factor VIII (rhFVII), which uses a human-cell line as opposed to an animal-cell line. The goal is to further minimize inhibitor development. Submitted MAA to the EMA in May 2013. OctaPharma is working towards an FDA submission in 2014.
- **Bayer:** In February 2014, Bayer announced positive results from the PROTECT VIII trial, which studied BAY94-9027, its long acting pegylated rFVIII molecule. The study met its primary endpoint and importantly, no inhibitors to therapy were found. The half-life extension is similar to other competing trial results at roughly 1.5x. Due to the manufacturing ramp-up, Bayer does not plan to file for approvals until 2H15 putting a potential launch in 2H16.
- **CSL:** CSL has several programs in the area of hemophilia: a long acting, rFIX-FP, long acting rFVIIa-FP, rFVIII-single chain and a long acting rWF-FP. The long-acting programs (“-FP”) use albumin fusion technology. CSL expects its rIX-FP dossier submission in early 2015 with a launch expected in 2016. CSL expects to commence its Phase II/III trial for rVIIa-FP in 2014; the launch is not expected until 2018. The rFVIII-SC trial enrollment is expected to be completed in early 2014 with a dossier submission planned in 2015 with a launch anticipated in 2016.
- **Green Cross:** Green Cross started the Phase III US trial for its GreenGene F (rFVIII) therapy in March 2013. Primary data is expected in 2015.



Figure 107: Baxter Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Biosciences																			
Hemophilia																			
US	\$1,165	\$1,185	\$310	\$328	\$346	\$336	\$1,320	\$332	\$346	\$350	\$382	\$1,410	\$341	\$356	\$354	\$367	\$1,418	\$1,323	
OUS	\$1,847	\$2,031	\$433	\$501	\$436	\$551	\$1,921	\$433	\$503	\$501	\$590	\$2,027	\$486	\$508	\$531	\$608	\$2,133	\$2,132	
WW	\$3,012	\$3,216	\$743	\$829	\$782	\$887	\$3,241	\$765	\$849	\$851	\$972	\$3,437	\$827	\$864	\$885	\$974	\$3,550	\$3,454	
Y/Y % change																			
US		1.7%	10.7%	12.3%	13.8%	8.7%	11.4%	7.1%	5.5%	1.2%	13.7%	6.8%	2.7%	3.0%	1.0%	-4.0%	0.5%	-6.7%	
OUS		10.0%	-1.6%	-4.8%	-15.3%	0.2%	-5.4%	0.0%	0.4%	14.9%	7.1%	5.5%	12.2%	1.0%	6.0%	3.0%	5.2%	-0.1%	
WW		6.8%	3.2%	1.3%	-4.5%	3.3%	0.8%	3.0%	2.4%	8.8%	9.6%	6.0%	8.1%	1.8%	3.9%	0.2%	3.3%	-2.7%	
OUS ex-FX								0.1%	3.0%	15.2%	9.4%	7.1%	13.8%	3.0%	7.0%	4.0%	6.6%	-0.1%	
WW ex-FX							4.0%	3.0%	4.0%	9.0%	11.0%	7.0%	9.0%	3.0%	4.5%	0.9%	4.1%	-2.7%	
BioTherapeutics																			
US	\$1,146	\$1,299	\$328	\$318	\$347	\$374	\$1,367	\$342	\$335	\$374	\$400	\$1,451	\$365	\$357	\$404	\$436	\$1,562	\$1,711	
OUS	\$674	\$703	\$170	\$166	\$169	\$197	\$702	\$167	\$178	\$158	\$164	\$667	\$137	\$162	\$164	\$175	\$639	\$683	
WW	\$1,820	\$2,002	\$498	\$484	\$516	\$571	\$2,069	\$509	\$513	\$532	\$564	\$2,118	\$502	\$519	\$568	\$611	\$2,200	\$2,394	
Y/Y % change																			
US		13.4%	1.5%	0.6%	9.5%	9.0%	5.2%	4.3%	5.3%	7.8%	7.0%	6.1%	6.7%	6.5%	8.0%	9.0%	7.6%	9.5%	
OUS		4.3%	8.3%	-10.3%	-2.3%	4.8%	-0.1%	-1.8%	7.2%	-6.5%	-16.8%	-5.0%	-18.0%	-9.0%	4.0%	7.0%	-4.2%	7.0%	
WW		10.0%	3.8%	-3.4%	5.3%	7.5%	3.3%	2.2%	6.0%	3.1%	-1.2%	2.4%	-1.4%	1.1%	6.8%	8.4%	3.9%	8.8%	
OUS ex-FX								-2.4%	7.3%	-9.9%	-19.0%	-6.1%	-16.8%	-9.0%	4.0%	7.0%	-3.9%	7.0%	
WW ex-FX							4.0%	2.0%	6.0%	2.0%	-2.0%	2.0%	-1.0%	1.1%	6.8%	8.4%	4.0%	8.8%	
BioSurgery																			
US	\$300	\$315	\$87	\$101	\$97	\$102	\$387	\$99	\$101	\$100	\$109	\$409	\$99	\$109	\$106	\$116	\$430	\$453	
OUS	\$227	\$265	\$67	\$73	\$68	\$78	\$286	\$73	\$77	\$73	\$85	\$308	\$77	\$82	\$78	\$91	\$328	\$348	
WW	\$527	\$580	\$154	\$174	\$165	\$180	\$673	\$172	\$178	\$173	\$194	\$717	\$176	\$191	\$184	\$206	\$758	\$801	
Y/Y % change																			
US		5.0%	11.5%	29.5%	24.4%	25.9%	22.9%	13.8%	0.0%	3.1%	6.9%	5.7%	3.0%	8.0%	6.0%	6.0%	5.0%	5.5%	
OUS		16.7%	8.1%	5.8%	4.6%	13.0%	7.9%	9.0%	5.5%	7.4%	9.0%	7.7%	5.5%	7.0%	7.0%	7.0%	6.6%	6.0%	
WW		10.1%	10.0%	18.4%	15.4%	20.0%	16.0%	11.7%	2.3%	4.8%	7.8%	6.5%	2.3%	7.6%	6.4%	6.4%	5.7%	5.7%	
OUS ex-FX								7.4%	4.8%	7.7%	7.2%	6.4%	7.1%	7.0%	7.0%	7.0%	7.0%	6.0%	
WW ex-FX							19.0%	11.0%	2.0%	5.0%	7.0%	6.0%	3.0%	7.6%	6.4%	6.4%	5.9%	5.7%	

Source: Deutsche Bank, Company reports



Figure 107 (cont'd): Baxter Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Vaccines																			
US	\$4	\$6	\$0	\$0	\$0	\$13	\$13	\$0	\$0	\$7	\$0	\$7	\$19	\$0	\$0	\$0	\$19	\$19	
OUS	<u>\$277</u>	<u>\$249</u>	<u>\$67</u>	<u>\$79</u>	<u>\$59</u>	<u>\$36</u>	<u>\$241</u>	<u>\$84</u>	<u>\$98</u>	<u>\$57</u>	<u>\$46</u>	<u>\$285</u>	<u>\$84</u>	<u>\$68</u>	<u>\$56</u>	<u>\$46</u>	<u>\$254</u>	<u>\$241</u>	
WW	<u>\$281</u>	<u>\$255</u>	<u>\$67</u>	<u>\$79</u>	<u>\$59</u>	<u>\$49</u>	<u>\$254</u>	<u>\$84</u>	<u>\$98</u>	<u>\$64</u>	<u>\$46</u>	<u>\$292</u>	<u>\$103</u>	<u>\$68</u>	<u>\$56</u>	<u>\$46</u>	<u>\$273</u>	<u>\$260</u>	
Y/Y % change																			
US												-46.2%		0.0%	0.0%	0.0%	171.4%		
OUS		-10.1%	3.1%	-8.1%	-9.2%	9.1%	-3.2%	25.4%	24.1%	-3.4%	27.8%	18.3%	0.0%	-31.0%	-1.0%	0.0%	-10.9%	-5.0%	
WW		-9.3%	-1.5%	-9.2%	-9.2%	40.0%	-0.4%	25.4%	24.1%	8.5%	-6.1%	15.0%	22.6%	-31.0%	-11.8%	0.0%	-6.5%	-4.7%	
OUS ex-FX								28.0%	30.0%	-6.9%	36.1%	21.5%	2.4%	-25.0%	0.0%	0.0%	-7.9%	-5.0%	
WW ex-FX								28.0%	30.0%	5.0%	0.0%	18.0%	25.0%	-25.0%	-10.9%	0.0%	-3.6%	-4.7%	
Total BioScience																			
US	\$2,615	\$2,805	\$725	\$747	\$790	\$825	\$3,087	\$773	\$782	\$831	\$891	\$3,277	\$824	\$822	\$863	\$918	\$3,428	\$3,505	
OUS	<u>\$3,025</u>	<u>\$3,248</u>	<u>\$737</u>	<u>\$819</u>	<u>\$732</u>	<u>\$862</u>	<u>\$3,150</u>	<u>\$757</u>	<u>\$856</u>	<u>\$789</u>	<u>\$885</u>	<u>\$3,287</u>	<u>\$784</u>	<u>\$820</u>	<u>\$830</u>	<u>\$920</u>	<u>\$3,354</u>	<u>\$3,405</u>	
WW	<u>\$5,640</u>	<u>\$6,053</u>	<u>\$1,462</u>	<u>\$1,566</u>	<u>\$1,522</u>	<u>\$1,687</u>	<u>\$6,237</u>	<u>\$1,530</u>	<u>\$1,638</u>	<u>\$1,620</u>	<u>\$1,776</u>	<u>\$6,564</u>	<u>\$1,608</u>	<u>\$1,642</u>	<u>\$1,693</u>	<u>\$1,838</u>	<u>\$6,782</u>	<u>\$6,910</u>	
Y/Y % change																			
US		7.3%	6.0%	8.7%	13.0%	12.2%	10.1%	6.6%	4.7%	5.2%	8.0%	6.2%	6.6%	5.1%	3.9%	3.1%	4.6%	2.3%	
OUS		7.4%	1.8%	-5.4%	-10.5%	2.6%	-3.0%	2.7%	4.5%	7.8%	2.7%	4.3%	3.6%	-4.2%	5.2%	4.0%	2.0%	1.5%	
WW		7.3%	3.8%	0.8%	0.3%	7.1%	3.0%	4.7%	4.6%	6.4%	5.3%	5.2%	5.1%	0.3%	4.5%	3.5%	3.3%	1.9%	
OUS ex-FX								2.7%	6.6%	7.0%	4.0%	5.0%	5.1%	-2.3%	5.9%	4.6%	3.2%	1.5%	
WW ex-FX							6.0%	4.6%	5.7%	6.0%	6.0%	6.0%	6.0%	1.2%	4.9%	3.8%	3.9%	1.9%	



Figure 107 (cont'd): Baxter Earnings Model (\$ in millions, except per share data)																		
	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Medical Products																		
Fluid Systems																		
US	\$1,275	\$1,474	\$374	\$380	\$354	\$380	\$1,488	\$385	\$390	\$427	\$435	\$1,637	\$410	\$394	\$384	\$352	\$1,540	\$1,286
OUS	\$1,410	\$1,499	\$346	\$360	\$348	\$395	\$1,449	\$355	\$365	\$365	\$385	\$1,470	\$347	\$369	\$369	\$389	\$1,474	\$1,511
WW	\$2,685	\$2,973	\$720	\$740	\$702	\$775	\$2,937	\$740	\$755	\$792	\$820	\$3,107	\$757	\$764	\$752	\$741	\$3,014	\$2,797
Y/Y % change																		
US		15.6%	-1.3%	3.5%	-1.1%	2.7%	0.9%	2.9%	2.6%	20.6%	14.5%	10.0%	6.5%	1.1%	-10.1%	-19.1%	-5.9%	-16.5%
OUS		6.3%	-1.7%	-7.2%	-7.4%	3.1%	-3.3%	2.6%	1.4%	4.9%	-2.5%	1.4%	-2.3%	1.2%	1.0%	1.0%	0.3%	2.5%
WW		10.7%	-1.5%	-2.0%	-4.4%	2.9%	-1.2%	2.8%	2.0%	12.8%	5.8%	5.8%	2.3%	1.1%	-5.0%	-9.7%	-3.0%	-7.2%
OUS ex-FX								1.0%	1.3%	5.2%	-2.2%	1.9%	-0.8%	1.5%	1.0%	1.0%	0.7%	2.5%
WW ex-FX							0.0%	2.0%	2.0%	13.0%	6.0%	6.0%	3.0%	1.3%	-5.0%	-9.7%	-2.8%	-7.2%
Renal																		
US	\$393	\$385	\$97	\$98	\$100	\$109	\$404	\$98	\$101	\$130	\$178	\$507	\$180	\$166	\$182	\$185	\$713	\$745
OUS	\$1,996	\$2,145	\$491	\$537	\$529	\$566	\$2,123	\$492	\$553	\$616	\$921	\$2,582	\$811	\$897	\$892	\$958	\$3,558	\$3,718
WW	\$2,389	\$2,530	\$588	\$635	\$629	\$675	\$2,527	\$590	\$654	\$746	\$1,099	\$3,089	\$991	\$1,063	\$1,074	\$1,143	\$4,271	\$4,463
Incremental Gambro										\$100	\$413	\$513	\$400	\$405	\$310	\$0	\$1,115	
Base Renal \$										\$646	\$686	2576	\$591	\$658	\$764			
Y/Y % change																		
US		-2.0%	1.0%	1.0%	4.2%	13.5%	4.9%	1.0%	3.1%	30.0%	63.3%	25.5%	83.7%	64.1%	39.8%	4.0%	40.6%	4.5%
OUS		7.5%	0.0%	0.2%	-3.8%	-0.4%	-1.0%	0.2%	3.0%	16.4%	62.7%	21.6%	64.8%	62.3%	44.8%	4.0%	37.8%	4.5%
WW		5.9%	0.2%	0.3%	-2.6%	1.7%	-0.1%	0.3%	3.0%	18.6%	62.8%	22.2%	68.0%	62.5%	43.9%	4.0%	38.2%	4.5%
OUS ex-FX								1.0%	5.4%	19.3%	66.5%	23.7%	69.7%	66.3%	46.8%	4.0%	40.1%	4.5%
WW ex-FX								1.0%	5.0%	21.0%	66.0%	24.0%	72.0%	65.9%	45.6%	4.0%	40.1%	4.5%
WW ex-Gambro							2.0%			5.1%	4.8%	1.9%	4.2%	4.0%	4.0%	4.0%	2.2%	
Specialty Pharmaceuticals																		
US	\$566	\$588	\$172	\$161	\$169	\$171	\$673	\$160	\$163	\$159	\$176	\$658	\$162	\$166	\$169	\$183	\$680	\$618
OUS	\$680	\$740	\$196	\$203	\$198	\$205	\$802	\$203	\$203	\$213	\$231	\$850	\$205	\$214	\$222	\$238	\$878	\$878
WW	\$1,246	\$1,328	\$368	\$364	\$367	\$376	\$1,475	\$363	\$366	\$372	\$407	\$1,508	\$367	\$380	\$390	\$421	\$1,558	\$1,497
Y/Y % change																		
US		3.9%	32.3%	8.1%	22.5%	0.0%	14.5%	-7.0%	1.2%	-5.9%	2.9%	-2.2%	1.3%	2.0%	6.0%	4.0%	3.3%	-9.0%
OUS		8.8%	14.6%	7.4%	5.3%	6.8%	8.4%	3.6%	0.0%	7.6%	12.7%	6.0%	1.0%	5.4%	4.0%	3.0%	3.3%	0.0%
WW		6.6%	22.3%	7.7%	12.6%	3.6%	11.1%	-1.4%	0.5%	1.4%	8.2%	2.2%	1.1%	3.9%	4.9%	3.4%	3.3%	-3.9%
OUS ex-FX								2.4%	0.8%	6.9%	12.2%	5.5%	2.6%	5.0%	4.0%	3.0%	3.6%	0.0%
WW ex-FX							14.0%	-2.0%	1.0%	1.0%	8.0%	2.0%	2.0%	3.7%	4.9%	3.4%	3.5%	-3.9%

Source: Deutsche Bank, Company reports



Figure 107 (cont'd): Baxter Earnings Model (\$ in millions, except per share data)																		
	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
BioPharma Solutions																		
US	\$415	\$457	\$100	\$117	\$100	\$87	\$404	\$66	\$110	\$95	\$101	\$372	\$84	\$113	\$97	\$96	\$390	\$398
OUS	\$468	\$552	\$150	\$150	\$157	\$153	\$610	\$159	\$146	\$149	\$166	\$620	\$144	\$140	\$150	\$163	\$597	\$621
WW	\$883	\$1,009	\$250	\$267	\$257	\$240	\$1,014	\$225	\$256	\$244	\$267	\$992	\$228	\$253	\$247	\$259	\$987	\$1,019
Y/Y % change																		
US		10.1%	-24.8%	-0.8%	-10.7%	-7.4%	-11.6%	-34.0%	-6.0%	-5.0%	16.1%	-7.9%	27.3%	3.0%	2.0%	-5.0%	3.0%	2.0%
OUS		17.9%	21.0%	7.9%	9.0%	5.5%	10.5%	6.0%	-2.7%	-5.1%	8.5%	1.6%	-9.4%	-4.0%	1.0%	-2.0%	-3.7%	4.0%
WW		14.3%	-2.7%	3.9%	0.4%	0.4%	0.5%	-10.0%	-4.1%	-5.1%	11.3%	-2.2%	1.3%	-1.0%	1.4%	-3.1%	-0.5%	3.2%
OUS ex-FX								4.3%	-0.7%	-3.4%	9.7%	1.9%	-5.7%	-3.0%	2.0%	-2.0%	-2.2%	4.0%
WW ex-FX							2.0%	-11.0%	-3.0%	-4.0%	12.0%	-2.0%	4.0%	-0.4%	2.0%	-3.1%	0.4%	3.2%
Total Medical Products																		
US	\$2,649	\$2,904	\$743	\$756	\$723	\$747	\$2,969	\$709	\$764	\$811	\$890	\$3,174	\$836	\$840	\$831	\$816	\$3,322	\$3,047
OUS	\$4,554	\$4,936	\$1,183	\$1,250	\$1,232	\$1,319	\$4,984	\$1,209	\$1,267	\$1,343	\$1,703	\$5,522	\$1,507	\$1,621	\$1,632	\$1,747	\$6,508	\$6,729
WW	\$7,203	\$7,840	\$1,926	\$2,006	\$1,955	\$2,066	\$7,953	\$1,918	\$2,031	\$2,154	\$2,593	\$8,696	\$2,343	\$2,460	\$2,463	\$2,563	\$9,830	\$9,776
Y/Y % change																		
US		9.6%	0.7%	3.4%	2.7%	2.2%	2.2%	-4.6%	1.1%	12.2%	19.1%	6.9%	17.9%	9.9%	2.5%	-8.3%	4.7%	-8.3%
OUS		8.4%	4.0%	-0.2%	-2.1%	2.4%	1.0%	2.2%	1.4%	9.0%	29.1%	10.8%	24.6%	27.9%	21.6%	2.6%	17.8%	3.4%
WW		8.8%	2.7%	1.2%	-0.4%	2.3%	1.4%	-0.4%	1.2%	10.2%	25.5%	9.3%	22.2%	21.1%	14.4%	-1.2%	13.0%	-0.6%
OUS ex-FX								1.6%	2.7%	10.4%	31.0%	12.0%	27.8%	29.8%	22.6%	2.6%	19.2%	3.4%
WW ex-FX							4.0%	-0.8%	2.1%	11.1%	27.0%	10.0%	24.2%	22.3%	15.0%	-1.2%	13.9%	-0.6%
Total Company revenues																		
Biosciences	\$5,640	\$6,053	\$1,462	\$1,566	\$1,522	\$1,687	\$6,237	\$1,530	\$1,638	\$1,620	\$1,776	\$6,564	\$1,608	\$1,642	\$1,693	\$1,838	\$6,782	\$6,910
Medical Products	\$7,203	\$7,840	\$1,926	\$2,006	\$1,955	\$2,066	\$7,953	\$1,918	\$2,031	\$2,154	\$2,593	\$8,696	\$2,343	\$2,460	\$2,463	\$2,563	\$9,830	\$9,776
Total revenues	\$12,843	\$13,893	\$3,388	\$3,572	\$3,477	\$3,753	\$14,190	\$3,448	\$3,669	\$3,774	\$4,369	\$15,260	\$3,951	\$4,103	\$4,157	\$4,402	\$16,612	\$16,686
Y/Y % change																		
US		8.5%	3.2%	6.0%	7.8%	7.2%	6.1%	1.0%	2.9%	8.5%	13.3%	6.5%	12.0%	7.5%	3.2%	-2.6%	4.6%	-2.9%
OUS		8.0%	3.1%	-2.3%	-5.4%	2.5%	-0.6%	2.4%	2.6%	8.6%	18.7%	8.3%	16.5%	15.0%	15.5%	3.1%	11.9%	2.8%
WW		8.2%	3.2%	1.0%	-0.1%	4.4%	2.1%	1.8%	2.7%	8.5%	16.4%	7.5%	14.6%	11.8%	10.1%	0.7%	8.9%	0.4%
Y/Y % change Ex-FX																		
OUS								2.1%	4.3%	9.1%	20.0%	9.0%	19.1%	16.8%	16.4%	3.3%	13.3%	2.8%
WW							4.0%	1.6%	3.7%	8.9%	17.0%	8.0%	16.1%	12.9%	10.7%	0.9%	9.6%	0.4%
WW ex-Gambro										6.0%	6.0%	3.9%	4.5%	1.9%	2.4%		1.6%	
WW FX Impact								0.2%	-1.0%	-0.3%	-0.6%	-0.5%	-1.5%	-1.1%	-0.5%	-0.1%	-0.8%	

Source: Deutsche Bank, Company reports

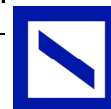
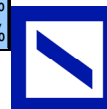


Figure 107 (cont'd): Baxter Earnings Model (\$ in millions, except per share data)

	2010	2011	Pro Forma on a Cash EPS basis				Cash 2012	Pro Forma on a Cash EPS basis				Cash 2013	Pro Forma on a Cash EPS basis				Cash 2014E	Cash 2015E
			1Q12	2Q12	3Q12	4Q12		1Q13	2Q13	3Q13	4Q13		1Q14	2Q14E	3Q14E	4Q14E		
Total Sales	\$13,056	\$13,893	\$3,388	\$3,572	\$3,477	\$3,753	\$14,190	\$3,448	\$3,669	\$3,774	\$4,368	\$15,259	\$3,951	\$4,103	\$4,157	\$4,402	\$16,612	\$16,686
COGS Reported	\$6,378	\$6,752	\$1,668	\$1,723	\$1,667	\$1,786	\$6,844	\$1,691	\$1,750	\$1,813	\$2,205	\$7,459	\$1,990	\$1,970	\$2,000	\$2,125	\$8,085	\$8,089
Amortization		\$81	\$24	\$26	\$26	\$25	\$101	\$25	\$25	\$34	\$46	\$130	\$43	\$43	\$43	\$43	\$172	\$172
Adjusted COGS		\$6,671	\$1,644	\$1,697	\$1,641	\$1,761	\$6,743	\$1,666	\$1,725	\$1,779	\$2,159	\$7,329	\$1,935	\$2,013	\$2,043	\$2,168	\$8,159	\$8,261
Gross Profits	\$6,678	\$7,222	\$1,744	\$1,875	\$1,836	\$1,992	\$7,447	\$1,782	\$1,944	\$1,995	\$2,209	\$7,930	\$2,016	\$2,089	\$2,114	\$2,233	\$8,452	\$8,425
Gross margin	51.1%	52.0%	51.5%	52.5%	52.8%	53.1%	52.5%	51.7%	53.0%	52.9%	50.6%	52.0%	51.0%	50.9%	50.9%	50.7%	50.9%	50.5%
SG&A Expenses	\$2,754	\$2,937	\$743	\$789	\$743	\$810	\$3,085	\$778	\$815	\$827	\$940	\$3,360	\$903	\$923	\$873	\$907	\$3,606	\$3,540
% of sales	21.1%	21.1%	21.9%	22.1%	21.4%	21.6%	21.7%	22.6%	22.2%	21.9%	21.5%	22.0%	22.9%	22.5%	21.0%	20.6%	21.7%	21.2%
R&D expenses	\$881	\$946	\$236	\$276	\$240	\$263	\$1,015	\$246	\$255	\$265	\$304	\$1,070	\$282	\$283	\$279	\$295	\$1,138	\$1,109
% of sales	6.7%	6.8%	7.0%	7.7%	6.9%	7.0%	7.2%	7.1%	7.0%	7.0%	7.0%	7.0%	7.1%	6.9%	6.7%	6.7%	6.9%	6.6%
Operating Income	\$3,043	\$3,339	\$765	\$810	\$853	\$919	\$3,347	\$758	\$874	\$903	\$965	\$3,500	\$831	\$883	\$962	\$1,032	\$3,708	\$3,776
Operating Margin	23.3%	24.0%	22.6%	22.7%	24.5%	24.5%	23.6%	22.0%	23.8%	23.9%	22.1%	22.9%	21.0%	21.5%	23.2%	23.4%	22.3%	22.6%
Interest, net	\$87	\$54	\$18	\$22	\$25	\$22	\$87	\$25	\$17	\$45	\$41	\$128	\$43	\$38	\$38	\$38	\$158	\$150
Other expense	(\$15)	\$21	(\$4)	(\$24)	(\$14)	(\$22)	(\$64)	(\$30)	\$13	(\$10)	(\$24)	(\$51)	(\$41)	\$0	\$4	(\$5)	(\$42)	\$4
Total other exp	\$72	\$75	\$14	(\$2)	\$11	\$0	\$23	(\$5)	\$30	\$35	\$17	\$77	\$2	\$38	\$42	\$33	\$116	\$154
Pretax Income	\$2,971	\$3,264	\$751	\$812	\$842	\$919	\$3,324	\$763	\$844	\$868	\$948	\$3,423	\$829	\$845	\$920	\$999	\$3,593	\$3,621
pretax margin	22.8%	23.5%	22.2%	22.7%	24.2%	24.5%	23.4%	22.1%	23.0%	23.0%	21.7%	22.4%	21.0%	20.6%	22.1%	22.7%	21.6%	21.7%
Taxes	\$598	\$697	\$163	\$173	\$194	\$199	\$729	\$162	\$185	\$186	\$221	\$754	\$177	\$181	\$197	\$214	\$768	\$761
Tax rate	20.1%	21.4%	21.7%	21.2%	23.0%	21.7%	21.9%	21.2%	21.9%	21.4%	23.3%	22.0%	21.4%	21.4%	21.4%	21.4%	21.4%	21.0%
Non controlling int	\$7	\$32	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Adj. "Cash" Net Income	\$2,366	\$2,535	\$588	\$639	\$648	\$720	\$2,595	\$601	\$659	\$682	\$727	\$2,669	\$652	\$664	\$723	\$785	\$2,824	\$2,861
Cash Net Income Margin	18.1%	18.2%	17.3%	17.9%	18.6%	19.2%	18.3%	17.4%	18.0%	18.1%	16.6%	17.5%	16.5%	16.2%	17.4%	17.8%	17.0%	17.1%
Diluted Shares	594.5	573.3	563.0	553.0	552.0	555.0	555.8	551.0	549.0	549.0	548.0	549.3	548.0	548.1	547.1	546.3	547.4	544.5
Adj. "Cash" EPS		\$4.42	\$1.04	\$1.16	\$1.17	\$1.30	\$4.67	\$1.09	\$1.20	\$1.24	\$1.33	\$4.86	\$1.19	\$1.21	\$1.32	\$1.44	\$5.16	\$5.25
Reconciliation to Adjusted EPS																		
Amortization expense		\$0.11	\$0.03	\$0.04	\$0.04	\$0.04	\$0.14	\$0.04	\$0.04	\$0.05	\$0.06	\$0.19	\$0.06	\$0.06	\$0.06	\$0.06	\$0.25	\$0.25
Adjusted EPS	\$3.98	\$4.31	\$1.04	\$1.16	\$1.17	\$1.30	\$4.53	\$1.06	\$1.16	\$1.19	\$1.26	\$4.67	\$1.13	\$1.15	\$1.26	\$1.38	\$4.91	\$5.00
Year-over-Year % Change																		
Sales	3.9%	6.4%	3.2%	1.0%	-0.1%	4.4%	2.1%	1.8%	2.7%	8.5%	16.4%	7.5%	14.6%	11.8%	10.1%	0.8%	8.9%	0.4%
Gross Profit	1.5%	8.1%	3.1%	1.1%	2.5%	5.8%	3.1%	2.2%	3.7%	8.7%	10.9%	6.5%	13.1%	7.5%	6.0%	1.1%	6.6%	-0.3%
SG&A	2.7%	6.6%	3.8%	3.1%	4.9%	8.3%	5.0%	4.7%	3.3%	11.3%	16.0%	8.9%	16.1%	13.3%	5.6%	-3.5%	7.3%	-1.8%
R&D	-3.9%	7.4%	10.3%	15.5%	0.4%	3.5%	7.3%	4.2%	-7.6%	10.4%	15.6%	5.4%	14.6%	11.0%	5.1%	-3.0%	6.4%	-2.6%
Operating Income	2.0%	9.7%	0.4%	-4.8%	0.9%	4.3%	0.2%	-0.9%	7.9%	5.9%	5.0%	4.6%	9.6%	1.0%	6.6%	6.9%	5.9%	1.8%
Pretax Income	2.7%	9.9%	0.4%	-1.3%	1.8%	6.1%	1.8%	1.6%	3.9%	3.1%	3.2%	3.0%	8.7%	0.1%	6.0%	5.4%	5.0%	0.8%
Cash Net Income							2.4%	2.2%	3.1%	5.2%	1.0%	2.9%	8.5%	0.7%	6.0%	8.0%	5.8%	1.3%
Diluted Shares	-3.2%	-3.6%	-3.1%	-3.8%	-3.3%	-1.9%	-3.1%	-2.1%	-0.7%	-0.5%	-1.3%	-1.2%	-0.5%	-0.2%	-0.3%	-0.3%	-0.4%	-0.5%
Cash Adjusted EPS							5.6%	4.5%	3.8%	5.8%	2.3%	4.1%	9.1%	0.9%	6.4%	8.3%	6.2%	1.8%
Adjusted EPS	4.7%	8.3%	6.4%	8.1%	7.4%	10.9%	5.0%	1.1%	0.7%	1.7%	-2.6%	3.3%	6.9%	-1.3%	5.6%	9.0%	5.1%	1.9%

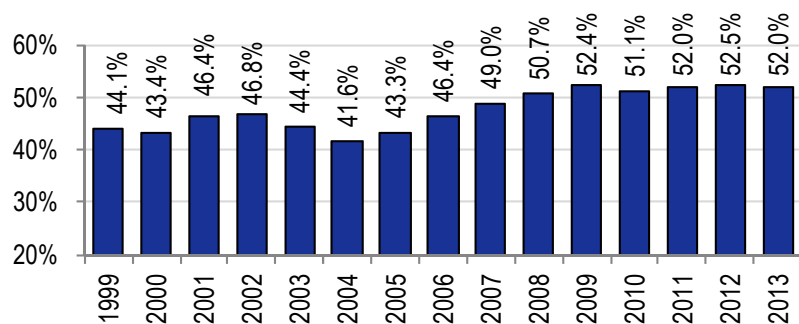
Source: Deutsche Bank, Company reports



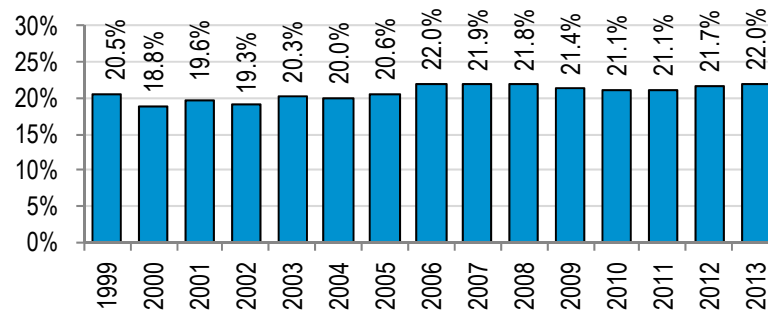
Baxter Historical Margin Trends

Figure 108: Historical Margin Trends

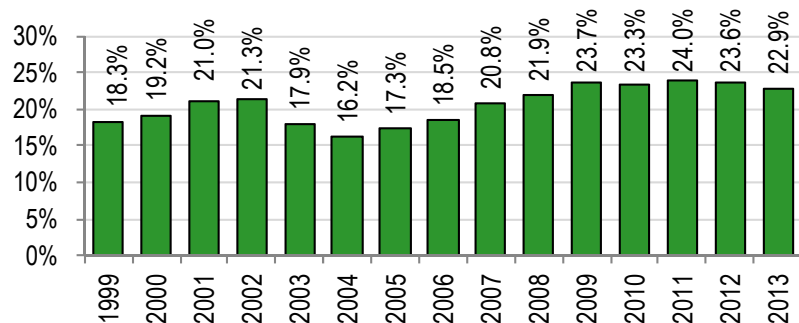
Gross margins



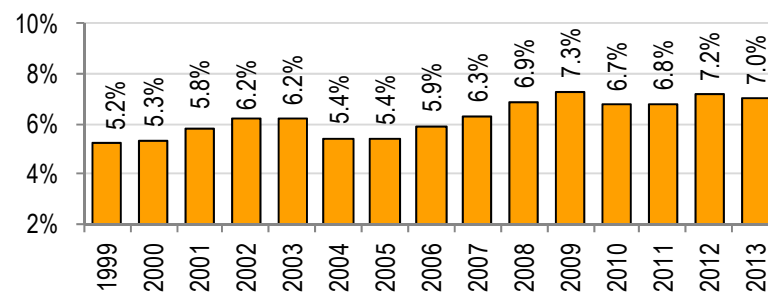
SG&A as % of sales



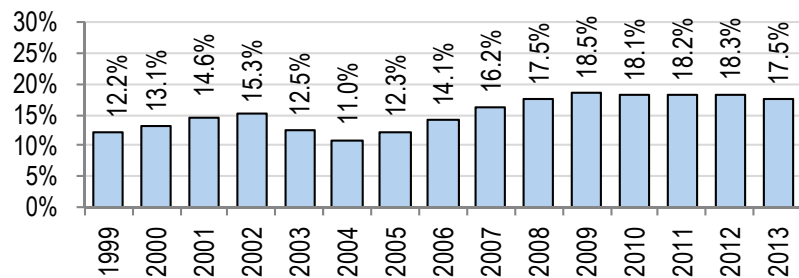
Operating Margin



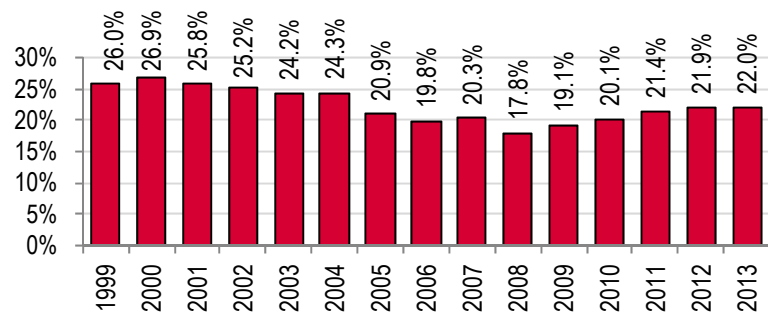
R&D as % of sales



Net Margin



Tax Rate

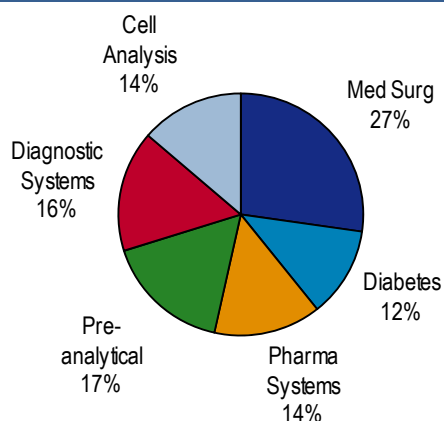


Source: Deutsche Bank, Company reports



Becton Dickinson (BDX-Hold)

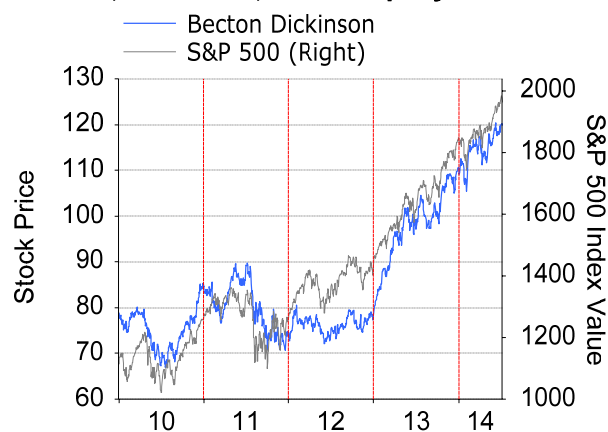
Figure 109: Sales mix, F2013



Source: Deutsche Bank, Company reports

Figure 111: Recent stock price performance

Becton, Dickinson, and Company vs S&P 500



Source: Deutsche Bank, Thomson Reuters

Figure 110: Rating and Valuation Summary

Mkt cap (\$M):	\$23,082	DB Rating:	Hold	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$119.47	DB Target Price:	\$119.00	DB	TR Cons	CY	Abs PE	
			<i>implied % chg: -0.0039</i>	2013A	\$5.82	N1M	18.2x	
52 Wk Range: \$96.73-\$120.66		Dividend Yield: 2.0%		2014E	\$6.24	\$6.25	2014E	18.6x
2013 Price Perf: 41.3%				2015E	\$6.87	\$6.84	2015E	17.0x
YTD 2014 Price Perf: 8.1%		Target PE (C15E):	17.0x	EPS estimates include amortization				

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

In our view, Becton Dickinson understands the pressures in the environment and continues to manage its cost structure accordingly. It is one of the more geographically diversified companies with 25% of sales in faster growing emerging markets. On a normalized basis, we think 4-5% top and 9%-10% FX-neutral EPS growth (the latter aided operational improvements such as ReLoCo programs as well as financial engineering) is possible. Given the relative valuation and our projected growth rate, we rate BDX Hold.

Upcoming Potential Catalysts

- **July:** Read-thrus from other companies on general healthcare trends
- **July 27-July 31:** American Association for Clinical Chemistry meeting, Chicago, IL
- **July 31:** BDX earnings release

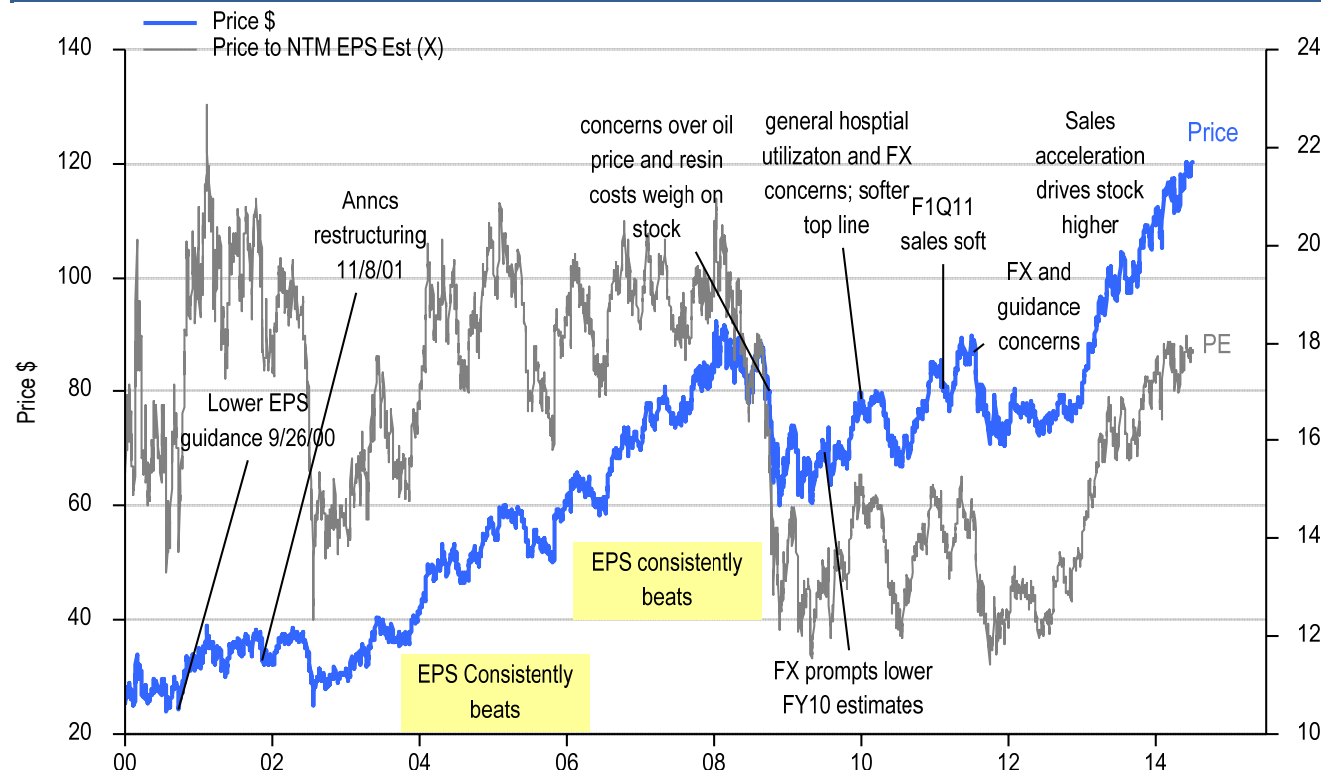
Valuation and Risks

Our target price applies a target multiple of approximately 17x on our calendar 2015E EPS, which is a 10% premium to the S&P 500. Key downside risks include a strengthening USD, smaller new product contributions, pricing pressures, and healthcare reduced utilization. Upside risks include increased utilization, greater new product contributions, greater emerging markets growth, and weaker USD.



Historical Stock Price Performance

Figure 112: Stock Price Performance and Company News Events



Performance Commentary

BDX shares generally trade on the company's earnings performance. The stock also tends to trade on oil prices (due to resin exposure) as well as foreign exchange rates (given the company's exposure at the bottom line). BDX shares appreciated significantly over the 2003-2007 period as it consistently delivered on the upside to its earnings targets, with some help from favorable FX rates during certain periods. In 2011, the stock had pulled back after the company reported F1Q11 results where the top line was softer than expected and through the year rising oil prices and FX rate movements put pressure on the stock. In the fall of 2011, shares fell following disappointing FY2012 guidance. Throughout 2012, the stock traded more sideways as the top line growth rate softened. In November 2012, BD provided F2013 guidance that was well below then First Call Consensus estimate which initially put some pressure on the stock. In 2013 and thus far in 2014, BDX shares appreciated significantly which we attribute to the improved performance on the top and bottom line.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
BDX	-4.3%	-7.4%	34.1%	38.1%	5.8%	16.8%	19.1%	-18.2%	15.3%	7.2%	-11.6%	4.6%	41.3%	8.1%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&E	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Becton Dickinson Product Portfolio Overview

Figure 113: Product overview

Product	% sales	Description	DB Commentary
MEDICAL			
Medical Surgical Systems	27%	In F2013, sales totaled \$2,195 million. The medical surgical business is the largest in the BD Medial division and offers needles, syringes, IV catheters, prefilled flush syringes, and safety products to help reduce injuries and contamination by healthcare workers.	Becton's principal competitors include Covidien and Terumo. In catheters, Becton Dickinson competes against Teleflex.
Diabetes Care	12%	In F2013, sales totaled \$969 million. The diabetes care business has been driven by its insulin pen needles. BD also offers syringes insulin injections as well as other disposable products.	Becton Dickinson works with the major insulin makers.
Pharmaceutical Systems	14%	In F2013, sales totaled \$1,142 million. Devices in this business are used by pharmaceutical and biotechnology companies to hold and administer their biologics, vaccines and other injectable medications.	Becton Dickinson works with the major manufacturers in this category such as Amgen and Sanofi.
DIAGNOSTIC			
Preamalytical Systems	17%	In F2013, sales totaled \$1,343 million. Devices in the preanalytical systems business include specimen collection and transport products, as well as safety collection systems.	Becton's principal competitors include Covidien and Terumo.
Diagnostic Systems	16%	In F2013, sales totaled \$1,302 million. Becton Dickinson's base diagnostic systems business is its automated blood culturing systems and molecular testing systems for sexually transmitted diseases. It also includes the GeneOhm (healthcare acquired infections) and TriPath (Pap smear) businesses.	Becton competes against large diagnostic companies such as Roche, Abbott, Siemens and Danaher's Beckman Coulter.
BIOSCIENCES			
Cell Analysis	14%	In F2013, sales totaled \$1,101 million. This business includes reagents and instruments used by research centers to analyze cells. These products include cell sorters, cell analyzers, flow cytometers, and sample prep systems.	Becton competes against Danaher's Beckman Coulter unit, Luminex, and Thermo Fisher's Life Technologies.

Source: Deutsche Bank, Company reports



Sales and Operating Profit Mix by Division

As shown below, the bulk of Becton Dickinson's sales and profits are generated from its Medical division. Margins have increased over the past decade for all businesses as shown below. We estimate the Medical division has gross margins around 50%, Diagnostics around 55%, and Biosciences around 57%.

Figure 114: Sales Mix By Division, FY2013

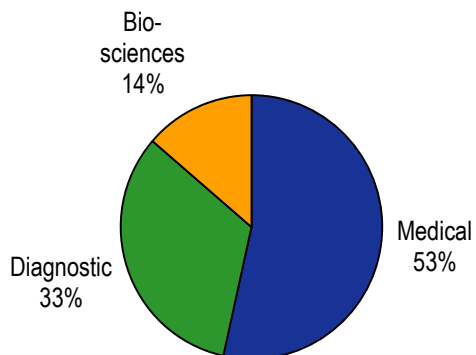
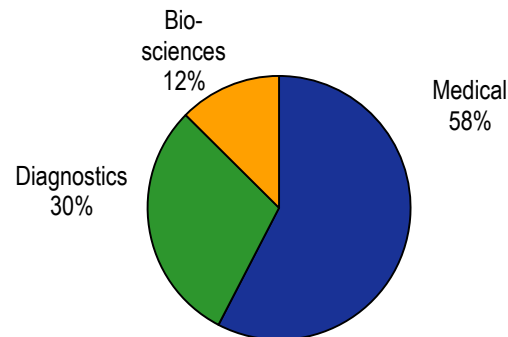


Figure 115: Operating Income by Division, FY2013



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 116: Operating Income Margins

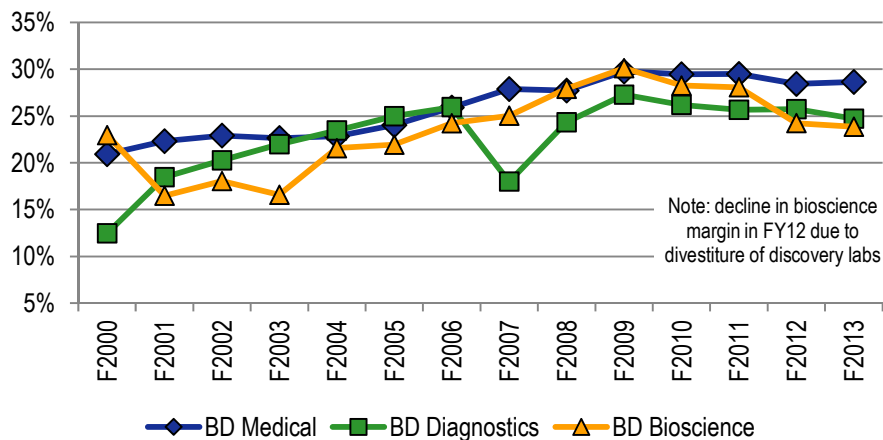
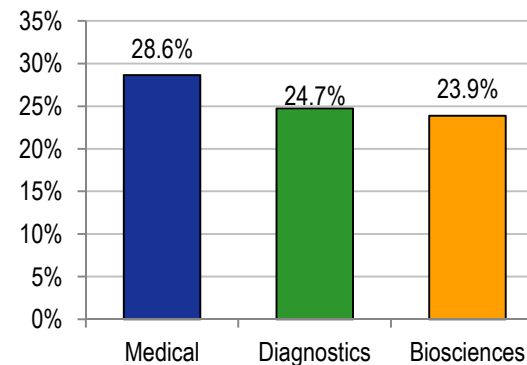


Figure 117: Operating Income Margins, F2013



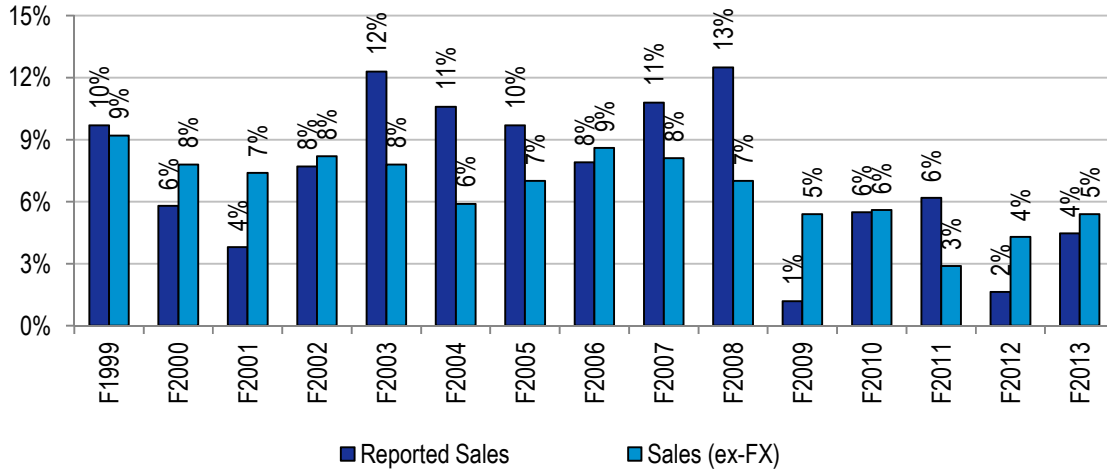
Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports



BD Constant Currency Sales Growth Trends

Figure 118: BD Sales Growth Reported versus Constant Currency



Source: Company Report, Deutsche Bank



BD Medical

Becton Dickinson's Medical division consists of three main franchises—MedSurg Systems, Diabetes Care, and Pharmaceutical Systems. The company sold its ophthalmic and surgical blades businesses in August 2010.

Figure 119: Sales Mix, FY2013

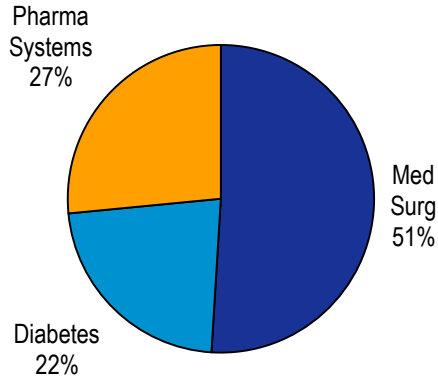
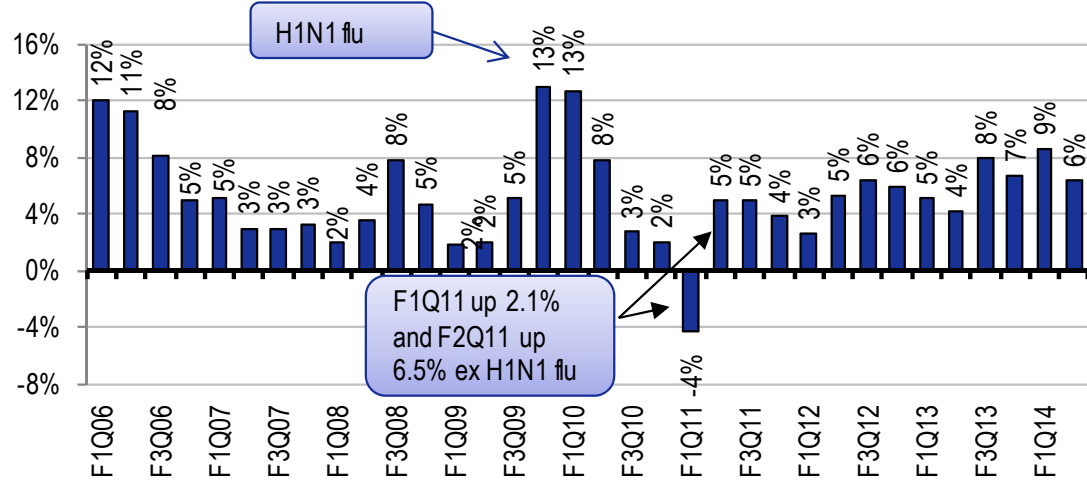


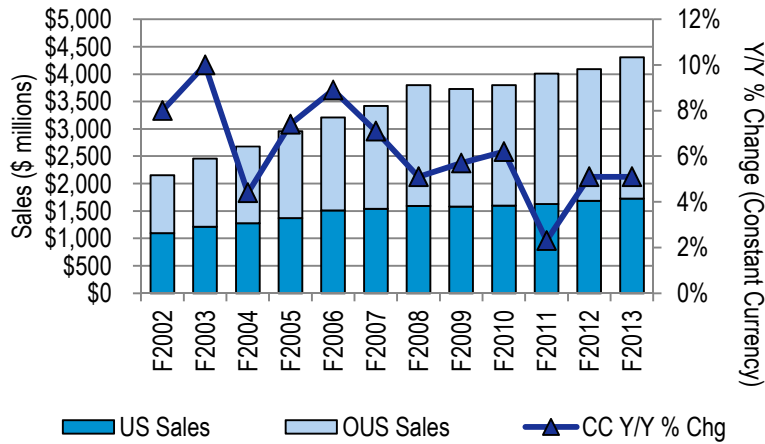
Figure 120: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

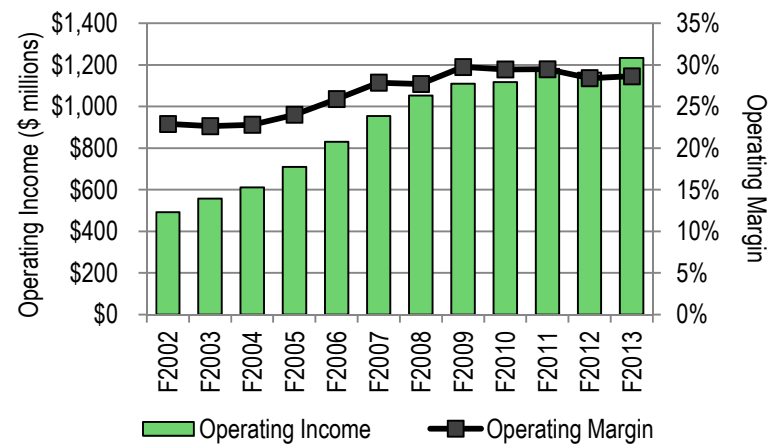
Source: Deutsche Bank, Company reports

Figure 121: Sales Performance



Source: Deutsche Bank, Company reports

Figure 122: Operating Income and Margins



Source: Deutsche Bank, Company reports

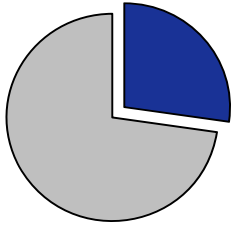


BD Medical Product Sales Trends

MedSurg Systems

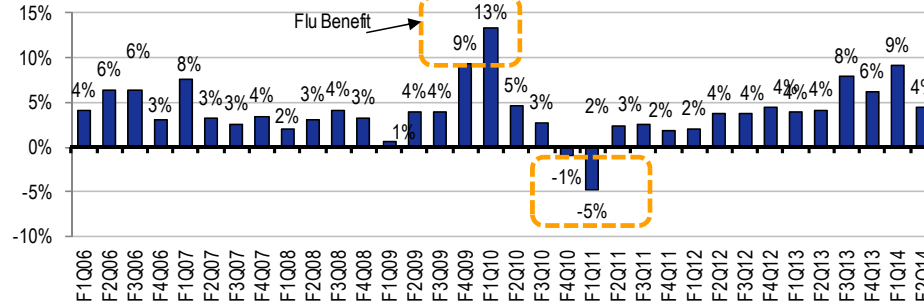
Figure 123: Sales mix

MedSurg Systems
27% of total sales
Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 124: Year-over-Year Change in Sales, Constant Currency



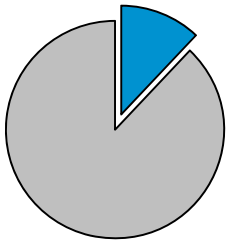
Source: Deutsche Bank, Company reports

BD MedSurg Systems includes sales of needles and syringes, intravenous catheters, safety-engineered devices, anesthesia needles and trays, and sharps disposal containers.

Diabetes

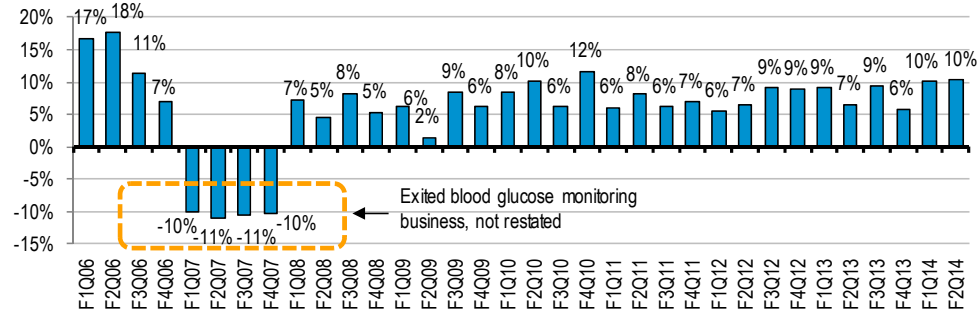
Figure 125: Sales mix

Diabetes
12% of total sales
Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 126: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

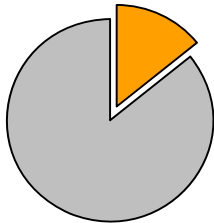
The diabetes business includes insulin syringes and pen needles.



Pharma Systems

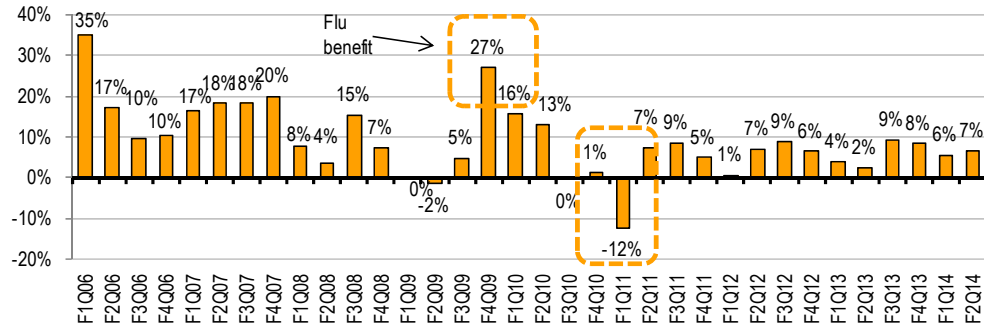
Figure 127: Sales mix

Pharma Systems
14% of total sales
Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 128: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

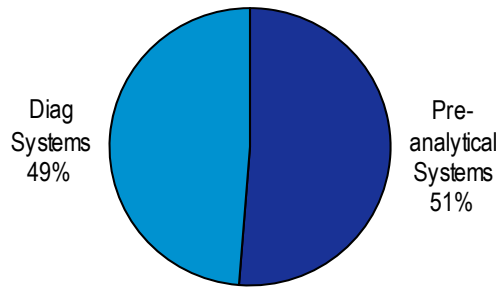
Devices in this business are used by pharmaceutical and biotechnology companies to hold and administer their biologics, vaccines and other injectable medications. BD does not typically disclose its partnerships but products discussed in the past include Merck's Gardasil HPV vaccine, Amgen's Epogen and Neupogen, Enbrel, and Lovenox.



BD Diagnostics

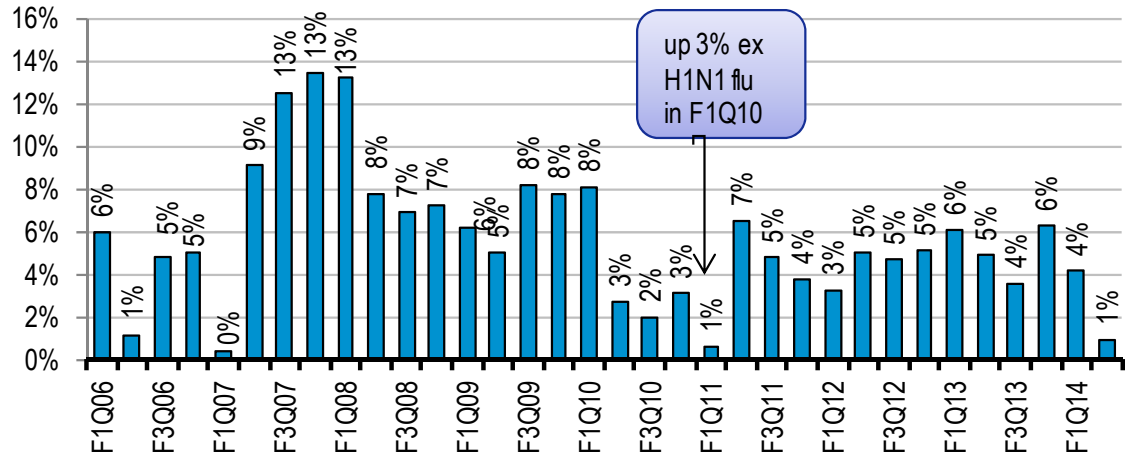
Becton Dickinson's Diagnostics division consists of two main franchises—preanalytical systems and diagnostic systems.

Figure 129: Sales Mix, FY2013



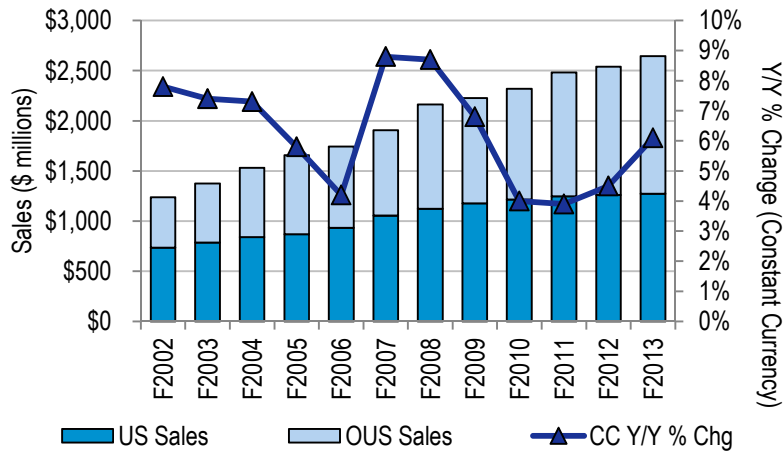
Source: Deutsche Bank, Company reports

Figure 130: Quarterly Constant Currency Sales Growth



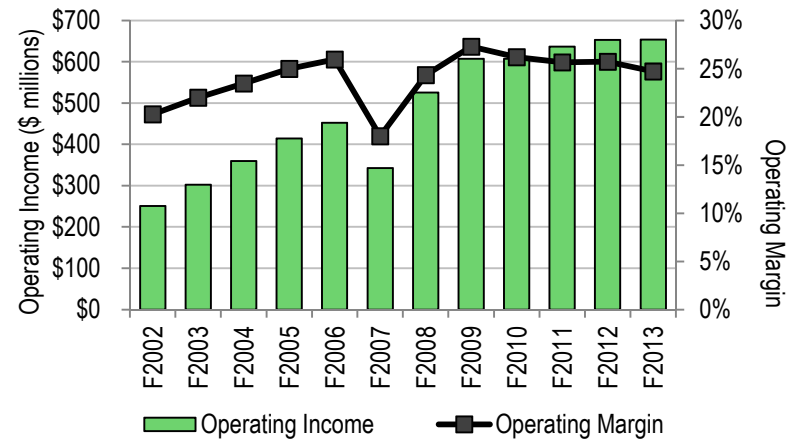
Source: Deutsche Bank, Company reports

Figure 131: Sales Performance



Source: Deutsche Bank, Company reports

Figure 132: Operating Income and Margins



Source: Deutsche Bank, Company reports

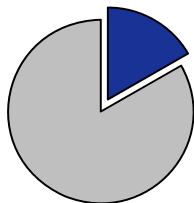


BD Diagnostics Product Sales Trends

Pre-analytical Systems

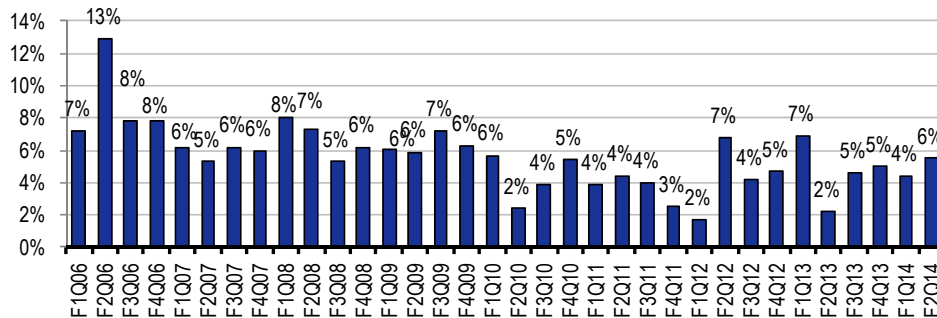
Figure 133: Sales mix

Preanalytical Systems
17% of total sales
Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 134: Year-over-Year Change in Sales, Constant Currency



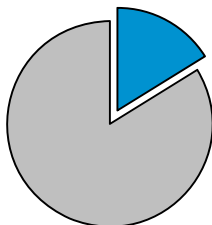
Source: Deutsche Bank, Company reports

Devices in the preanalytical systems business include specimen collection and transport products, as well as safety collection systems.

Diagnostic Systems

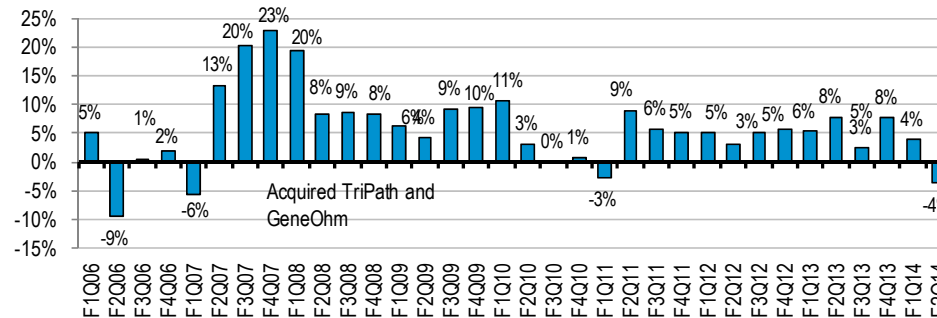
Figure 135: Sales mix

Diagnostic Systems
16% of total sales
Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 136: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

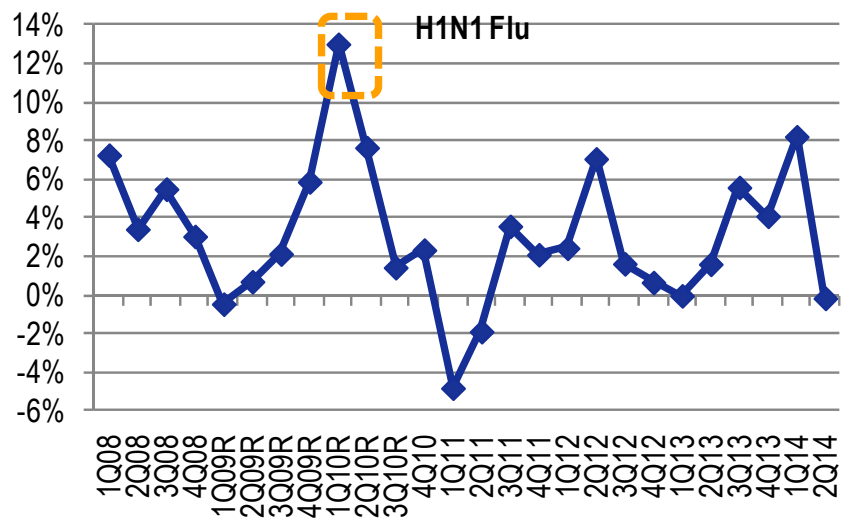
Becton Dickinson's base diagnostic systems business is its automated blood culturing systems and molecular testing systems for sexually transmitted diseases.



Safety-Engineered Devices

Becton Dickinson sells safety-engineered devices in its BD Medical and BD Diagnostic businesses.

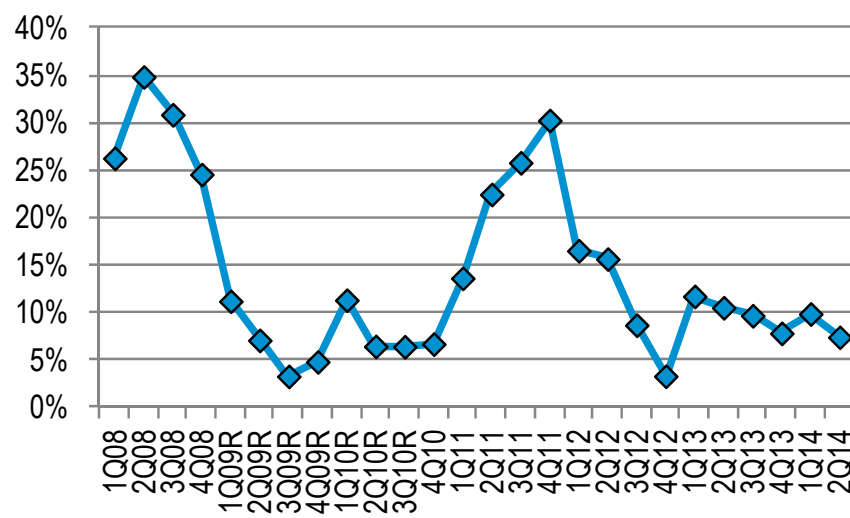
Figure 137: U.S. Safety Engineered Product Sales, Y/Y % Change



Source: Deutsche Bank, Company reports

In 2000, the Centers for Disease Control and Prevention estimated that there were 600,000 to 800,000 needlestick and other percutaneous injuries in US healthcare facilities each year. Injuries with contaminated needles can lead to infections and the transfer of bloodborne pathogens such as hepatitis C and HIV. Former President Clinton signed the Needlestick Safety and Prevention Act in 2000 as an effort to reduce or eliminate these injuries. The act required all healthcare facilities to have a bloodborne pathogen (BBP) exposure control plan, utilization of safety devices where it can eliminate or reduce exposures, offer training on the use of these devices, and to monitor these controls continuously. The implementation of this act propelled sales of BD's safety products in the US.

Figure 138: International Safety-Engineered Product Sales, Y/Y % Change



Source: Deutsche Bank, Company reports

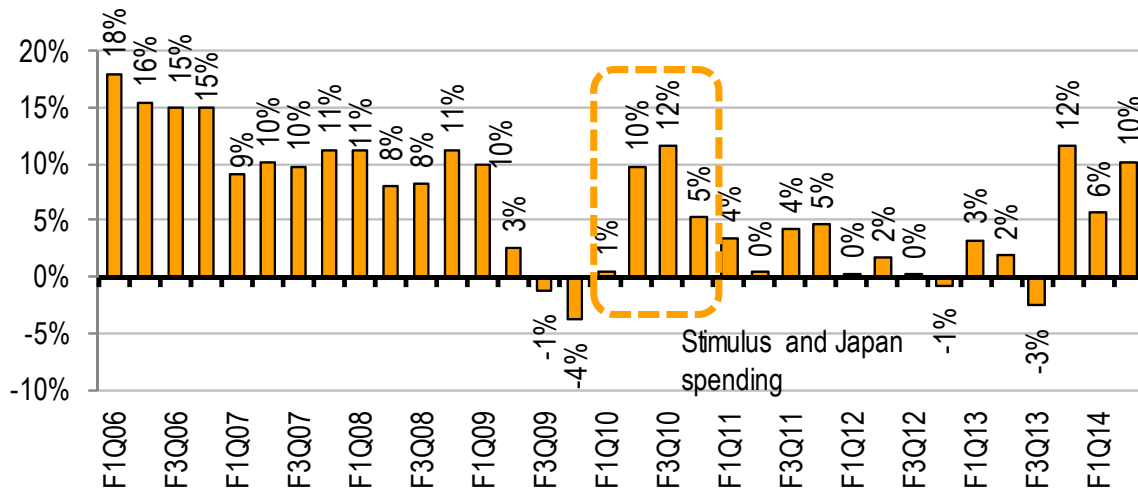
In March 2010, the European Council adopted the EU Safety Directive to prevent sharp injuries by healthcare workers, which were estimated to cause 1 million injuries annually in Europe. The Directive stated that any risks of injury to healthcare workers must be eliminated through safety procedures, disposal of sharp instruments and waste, elimination of recapping, and reduction in the unnecessary use of sharps. Healthcare facilities will have three years to implement safety initiatives to comply with the directive before it will be enforced in law.



BD Biosciences

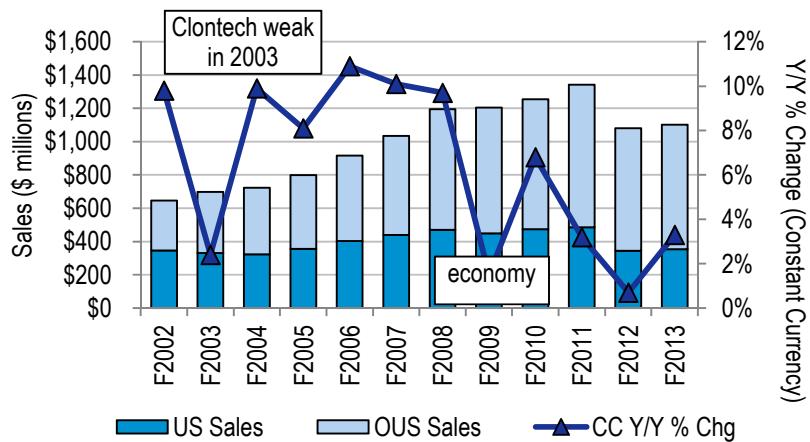
The Bioscience division consists of cell analysis, which includes reagents and instruments used to analyzer cells.

Figure 139: Quarterly Constant Currency Sales Growth



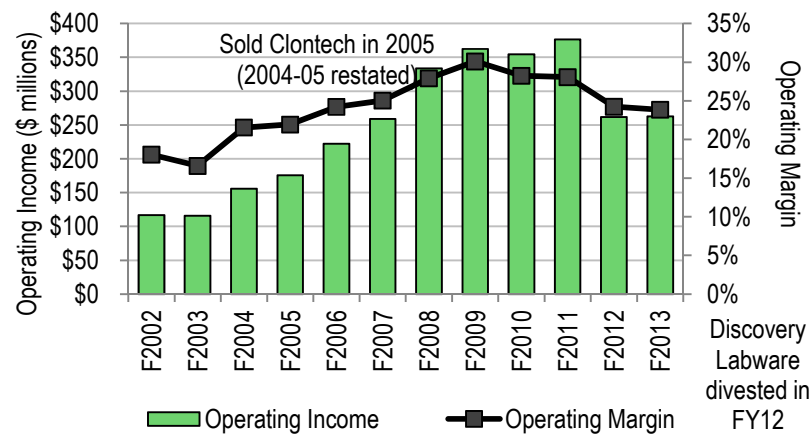
Source: Deutsche Bank, Company reports

Figure 140: Sales Performance



Source: Deutsche Bank, Company reports

Figure 141: Operating Income and Margins



Source: Deutsche Bank, Company reports



BD Biosciences Product Sales Trends

Cell Analysis

Figure 142: Sales mix

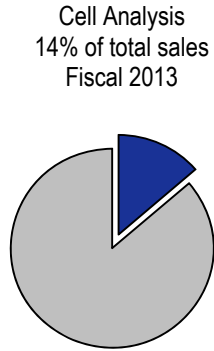
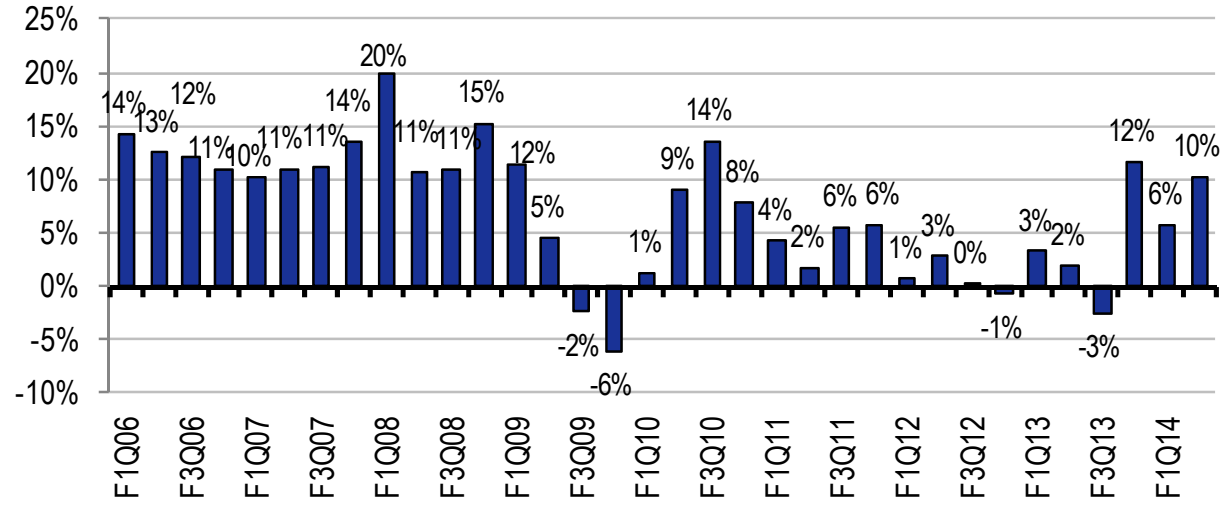


Figure 143: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports



Becton Dickinson's F2Q14 Results

Our Take on the Quarter

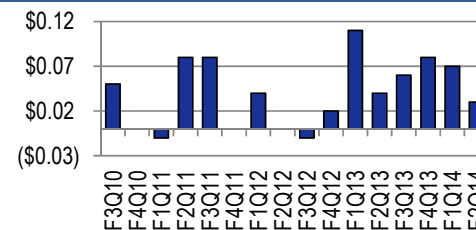
F2Q14 sales of \$2,072M were below Thomson Reuters (TR) of \$2,094M and DBE of \$2,097M. Sales were up 3.6% on a reported basis and up 5.1% ex-FX though BD noted results were partially aided by a timing of orders. Despite the weaker top line (mainly in Diagnostics) and lower gross margins, EPS came in above the Street at \$1.53 (TR \$1.50, DBE \$1.49) due to lower S&GA spending and tax rate.

Figure 144: Quarter Variance

	Actual	TR Consensus	DB Estimate
<i>(\$ in mil except per share)</i>			
Sales	\$2,072M	\$2,094M	\$2,097M
EPS	\$1.53	\$1.50	\$1.49

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 145: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Continued strength in China (+17.0%) and Emerging Markets (+13.9%).
- Strong Diabetes Care sales (+10.4%) due to continued uptake of BD's pen needles, primarily BD Nano.
- Lower tax rate driven by more favorable product and geographic mix.

Mixed

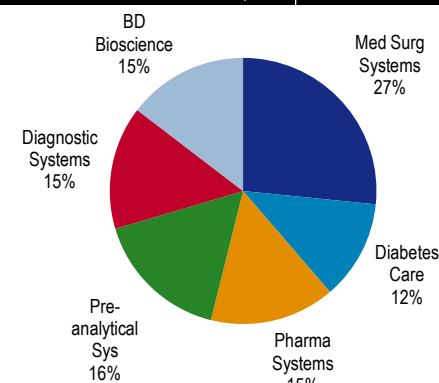
- Weaker Diagnostics Sales in the quarter driven by a weaker US environment, as well as a milder flu season.
- The EPS upside in the quarter was driven by a lower tax rate and one-time benefit in SG&A as BD collected on a previously written off receivable

Quick P&L Recap

- Total sales were \$2,072 million up 5.1% ex-FX. Pricing in the quarter was flat to slightly down 20bps. US sales of \$826 million were flat (+0.2%), while OUS sales of \$1,246 million were up 8.5% ex-FX.
 - Medical sales of \$1,116 million were up 6.3% ex-FX.
 - Diagnostics sales of \$653 million were up 1.0% ex-FX.
 - Biosciences sales of \$302 million were up 10.2% ex-FX.
 - Total safety sales (in Medical and Diagnostics) were up 4.9% ex-FX.
- Gross margin of 50.8% was down 10 bps y/y driven by improvements from ReLoCo, pension, and continuous improvements (+90bps) partially offset by higher raw materials and start up costs (-30bps) and FX (-70bps).
- SG&A expense of 24.8% of sales was down 90 bps y/y. BD benefited from a one-time benefit in the quarter from the collection of a receivable.
- R&D expense of 6.1% was flat y/y.
- Operating margin of 19.9% was up 80bps y/y.
- Interest exp was \$22 million flat with the prior year's quarter.
- Tax rate was 21.7% vs 23.4% a year ago driven by more favorable geographic mix.
- Share count of 197.5 million was down 0.3% year-over-year. BD repurchased \$24 million in the quarter and expects \$450M for the year.
- Adjusted EPS of \$1.53 was up 15.8% y/y excluding FX. Adjusted EPS excluded \$0.08 of one time adjustments.

Figure 146: Key Product Sales Trends

	Actual (\$ mil)	YY % Change Rptd	Ex-FX
BD Medical	\$1,116	5.1%	6.3%
Med Surg Systems	\$551	2.3%	4.4%
Diabetes Care	\$251	8.1%	10.4%
Pharma Systems	\$314	7.9%	6.6%
BD Diagnostics	\$653	-0.9%	1.0%
Pre-analytical Sys	\$342	3.7%	5.5%
Diagnostic System	\$311	-5.5%	-3.6%
BD Bioscience	\$302	8.2%	10.2%
Total sales	\$2,072	3.6%	5.1%

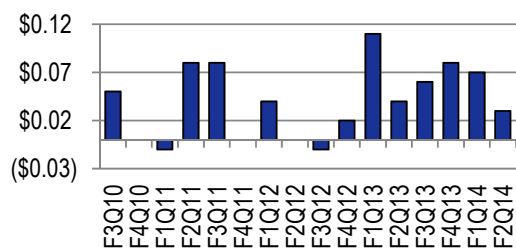


Source: Deutsche Bank, Company reports



Becton Dickinson F3Q14 Results Preview

Figure 147: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 150: DB versus Thomson Reuters Estimates

Revenues (\$ in millions)

2013A	2014E		2015E	
	DB est	TR Est	DB est	TR Est
1Q \$1,900	a \$2,015		\$2,102	\$2,110
2Q \$2,000	a \$2,072		\$2,149	\$2,166
3Q \$2,053	e \$2,136	\$2,142	\$2,233	\$2,241
4Q \$2,101	e \$2,173	\$2,177	\$2,273	\$2,281
FY \$8,054	e \$8,395	\$8,406	\$8,758	\$8,786

Guidance (05/01/14):

F2014: FX Neutral up 4.5%-5.0%.

Earnings Per Share

2013A	2014E		2015E	
	DB est	TR Est	DB est	TR Est
1Q \$1.35	a \$1.37		\$1.55	\$1.54
2Q \$1.39	a \$1.53		\$1.66	\$1.66
3Q \$1.54	e \$1.69	\$1.67	\$1.86	\$1.79
4Q \$1.54	e \$1.65	\$1.68	\$1.80	\$1.82
FY \$5.82	e \$6.24	\$6.25	\$6.87	\$6.84

Guidance (05/01/14):

F2014: \$6.22-\$6.25 (+7.0%-7.5% reported).

Source: Deutsche Bank, Thomson Reuters

Figure 148: Earnings Release and Conference Call Information

Earnings Release Date: Thursday, July 31, 2014 before market open

Conf Call Date & Info: Thursday, July 31, 2014 at 8:00am
 Dial In: +1 800 938 0653, Code: 69111053
<http://www.bd.com/investors/>

Source: Company reports, Thomson Reuters

Figure 149: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
BD Medical	\$1,183	3.7%	3.3%
Med Surg Systems	\$582	3.7%	3.7%
Diabetes Care	\$269	7.6%	7.6%
Pharma Systems	\$333	0.9%	-0.6%
BD Diagnostics	\$653	3.8%	3.7%
Pre-analytical Sys	\$342	4.0%	4.0%
Diagnostic System	\$311	3.6%	3.3%
BD Bioscience	\$302	6.0%	6.0%
Total sales	\$2,136	4.0%	3.8%

What to focus on:

- F2014 Guidance Update
- Corporate strategy, capital allocation, and LT strategy
- Macro environment trends and End market conditions
- Rate of healthcare spending growth in emerging markets
- Pipeline update

Source: Deutsche Bank



F2014 Guidance Update

Along with F2Q14 results, BD reaffirmed its full year constant currency sales guidance of 4.5%-5.0%, though there were moving parts. EPS guidance was raised driven by lower tax.

- BD Medical:** Constant currency sales guidance was increased to 5.5%-6.0% (vs prior 5.0%-5.5%) driven by continued strength in core franchises, as well as new products.
- BD Diagnostics:** Constant currency sales growth was decreased to 3.0%-3.5% (vs prior 3.5%-4.5%) driven by continued challenges in the US market, as well as a lighter than anticipated flu season.
- BD Biosciences:** Constant currency sales guidance was refined to 4.0%-5.0% (vs prior ~4%) driven by continued strength in OUS markets offsetting lower 2H14 sales growth due to favorable impacts of timing in 1H fiscal 2014.

While the Euro has remained fairly stable (management' guidance assumes 1€=\$1.37) movement in other currencies will put pressure on the top line (BD now expects FX to be a 50bp drag versus its prior guidance of neutral). This will also put some additional pressure on the bottom line. However, this is offset by a lower tax rate (23.0%-23.5% vs prior 23.5%-23.7%) due to more favorable geographic mix. Net/net, adjusted EPS guidance was increased to \$6.22-\$6.25 (from \$6.19-\$6.22). This represents FX Neutral growth of 10%-10.5% over the prior year or 11.0%-11.5% when also excluding the device tax.

Figure 151: F2014 Guidance vs. DB Expectations

	Fiscal 2013 Actual	Fiscal 2014 Guidance (11/5/13)	Fiscal 2014 Guidance (2/4/14)	Fiscal 2014 Guidance (5/1/14)	F2014 DB Est
BD Medical (ex-FX)	6.0%	4.5%-5.5%	5.0%-5.5%	5.5%-6.0%	5.6%
BD Diagnostics (ex-FX)	5.2%	3.5%-4.5%	3.5%-4.5%	3.0%-3.5%	3.0%
BD Biosciences (ex-FX)	11.6%	3%-4%	~4%	4.0%-5.0%	4.5%
Total Sales (ex-FX)	5.4%	4%-5%	4.5%-5.0%	4.5%-5.0%	4.6%
Total Sales Reported	1.6%				4.2%
Gross margin	51.8%	51.6%-52%	51.6%-52%	51.6%-52%	51.6%
SG&A	25.5%	25.2%-25.6%	25.2%-25.6%	25.2%-25.6%	25.3%
R&D	6.1%	6.0%-6.3%	6.0%-6.3%	6.0%-6.3%	6.1%
Operating margin	20.2%	20.0%-20.4%	20.0%-20.4%	20.0%-20.4%	20.2%
Tax rate	24.5%	23.5%-23.7%	23.5%-23.7%	23.0%-23.5%	23.1%
EPS	\$5.82	\$6.16-\$6.22	\$6.19-\$6.22	\$6.22-\$6.25	\$6.24
EPS Y/Y % Change	8.5%	6%-7%	6.5%-7.5%	7.0%-7.5%	7.1%
EPS Y/Y (ex-FX)	11.0%	8.5%-9.5%	9.0%-9.5%	10.0%-10.5%	
EPS ex-MedTech Tax, FXN	N/A	9%-10%	9.5%-10%	11.0%-11.5%	

Source: Deutsche Bank, Company Reports



Figure 152: Becton Dickinson's Earnings Model (\$ in millions, except per share data)

	Sep 10	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Sep 14	Sep 15
	2010	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E
BD Medical																		
Medical Surgical Systems																		
US Sales	\$1,007	\$980	\$248	\$238	\$241	\$251	\$978	\$249	\$236	\$246	\$252	\$983	\$262	\$240	\$251	\$258	\$1,011	\$1,040
OUS Sales	\$1,003	\$1,101	\$274	\$281	\$290	\$282	\$1,127	\$287	\$303	\$315	\$308	\$1,213	\$317	\$311	\$331	\$323	\$1,282	\$1,362
WW Sales	\$2,010	\$2,082	\$522	\$519	\$532	\$532	\$2,105	\$536	\$539	\$561	\$560	\$2,195	\$579	\$551	\$582	\$582	\$2,293	\$2,402
Y/Y % Change																		
US Sales	3.4%	-2.6%	-2.3%	1.3%	-1.4%	1.6%	-0.2%	0.3%	-0.8%	1.9%	0.5%	0.5%	5.1%	1.9%	2.0%	2.5%	2.9%	2.9%
OUS Sales	9.7%	9.8%	6.0%	4.2%	2.2%	-2.4%	2.3%	4.7%	7.7%	8.5%	9.4%	7.6%	10.6%	2.7%	5.0%	5.0%	5.7%	6.2%
WW Sales	6.4%	3.6%	1.9%	2.8%	0.5%	-0.6%	1.1%	2.6%	3.8%	5.5%	5.2%	4.3%	8.0%	2.3%	3.7%	3.9%	4.5%	4.8%
OUS Sales ex-FX	6.6%	3.5%	6.5%	6.0%	8.4%	6.8%	6.9%	7.1%	8.4%	10.5%	11.1%	9.3%	12.4%	6.3%	5.0%	4.0%	6.8%	6.2%
WW Sales ex-FX	4.9%	0.4%	2.1%	3.8%	3.8%	4.4%	3.6%	3.9%	4.2%	7.9%	6.2%	5.2%	9.1%	4.4%	3.7%	3.3%	5.1%	4.8%
Diabetes Care																		
US Sales	\$384	\$401	\$106	\$106	\$110	\$113	\$434	\$112	\$107	\$117	\$113	\$449	\$122	\$118	\$124	\$121	\$485	\$513
OUS Sales	\$402	\$466	\$120	\$114	\$123	\$120	\$477	\$130	\$125	\$133	\$131	\$519	\$142	\$133	\$144	\$143	\$562	\$604
WW Sales	\$786	\$866	\$226	\$219	\$233	\$233	\$911	\$243	\$232	\$250	\$244	\$969	\$264	\$251	\$269	\$264	\$1,047	\$1,117
Y/Y % Change																		
US Sales	9.4%	4.4%	6.0%	10.2%	9.5%	7.8%	8.4%	6.5%	0.9%	6.4%	0.0%	3.4%	8.5%	10.6%	6.0%	7.0%	8.0%	5.7%
OUS Sales	10.6%	15.8%	5.3%	1.5%	2.5%	0.5%	2.4%	8.3%	10.5%	8.1%	8.8%	8.9%	8.9%	6.0%	9.0%	9.0%	8.3%	7.5%
WW Sales	10.0%	10.3%	5.6%	5.5%	5.7%	3.9%	5.2%	7.5%	5.9%	7.3%	4.5%	6.3%	8.7%	8.1%	7.6%	8.1%	8.1%	6.7%
OUS Sales ex-FX	9.1%	9.1%	5.0%	3.3%	8.7%	9.8%	6.8%	11.4%	12.0%	12.1%	11.2%	11.7%	11.5%	10.5%	9.0%	8.0%	9.7%	7.5%
WW Sales ex-FX	9.1%	6.8%	5.5%	6.5%	9.1%	8.9%	7.5%	9.1%	6.6%	9.4%	5.9%	7.8%	10.1%	10.4%	7.6%	7.5%	8.9%	6.7%
Pharma Systems																		
US Sales	\$205	\$244	\$61	\$75	\$78	\$59	\$273	\$64	\$70	\$86	\$75	\$295	\$57	\$76	\$81	\$79	\$293	\$311
OUS Sales	\$795	\$815	\$141	\$208	\$227	\$225	\$801	\$141	\$221	\$244	\$241	\$847	\$164	\$238	\$252	\$253	\$907	\$940
WW Sales	\$1,001	\$1,059	\$202	\$283	\$306	\$283	\$1,074	\$205	\$291	\$330	\$316	\$1,142	\$221	\$314	\$333	\$332	\$1,200	\$1,252
Y/Y % Change																		
US Sales	15.6%	18.8%	17.5%	10.6%	9.5%	11.1%	11.8%	5.0%	-6.6%	9.5%	28.0%	8.0%	-10.6%	8.2%	-5.0%	5.0%	-0.5%	6.1%
OUS Sales	2.6%	2.5%	-4.6%	3.4%	1.4%	-7.1%	-1.7%	-0.4%	6.4%	7.4%	7.2%	5.7%	16.4%	7.6%	3.0%	5.0%	7.0%	3.7%
WW Sales	5.1%	5.8%	1.1%	5.2%	3.4%	-3.8%	1.4%	1.2%	3.0%	8.0%	11.5%	6.3%	8.0%	7.8%	0.9%	5.0%	5.1%	4.3%
OUS Sales ex-FX	4.3%	-1.9%	-5.3%	5.9%	8.7%	5.3%	4.4%	3.5%	5.7%	9.1%	3.3%	5.6%	12.6%	5.9%	1.0%	4.0%	5.1%	3.7%
WW Sales ex-FX	6.4%	2.4%	0.6%	7.1%	8.9%	6.4%	6.2%	4.0%	2.4%	9.2%	8.3%	6.2%	5.5%	6.6%	-0.6%	4.2%	3.7%	4.3%

Source: Deutsche Bank, Company reports



Figure 152 (cont'd): Becton Dickinson's Earnings Model (\$ in millions, except per share data)

	Sep 10 2010	Sep 11 2011R	Dec 11 1Q12	Mar 12 2Q12	Jun 12 3Q12	Sep 12 4Q12	Sep 12 2012	Dec 12 1Q13	Mar 13 2Q13	Jun 13 3Q13	Sep 13 4Q13	Sep 13 2013	Dec 13 1Q14	Mar 14 2Q14	Jun 14 3Q14E	Sep 14 4Q14E	Sep 14 2014E	Sep 15 2015E
Total BD Medical																		
US Sales	\$1,596	\$1,625	\$415	\$419	\$430	\$422	\$1,685	\$425	\$412	\$449	\$440	\$1,727	\$441	\$434	\$456	\$458	\$1,789	\$1,864
OUS Sales	\$2,201	\$2,382	\$536	\$603	\$640	\$627	\$2,406	\$558	\$650	\$692	\$680	\$2,579	\$623	\$682	\$727	\$719	\$2,751	\$2,907
WW Sales	\$3,797	\$4,007	\$950	\$1,021	\$1,070	\$1,049	\$4,091	\$983	\$1,062	\$1,140	\$1,120	\$4,306	\$1,064	\$1,116	\$1,183	\$1,177	\$4,540	\$4,771
Y/Y % Change																		
US Sales	6.2%	1.8%	2.3%	5.0%	3.1%	4.4%	3.7%	2.6%	-1.4%	4.4%	4.2%	2.5%	3.7%	5.2%	1.7%	4.1%	3.6%	4.2%
OUS Sales	7.2%	8.3%	2.8%	3.4%	2.0%	-3.6%	1.0%	4.2%	7.8%	8.0%	8.5%	7.2%	11.6%	5.0%	5.1%	5.8%	6.7%	5.7%
WW Sales	6.8%	5.6%	2.6%	4.1%	2.4%	-0.5%	2.1%	3.5%	4.0%	6.6%	6.8%	5.3%	8.2%	5.1%	3.7%	5.1%	5.4%	5.1%
OUS Sales ex-FX	6.2%	2.6%	2.8%	5.4%	8.5%	6.8%	6.1%	7.1%	8.2%	10.3%	8.3%	8.5%	12.2%	7.0%	4.4%	4.8%	6.8%	5.7%
WW Sales ex-FX	6.2%	2.3%	2.6%	5.3%	6.4%	5.9%	5.1%	5.1%	4.2%	7.9%	6.7%	6.0%	8.6%	6.3%	3.3%	4.5%	5.6%	5.1%

Source: Deutsche Bank, Company reports



Figure 152 (cont'd): Becton Dickinson's Earnings Model (\$ in millions, except per share data)

	Sep 10 2010	Sep 11 2011R	Dec 11 1Q12	Mar 12 2Q12	Jun 12 3Q12	Sep 12 4Q12	Sep 12 2012	Dec 12 1Q13	Mar 13 2Q13	Jun 13 3Q13	Sep 13 4Q13	Sep 13 2013	Dec 13 1Q14	Mar 14 2Q14	Jun 14 3Q14E	Sep 14 4Q14E	Sep 14 2014E	Sep 15 2015E
BD Diagnostics																		
Preanalytical Systems																		
US Sales	\$627	\$643	\$162	\$163	\$166	\$165	\$656	\$167	\$162	\$167	\$170	\$666	\$171	\$163	\$169	\$172	\$674	\$690
OUS Sales	\$570	\$635	\$155	\$160	\$167	\$163	\$645	\$168	\$168	\$178	\$172	\$685	\$176	\$179	\$190	\$186	\$731	\$765
WW Sales	\$1,198	\$1,278	\$317	\$323	\$333	\$328	\$1,301	\$335	\$330	\$345	\$342	\$1,352	\$347	\$342	\$359	\$357	\$1,405	\$1,455
Y/Y % Change																		
US Sales	3.1%	2.5%	0.0%	4.1%	2.1%	2.0%	2.1%	3.0%	-0.9%	0.8%	3.1%	1.5%	2.4%	0.6%	0.8%	1.0%	1.2%	2.3%
OUS Sales	6.7%	11.3%	2.6%	7.1%	-0.1%	-2.6%	1.6%	8.6%	5.1%	6.0%	5.7%	6.3%	4.9%	6.5%	7.0%	8.0%	6.6%	4.8%
WW Sales	4.8%	6.7%	1.3%	5.6%	0.9%	-0.3%	1.8%	5.7%	2.1%	3.4%	4.4%	3.9%	3.7%	3.6%	4.0%	4.5%	4.0%	3.6%
OUS Sales ex-FX	5.8%	4.9%	3.5%	9.6%	6.3%	7.3%	6.7%	11.0%	5.3%	8.4%	6.8%	7.9%	6.1%	10.2%	7.0%	7.0%	7.6%	4.8%
WW Sales ex-FX	4.4%	3.7%	1.7%	6.8%	4.2%	4.7%	4.3%	6.9%	2.2%	4.6%	5.0%	4.7%	4.4%	5.5%	4.0%	4.0%	4.5%	3.6%
Diagnostic Systems																		
US Sales	\$587	\$603	\$150	\$155	\$149	\$149	\$603	\$154	\$160	\$143	\$149	\$606	\$149	\$138	\$142	\$145	\$573	\$587
OUS Sales	\$534	\$600	\$155	\$152	\$160	\$168	\$634	\$164	\$169	\$167	\$189	\$688	\$175	\$173	\$180	\$203	\$731	\$769
WW Sales	\$1,121	\$1,203	\$304	\$307	\$309	\$318	\$1,237	\$317	\$329	\$310	\$338	\$1,294	\$324	\$311	\$321	\$348	\$1,304	\$1,357
Y/Y % Change																		
US Sales	3.2%	2.7%	1.9%	1.0%	-0.6%	-2.0%	0.0%	2.7%	3.1%	-4.1%	0.0%	0.4%	-3.0%	-13.8%	-1.0%	-3.0%	-5.4%	2.5%
OUS Sales	3.9%	12.3%	8.7%	4.2%	5.8%	4.4%	5.7%	5.8%	11.3%	4.8%	12.2%	8.5%	7.0%	2.6%	7.5%	7.5%	6.2%	5.3%
WW Sales	3.5%	7.3%	5.2%	2.5%	2.6%	1.3%	2.9%	4.3%	7.2%	0.5%	6.4%	4.6%	2.2%	-5.4%	3.6%	2.9%	0.8%	4.0%
OUS Sales ex-FX	3.9%	5.8%	8.2%	5.5%	10.9%	12.7%	9.4%	7.9%	12.4%	8.7%	14.6%	11.0%	10.2%	6.0%	7.0%	7.0%	7.5%	5.3%
WW Sales ex-FX	3.5%	4.2%	5.0%	3.2%	5.1%	5.6%	4.7%	5.3%	7.8%	2.5%	7.7%	5.9%	3.9%	-3.6%	3.3%	2.6%	1.5%	4.0%
BD Diagnostics																		
US Sales	\$1,214	\$1,246	\$312	\$319	\$315	\$314	\$1,259	\$321	\$322	\$310	\$319	\$1,272	\$320	\$301	\$310	\$316	\$1,248	\$1,277
OUS Sales	\$1,105	\$1,235	\$309	\$311	\$327	\$331	\$1,279	\$331	\$337	\$345	\$361	\$1,374	\$351	\$352	\$370	\$389	\$1,462	\$1,535
WW Sales	\$2,319	\$2,480	\$621	\$630	\$642	\$645	\$2,538	\$652	\$659	\$655	\$680	\$2,646	\$671	\$653	\$680	\$705	\$2,709	\$2,812
Y/Y % Change																		
US Sales	3.1%	2.6%	0.9%	2.6%	0.8%	0.1%	1.1%	2.9%	1.1%	-1.5%	1.6%	1.0%	-0.2%	-6.5%	0.0%	-0.9%	-1.9%	2.3%
OUS Sales	5.3%	11.8%	5.5%	5.7%	2.7%	0.8%	3.6%	7.2%	8.1%	5.4%	9.0%	7.4%	5.9%	4.6%	7.2%	7.7%	6.4%	5.0%
WW Sales	4.2%	7.0%	3.2%	4.1%	1.7%	0.5%	2.3%	5.0%	4.5%	2.0%	5.4%	4.2%	2.9%	-0.9%	3.8%	3.7%	2.4%	3.8%
OUS Sales ex-FX	4.9%	5.4%	5.8%	7.6%	8.5%	10.0%	8.0%	9.4%	8.8%	8.6%	10.8%	9.4%	8.1%	8.1%	7.0%	7.0%	7.5%	5.0%
WW Sales ex-FX	4.0%	3.9%	3.3%	5.0%	4.7%	5.1%	4.5%	6.1%	4.9%	3.6%	6.3%	5.2%	4.2%	1.0%	3.7%	3.3%	3.0%	3.8%

Source: Deutsche Bank, Company reports



Figure 152 (cont'd): Becton Dickinson's Earnings Model (\$ in millions, except per share data)

	Sep 10 2010	Sep 11 2011R	Dec 11 1Q12	Mar 12 2Q12	Jun 12 3Q12	Sep 12 4Q12	Sep 12 2012	Dec 12 1Q13	Mar 13 2Q13	Jun 13 3Q13	Sep 13 4Q13	Sep 13 2013	Dec 13 1Q14	Mar 14 2Q14	Jun 14 3Q14E	Sep 14 4Q14E	Sep 14 2014E	Sep 15 2015E	
BD Bioscience																			
BD Bioscience																			
US Sales	\$476	\$376	\$80	\$84	\$92	\$88	\$343	\$84	\$89	\$89	\$92	\$354	\$87	\$90	\$92	\$95	\$364	\$378	
OUS Sales	\$781	\$720	\$181	\$194	\$177	\$185	\$736	\$181	\$191	\$168	\$208	\$748	\$192	\$212	\$180	\$196	\$780	\$796	
WW Sales	\$1,257	\$1,096	\$261	\$278	\$268	\$273	\$1,080	\$265	\$279	\$257	\$300	\$1,101	\$279	\$302	\$272	\$290	\$1,144	\$1,175	
Y/Y % Change																			
US Sales	6.0%		-10.1%	-9.8%	-6.4%	-9.2%	-8.8%	5.2%	5.9%	-3.3%	5.0%	3.0%	3.3%	1.3%	4.0%	3.0%	2.9%	4.0%	
OUS Sales	3.5%		8.7%	7.1%	-0.7%	-4.9%	2.3%	0.1%	-1.7%	-4.6%	12.2%	1.5%	6.3%	11.3%	7.0%	-6.0%	4.3%	2.1%	
WW Sales	4.4%		2.2%	1.4%	-2.7%	-6.3%	-1.5%	1.6%	0.6%	-4.2%	9.9%	2.0%	5.3%	8.1%	6.0%	-3.2%	3.8%	2.7%	
OUS Sales ex-FX	7.2%		6.3%	7.0%	3.8%	3.5%	5.8%	2.4%	0.2%	-2.1%	14.7%	3.8%	6.8%	14.3%	7.0%	-6.0%	5.2%	2.1%	
WW Sales ex-FX	6.8%		0.3%	1.7%	0.2%	-0.7%	0.7%	3.3%	1.9%	-2.5%	11.6%	11.6%	5.7%	10.2%	6.0%	-3.2%	4.5%	2.7%	
Total BD																			
Total Sales																			
US Sales	\$3,286	\$3,247	\$806	\$821	\$837	\$824	\$3,288	\$830	\$823	\$848	\$851	\$3,352	\$848	\$825	\$859	\$869	\$3,401	\$3,520	
OUS Sales	\$4,086	\$4,337	\$1,025	\$1,108	\$1,144	\$1,143	\$4,421	\$1,070	\$1,177	\$1,205	\$1,249	\$4,701	\$1,166	\$1,246	\$1,277	\$1,304	\$4,992	\$5,238	
WW Sales	\$7,372	\$7,584	\$1,832	\$1,929	\$1,981	\$1,967	\$7,708	\$1,900	\$2,000	\$2,053	\$2,100	\$8,053	\$2,014	\$2,071	\$2,136	\$2,173	\$8,393	\$8,758	
Y/Y % Change																			
US Sales	5.0%		0.4%	2.4%	1.1%	1.2%	1.2%	3.0%	0.3%	1.3%	3.3%	2.0%	2.2%	0.2%	1.3%	2.1%	1.5%	3.5%	
OUS Sales	6.0%		4.6%	4.7%	1.7%	-2.6%	1.9%	4.4%	6.2%	5.3%	9.2%	6.3%	9.0%	5.9%	6.0%	4.4%	6.2%	4.9%	
WW Sales	5.5%		2.7%	3.7%	1.5%	-1.1%	1.6%	3.7%	3.7%	3.6%	6.8%	4.5%	6.0%	3.5%	4.0%	3.5%	4.2%	4.3%	
OUS Sales ex-FX	6.0%		4.4%	6.3%	7.8%	7.1%	6.6%	7.0%	6.9%	7.9%	10.1%	8.0%	10.0%	8.5%	5.5%	3.6%	6.8%	4.9%	
WW Sales ex-FX	5.6%		2.4%	4.6%	4.9%	4.7%	4.3%	5.2%	4.1%	5.1%	7.2%	5.4%	6.7%	5.1%	3.8%	3.0%	4.6%	4.3%	
			FXN not restated																
OUS FX Impact	-0.1%		0.1%	-1.7%	-6.1%	-9.7%	-4.7%	-2.6%	-0.7%	-2.6%	-0.9%	-1.7%	-1.0%	-2.6%	0.5%	0.8%	-0.6%	0.0%	
WW FX Impact	-0.1%		0.1%	-1.0%	-3.4%	-5.8%	-2.7%	-1.5%	-0.4%	-1.5%	-0.4%	-0.9%	-0.7%	-1.5%	0.3%	0.5%	-0.4%	0.0%	

Source: Deutsche Bank, Company reports



Figure 152 (cont'd): Becton Dickinson's Earnings Model (\$ in millions, except per share data)

	Sep 10 2010R	Sep 11 2011R	Dec 11 1Q12R	Mar 12 2Q12R	Jun 12 3Q12	Sep 12 4Q12	Sep 12 2012	Dec 12 1Q13	Mar 13 2Q13	Jun 13 3Q13	Sep 13 4Q13	Sep 13 2013	Dec 13 1Q14	Mar 14 2Q14	Jun 14 3Q14E	Sep 14 4Q14E	Sep 14 2014E	Sep 15 2015E
Adjusted Income Statement																		
Total Sales	\$7,372	\$7,584	\$1,832	\$1,929	\$1,981	\$1,967	\$7,708	\$1,900	\$2,000	\$2,053	\$2,101	\$8,054	\$2,015	\$2,072	\$2,136	\$2,173	\$8,395	\$8,758
cost of goods sold	\$3,543	\$3,625	\$900	\$941	\$947	\$955	\$3,744	\$894	\$982	\$993	\$1,012	\$3,881	\$980	\$1,019	\$1,023	\$1,045	\$4,067	\$4,203
Gross Profits	\$3,829	\$3,959	\$931	\$988	\$1,033	\$1,012	\$3,964	\$1,006	\$1,018	\$1,060	\$1,089	\$4,174	\$1,035	\$1,053	\$1,113	\$1,128	\$4,328	\$4,555
<i>Gross profit margin</i>	51.9%	52.2%	50.8%	51.2%	52.2%	51.5%	51.4%	52.9%	50.9%	51.6%	51.9%	51.8%	51.4%	50.8%	52.1%	51.9%	51.6%	52.0%
SG&A Expenses	\$1,721	\$1,824	\$482	\$488	\$469	\$477	\$1,916	\$496	\$515	\$512	\$533	\$2,056	\$531	\$514	\$526	\$549	\$2,120	\$2,174
<i>% of sales</i>	23.3%	24.0%	26.3%	25.3%	23.7%	24.2%	24.9%	26.1%	25.7%	25.0%	25.4%	25.5%	26.4%	24.8%	24.7%	25.3%	25.3%	24.8%
R&D expenses	\$431	\$460	\$112	\$117	\$115	\$126	\$470	\$118	\$122	\$121	\$133	\$495	\$126	\$127	\$128	\$133	\$514	\$536
<i>% of sales</i>	5.8%	6.1%	6.1%	6.1%	5.8%	6.4%	6.1%	6.2%	6.1%	5.9%	6.3%	6.1%	6.3%	6.1%	6.0%	6.1%	6.1%	6.1%
Operating income	\$1,677	\$1,675	\$337	\$383	\$449	\$409	\$1,578	\$392	\$381	\$427	\$423	\$1,623	\$378	\$412	\$458	\$446	\$1,694	\$1,844
<i>operating margin</i>	22.7%	22.1%	18.4%	19.9%	22.7%	20.8%	20.5%	20.6%	19.1%	20.8%	20.2%	20.2%	18.8%	19.9%	21.4%	20.5%	20.2%	21.1%
Interest income (exp)	(\$16)	(\$41)	(\$14)	(\$18)	(\$29)	(\$23)	(\$84)	(\$27)	(\$23)	(\$28)	(\$20)	(\$98)	(\$20)	(\$23)	(\$26)	(\$25)	(\$94)	(\$91)
Other income (exp)	\$0	(\$7)	(\$0)	\$5	(\$2)	(\$4)	(\$1)	\$1	\$2	\$3	\$3	\$8	\$1	(\$3)	\$2	\$3	\$3	\$6
Pretax income	\$1,661	\$1,627	\$322	\$370	\$419	\$383	\$1,493	\$366	\$360	\$401	\$406	\$1,533	\$359	\$386	\$434	\$425	\$1,603	\$1,759
<i>pretax margin</i>	22.5%	21.5%	17.6%	19.2%	21.1%	19.4%	19.4%	19.2%	18.0%	19.5%	19.3%	19.0%	17.8%	18.6%	20.3%	19.5%	19.1%	20.1%
Taxes	\$476	\$421	\$74	\$94	\$107	\$95	\$370	\$95	\$84	\$95	\$100	\$375	\$88	\$84	\$101	\$99	\$371	\$402
<i>Tax rate</i>	28.6%	25.9%	22.9%	25.5%	25.6%	24.7%	24.8%	26.1%	23.4%	23.8%	24.7%	24.5%	24.5%	21.8%	23.2%	23.2%	23.1%	22.8%
Adjusted Net Income	\$1,185	\$1,206	\$249	\$275	\$312	\$288	\$1,123	\$270	\$276	\$306	\$306	\$1,158	\$271	\$302	\$333	\$326	\$1,232	\$1,357
<i>Net income margin</i>	16.1%	15.9%	13.6%	14.3%	15.7%	14.6%	14.6%	14.2%	13.8%	14.9%	14.5%	14.4%	13.4%	14.6%	15.6%	15.0%	14.7%	15.5%
Diluted avg shares	240.1	226.3	217.6	209.8	205.3	202.4	208.8	199.6	198.1	198.7	198.6	198.8	198.1	197.5	197.0	197.3	197.5	197.5
Adjusted EPS	\$4.94	\$5.33	\$1.14	\$1.31	\$1.52	\$1.42	\$5.37	\$1.35	\$1.39	\$1.54	\$1.54	\$5.82	\$1.37	\$1.53	\$1.69	\$1.65	\$6.24	\$6.87
Year-over-year % Change																		
Sales	5.5%	2.9%	2.7%	3.7%	1.5%	-1.1%	1.6%	3.7%	3.7%	3.6%	6.8%	4.5%	6.0%	3.6%	4.0%	3.4%	4.2%	4.3%
Gross Profits	4.2%	3.4%	-1.3%	1.9%	0.4%	-0.5%	0.1%	8.0%	3.1%	2.6%	7.6%	5.3%	2.9%	3.4%	5.0%	3.5%	3.7%	5.2%
SG&A expense	5.2%	5.9%	9.4%	12.1%	0.2%	-0.6%	5.1%	2.8%	5.5%	9.2%	11.8%	7.3%	7.1%	-0.1%	2.8%	2.9%	3.1%	2.6%
R&D expense	6.5%	6.8%	-1.2%	-0.5%	0.8%	9.4%	2.1%	5.3%	4.8%	5.3%	5.5%	5.2%	6.6%	3.8%	5.8%	-0.4%	3.8%	4.3%
Operating Income	2.6%	-0.1%	-13.4%	-8.1%	0.4%	-3.0%	-5.8%	16.4%	-0.6%	-5.0%	3.4%	2.9%	-3.6%	8.1%	7.4%	5.4%	4.4%	8.9%
Pretax Income	2.3%	-2.0%	-16.0%	-8.8%	-3.8%	-5.1%	-8.3%	13.4%	-2.5%	-4.2%	6.1%	2.7%	-1.8%	7.1%	8.2%	4.6%	4.6%	9.7%
Net Income	0.9%	1.8%	-16.7%	-7.0%	-3.1%	-0.9%	-6.9%	8.7%	0.4%	-1.9%	6.1%	3.1%	0.3%	9.4%	9.0%	6.7%	6.4%	10.1%
Diluted avg shares	-2.7%	-5.8%	-6.6%	-6.9%	-8.2%	-8.3%	-7.7%	-8.3%	-5.6%	-3.2%	-1.9%	-4.8%	-0.7%	-0.3%	-0.9%	-0.7%	-0.7%	0.0%
Adjusted EPS	3.7%	8.0%	-10.9%	-0.1%	5.5%	8.1%	0.7%	18.6%	6.3%	1.4%	8.2%	8.5%	1.0%	9.7%	10.0%	7.4%	7.1%	10.1%

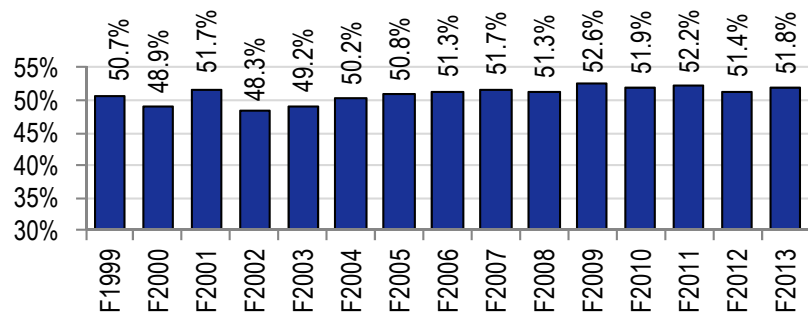
Source: Deutsche Bank, Company reports



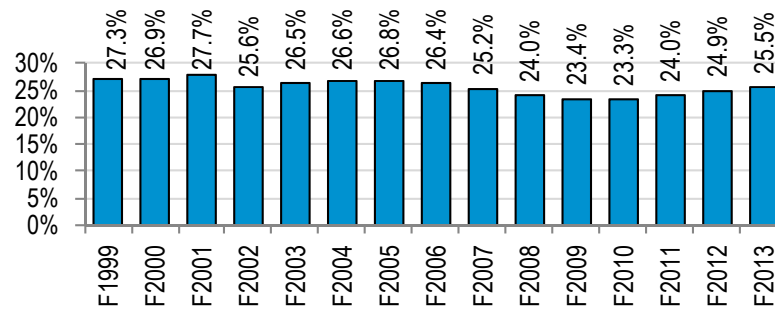
Becton Dickinson Historical Margin Trends

Figure 153: Historical Margin Trends

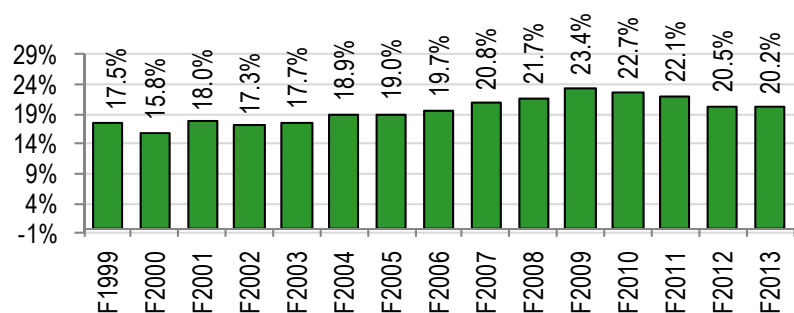
Gross margins



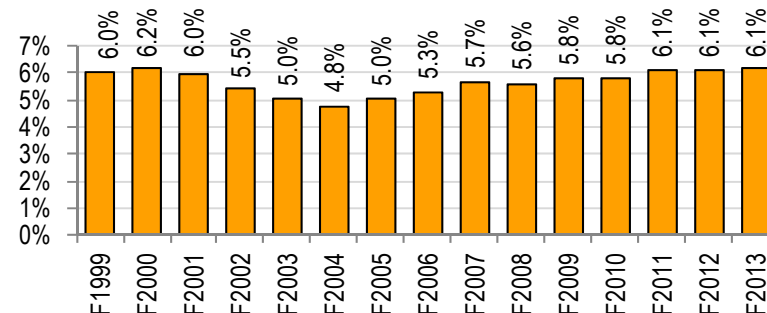
SG&A as % of sales



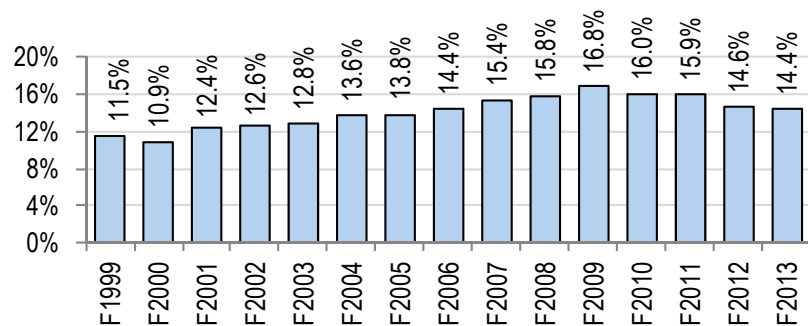
Operating Margin



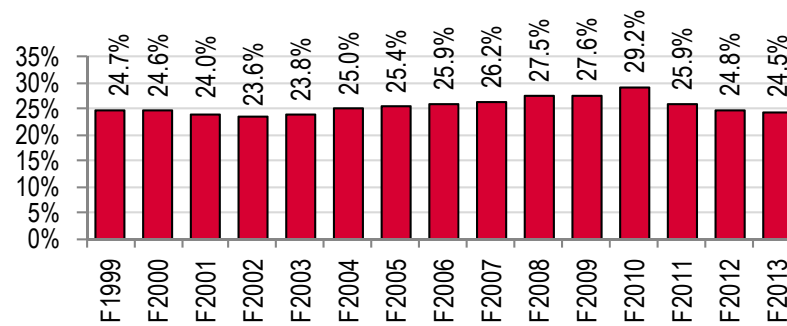
R&D as % of sales



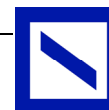
Net Margin



Tax Rate

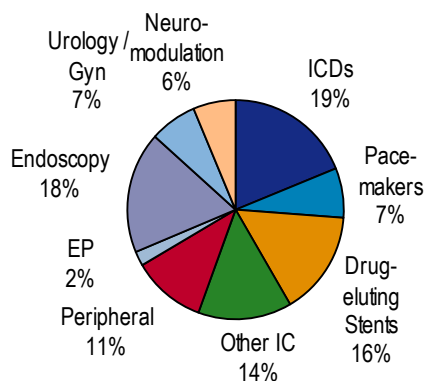


Source: Deutsche Bank, Company reports



Boston Scientific (BSX-Hold)

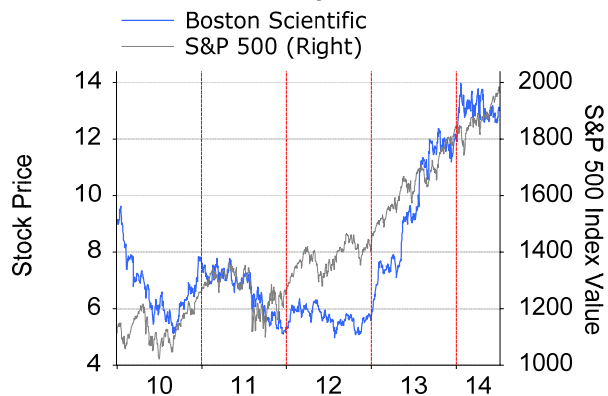
Figure 154: Sales mix, 2013 (ex-Neurovascular)



Source: Deutsche Bank, Company reports

Figure 156: Recent stock price performance

Boston Scientific Corporation vs S&P 500



Source: Deutsche Bank, Thomson Reuters

Figure 155: Rating and Valuation Summary

Mkt cap (\$M):	\$17,221	DB Rating:	Hold	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$13.02	DB Target Price:	\$14.00	DB	TR Cons	CY	Abs PE	
52 Wk Range: \$9.10-\$14.08		implied % chg: 8%		2013A	\$0.73	NTM	16.0x	
2013 Price Perf: 109.8%		Dividend Yield: 0.0%		2014E	\$0.80	\$0.80	2014E	16.2x
YTD 2014 Price Perf: 8.3%		Target PE (C15E): 15.6x		2015E	\$0.90	\$0.90	2015E	14.5x

EPS estimates exclude intangible amort

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

We believe the management is doing the right things by restructuring, refocusing, and repositioning the company for accelerated growth. We believe 2013 results illustrate Boston Scientific is making good progress in its turnaround. There are signs of market stabilization, particularly in CRM, that gives us greater comfort on BSX's outlook. BSX also has a pipeline that is beginning to emerge that could help to accelerate the top line into the low to mid single digits. We also expect operating margin improvements through accelerated top line growth, product mix, and restructuring/cost initiatives. That all said, given the valuation, we believe shares are fairly valued and we rate BSX shares a Hold.

Upcoming Potential Catalysts

- **July 16:** read-thrus from St. Jude and Abbott's results
- **July 24:** BSX earnings release
- **Aug 19:** MDT's results
- **2H14:** Initiation of Lotus Transcatheter Aortic Valve Trial (REPRISE III); Watchman FDA Advisory Panel

Valuation and Risks

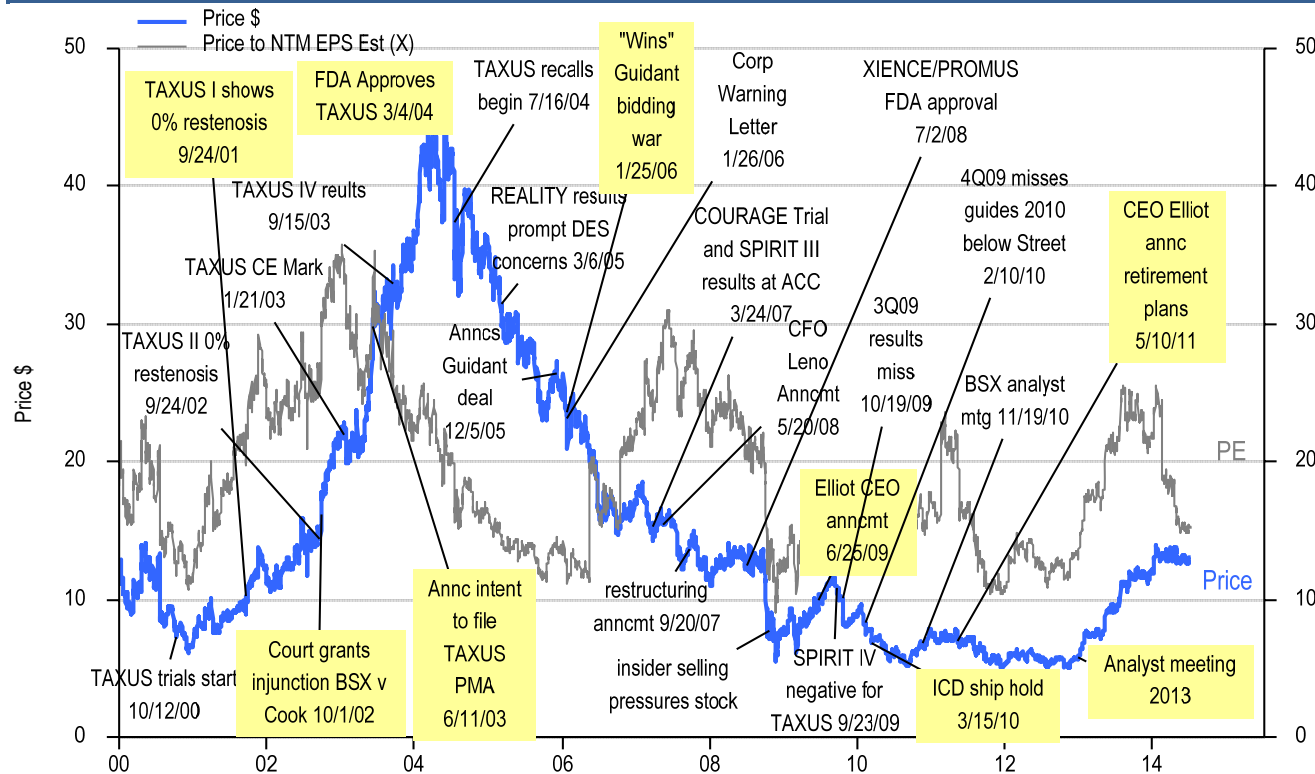
Our price target of \$14 applies a 15.6x PE multiple on our 2015E Cash EPS (and a generous 23x adjusted EPS). On 2014 metrics, the MedTech sector trades at 14.5x cash and 16.0x adjusted EPS ests. Upside risks include greater success with the pipeline (particularly S-ICDs, LAA, TAVR, RDN), improved cost cutting, improved R&D productivity, and better trends in CRM and DES businesses. Downside risks include the inability to achieve restructuring savings, delays or lack of success with new products, and dilutive acquisitions.



Historical Stock Price Performance

BSX shares historically traded on the performance of the drug-eluting stent and implantable defibrillator franchises, as well as earnings results. More recently the stock has been trading on prospects for a turnaround and improving product trends. The stock is incredibly volatile and likely to remain so going forward.

Figure 157: Stock Price Performance and Company News Events



Performance Commentary

In the past, BSX shares were driven by TAXUS drug-eluting stent program milestone achievement. The stock peaked shortly after the U.S. approval of TAXUS. In the summer of 2004, the company announced a recall of its TAXUS stent which reinforced to the market the exposure the company had to a single product and the stock started to embed this risk. In December 2005, the company announced its intent to acquire Guidant and after several bids, it won the bidding war with J&J and closed on the deal in April 2006. The corporate warning letter (announced January 2006) combined with the challenges with the Guidant CRM business (namely the recalls and the slower-than-expected market growth), the stock continued to decline. Unfavorable DES trial results, insider selling and a CRM product ship hold all resulted in pressure on the stock. The stock closed below \$5 following 2Q12 results but has more than doubled since then on the prospects for the turnaround and improving trends with new product and restructuring efforts.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
BSX	76.2%	76.3%	72.9%	-3.3%	-31.1%	-29.8%	-32.3%	-33.4%	16.3%	-15.9%	-29.5%	7.3%	109.8%	8.3%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Boston Scientific Product Portfolio Overview

Figure 158: Product overview (Sales % exclude Neurovascular)

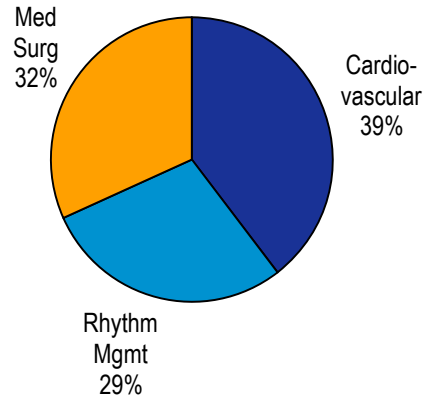
Product	% sales	Description	DB Commentary
Cardiac Rhythm			
Implantable defibrillator (ICD)	19%	In 2013, sales totaled \$1,355 million. The latest product families in the ICD business include the subcutaneous ICD (S-ICD), X4 line of quadripolar CRT-D systems, ACUITY X4 leads, and the ACUITY PRO delivery system.	Competitors include Medtronic and St. Jude, and to a lesser extent Biotronik and Sorin.
Pacemakers	7%	In 2013, sales totaled \$530 million. The latest product lines include INGENIO.	Competitors include Medtronic and St. Jude, and to a lesser extent Biotronik and Sorin.
Electrophysiology	2%	In 2013, sales totaled \$155 million. Products include diagnostic catheters, ablation catheters, RF generators, and intracardiac ultrasound systems. In November 2013, Boston Scientific acquired Bard's electrophysiology unit.	Competitors include St. Jude Medical and J&J.
Cardiovascular			
Drug-Eluting Stents	18%	In 2013, sales totaled \$1,113 million. The majority of sales are from the PROMUS family and (for now) to a lesser extent, SYNERGY	Competitors include Abbott Labs, Medtronic, and J&J.
Other interventional Cardiology	14%	In 2013, sales totaled \$1,001 million. Products in this business include balloon catheters, guidewires, guide-catheters, diagnostic catheters used in percutaneous transluminal coronary angioplasty procedures, embolic protection devices and ultrasound imaging systems.	Competitors include Abbott Labs, Medtronic, and J&J.
Peripheral interventions	11%	In 2013, sales totaled \$790 million. Products include balloon catheters, stents, peripheral vascular catheters, vascular access devices, and wire. The company also markets drainage catheters, biliary stents, and micro-puncture devices used to treat non-vascular diseases	Competitors include Bard, Cook, Covidien, Medtronic, and J&J.
MedSurg			
Endoscopy	18%	In 2013, sales totaled \$1,299 million. Includes minimally invasive devices used to treat gastrointestinal and esophageal diseases and conditions. The company also markets interventional bronchoscopy products used to diagnose and treat pulmonary conditions with the lungs and airway.	Boston Scientific's primary competitors include J&J, Stryker, Olympus, Arthrex, Arthrocare, and ConMed.
Urology/Women's Health	7%	In 2013, sales totaled \$505 million. Devices marketed in this business are used to treat conditions such as incontinence, benign prostatic hyperplasia (BPH), kidney and bladder stones, and menorrhagia.	Boston Scientific's main competitors are Bard, Endo Health Solutions, and J&J.
Neuromodulation	6%	In 2013, sales totaled \$453 million. Primary products include the rechargeable Precision and Precision Plus spinal cord stimulation systems for the treatment of chronic intractable pain of the body and limbs.	Primary competitors include Medtronic, St. Jude Medical, and Cyberonics.

Source: Deutsche Bank, Company reports



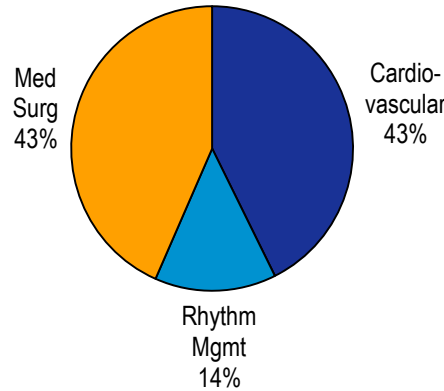
Operating Segments: Sales and Profit Mix

Figure 159: Sales Mix, 2013



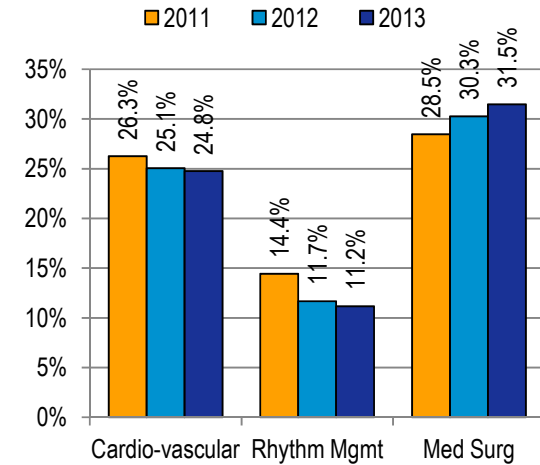
Source: Deutsche Bank, company reports

Figure 160: Operating Profit, 2013



Source: Deutsche Bank, company reports

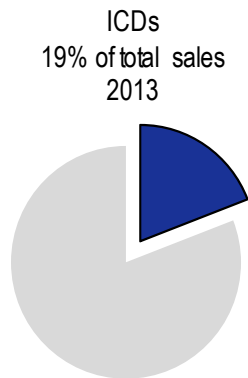
Figure 161: Operating Margin, 2013



Source: Deutsche Bank, company reports

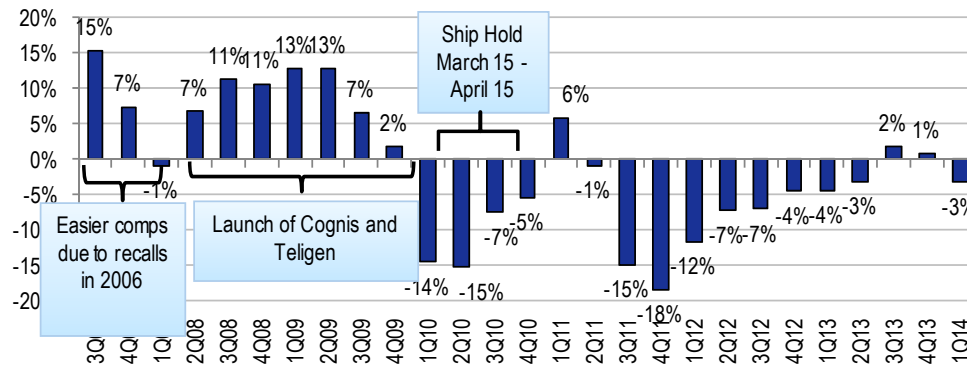
Implantable Defibrillators

Figure 162: Sales mix



Source: Deutsche Bank, Company reports

Figure 163: Year-over-Year Change in Sales, Constant Currency



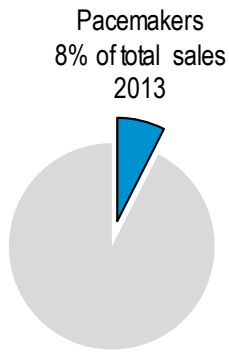
Source: Deutsche Bank, Company reports

Boston Scientific's ICD business was performing quite well with the U.S. launches of Cognis and Teligen. However, in March 2010 the company announced its products were placed on a voluntary ship hold as it worked with the FDA to ensure the product's regulatory documentation and approvals were up-to-date. The products were returned to market after a month, but the business continued to experience negative trends before returning to growth in the third quarter of 2013.



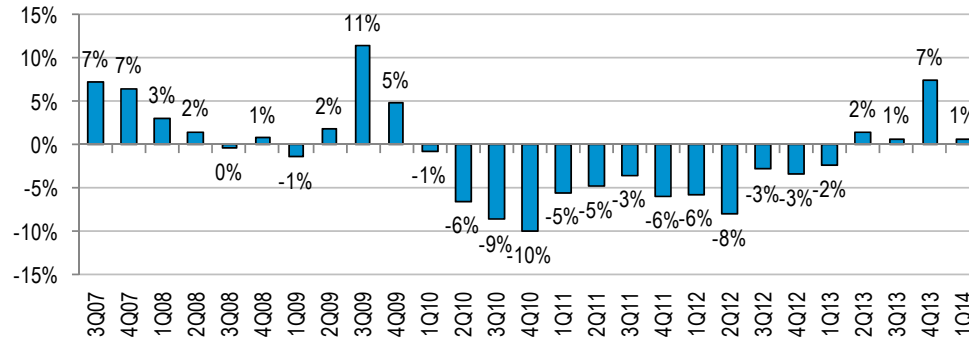
Pacemakers

Figure 164: Sales mix



Source: Deutsche Bank, Company reports

Figure 165: Year-over-Year Change in Sales, Constant Currency

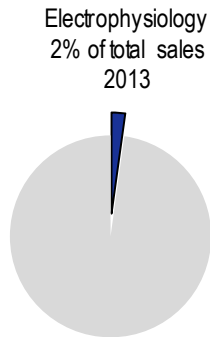


Source: Deutsche Bank, Company reports

The performance of Boston Scientific's pacemaker business has been lackluster as it suffered from a lack of new products along with a decline in industry pricing. More recently though with the introduction of a new line of pacemakers (INGENIO) trends have improved.

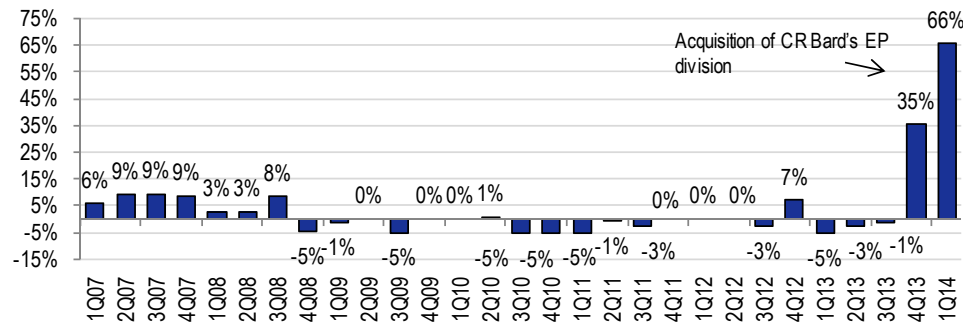
Electrophysiology

Figure 166: Sales mix



Source: Deutsche Bank, Company reports

Figure 167: Year-over-Year Change in Sales, Constant Currency



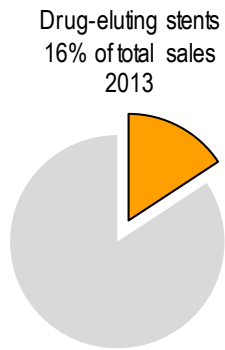
Source: Deutsche Bank, Company reports

Electrophysiology devices include diagnostic and treatment devices used to treat cardiac arrhythmias such as atrial flutter and atrial fibrillation. Boston Scientific manufactures two types of radiofrequency ablation systems – temperature control RF ablation and fluid cooled ablation. Products include diagnostic catheters, ablation catheters, RF generators, and intracardiac ultrasound systems.



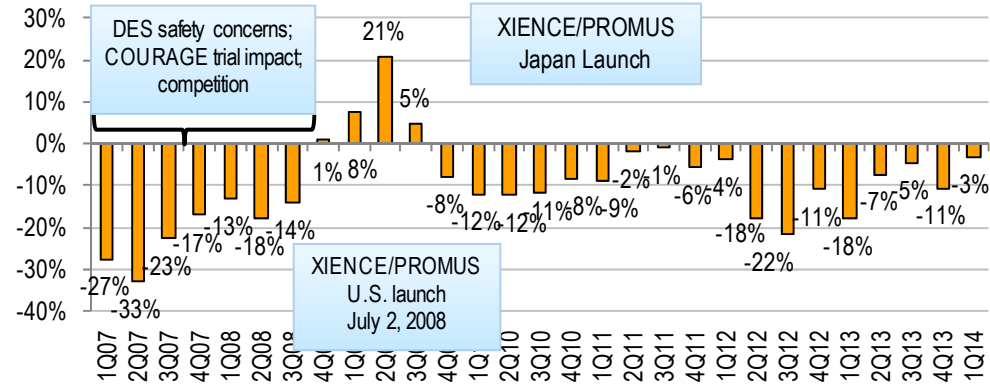
Drug-Eluting Stents

Figure 168: Sales mix



Source: Deutsche Bank, Company reports

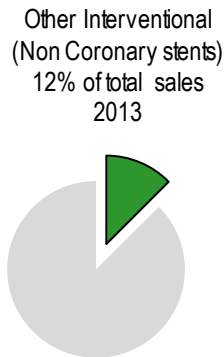
Figure 169: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

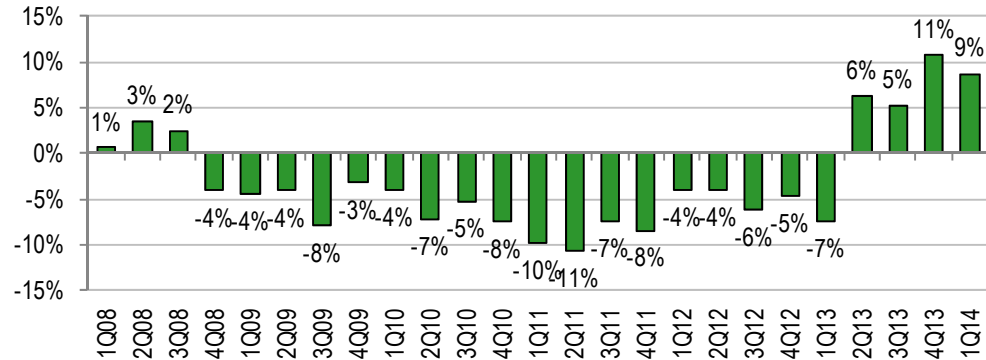
Other interventional (non-coronary stents)

Figure 170: Sales mix



Source: Deutsche Bank, Company reports

Figure 171: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Boston Scientific's drug-eluting stent business includes sales of the company's PROMUS line, which was acquired through the Guidant acquisition, as well as SYNERGY. Sales continue to decline on a year-over-year basis, which is a function of the overall negative pricing environment as well as the increased competition and market share losses.

Sales of these products include balloon catheters, guidewires, guide-catheters, diagnostic catheters used in percutaneous transluminal coronary angioplasty procedures, embolic protection devices and ultrasound imaging systems.



Peripheral Interventions

Figure 172: Sales mix

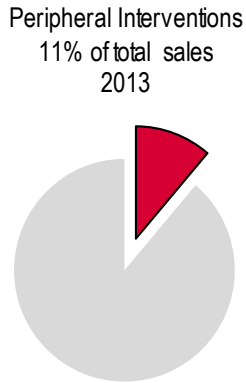
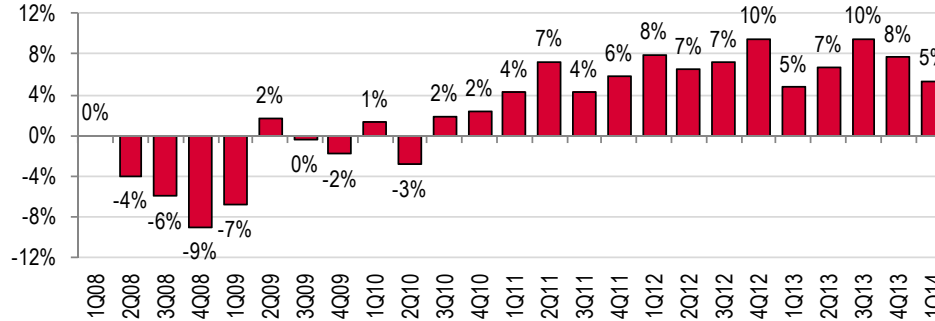


Figure 173: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Endoscopy

Figure 174: Sales mix

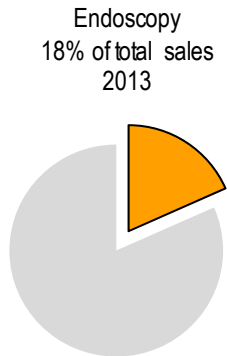
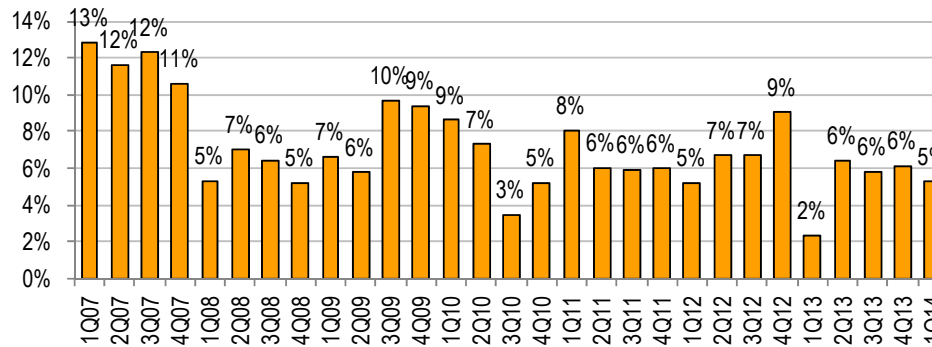


Figure 175: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

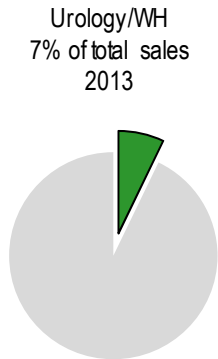
The peripheral interventions business markets devices used in peripheral vascular stenting, peripheral embolization, and percutaneous transluminal angioplasty procedures to treat peripheral vascular diseases. Products include balloon catheters, stents, peripheral vascular catheters, vascular access devices, and wire. The company also markets drainage catheters, biliary stents, and micro-puncture devices used to treat non-vascular diseases.

The endoscopy business consists of minimally invasive devices used to treat gastrointestinal and esophageal diseases and conditions such as portal hypertension, gallstones, strictures in the esophagus, stomach or colon, peptic ulcers, esophagitis (inflammation of the esophagus), cancers, internal bleeding, and polyps. The company also markets interventional bronchoscopy products used to diagnose and treat pulmonary conditions with the lungs and airway.



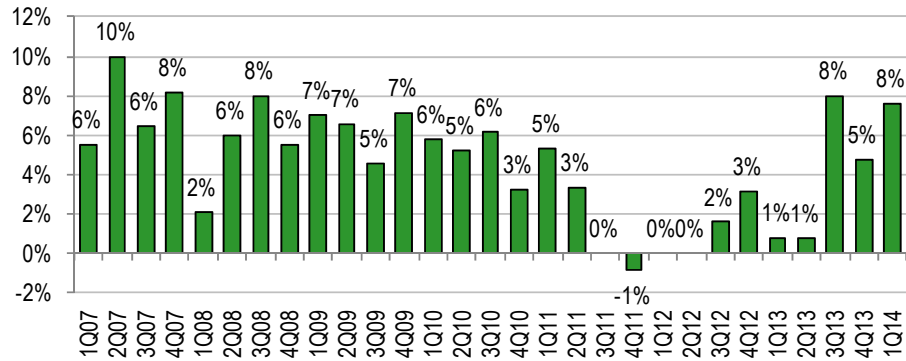
Urology/Women's Health

Figure 176: Sales mix



Source: Deutsche Bank, Company reports

Figure 177: Year-over-Year Change in Sales, Constant Currency

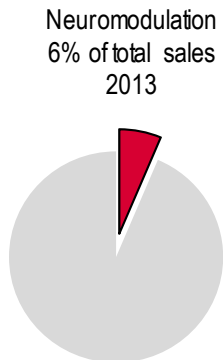


Source: Deutsche Bank, Company reports

Devices marketed in this business are used to treat conditions such as incontinence, benign prostatic hyperplasia (BPH), kidney and bladder stones, and menorrhagia.

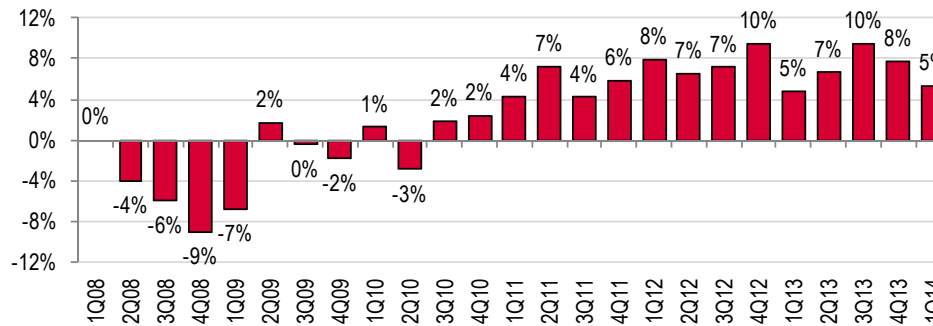
Neuromodulation

Figure 178: Sales mix



Source: Deutsche Bank, Company reports

Figure 179: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Boston Scientific's neuromodulation business (Advanced Bionics) was acquired in 2004.

Primary products include the rechargeable Precision and Precision Plus spinal cord stimulation systems for the treatment of chronic intractable pain of the body and limbs.



Boston Scientific's 1Q14 Results

Our Take on the Quarter

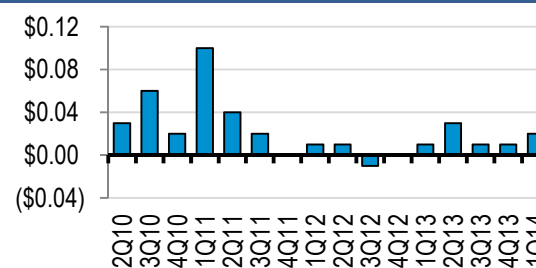
Sales of \$1,774M were below both TR Consensus at \$1,795M and DBe of \$1,779M and in the middle of company guidance of \$1,755-\$1,805. Sales were up 4% operationally, which excludes the impact of FX and the neurovascular divestiture, and up 3% excluding the Bard EP acquisition. Cash EPS of \$0.20, was above Consensus of \$0.18, our estimate of \$0.17, and guidance of \$0.16-\$0.18.

Figure 180: Quarter Variance

	Actual	TR Consensus	DB Estimate
(\$ in mil except per share)			
Sales	\$1,774M	\$1,795M	\$1,779M
EPS (with amort)	\$0.20	\$0.18	\$0.17

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 181: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Organic sales in positive territory for the 4th consecutive quarter, up 2.7%.
- EPS of \$0.20 came in ahead of Consensus and company guidance. Boston increases its full-year guidance range by \$0.02.
- Emerging market sales increased 22% y/y.
- S-ICD launch is tracking well, and mgmt anticipates sales in excess of \$75M for the full year.

Mixed/Negatives

- US CRM sales were down in the mid single-digits, below market primarily driven by a 6% decline in US ICD sales.
- Neuromod sales anticipated to decline given recent reimbursement changes

Quick P&L Recap

- Total sales of \$1,774M were up 2% on a constant currency basis and up 4% operationally. US sales were up 1%, while international sales were up 8% ex-FX. Emerging markets sales continue to be strong, up 22% ex-FX.
- Gross margin of 69.9% was up 260bps y/y, driven by benefits from value improvement programs and favorable product mix, slightly offset by pricing.
- SG&A expense was 36.9%, up 140bps vs the prior year, as cost savings initiatives were more than offset by growth initiatives, new product launches, and geographic expansion efforts.
- R&D expense was 10.8% of sales, down 80bps y/y driven somewhat by efficiency gains, but primarily due to product timing.
- Operating margins were 20.0% excluding amortization, up 220bps y/y on strength in gross margins and lower R&D spend, somewhat offset by continued investments in growth initiatives.
- Net interest exp was \$54M vs \$65M in the prior year. The variance was primarily due to a debt refinancing in 3Q13.
- Other income was \$4M vs \$1M in 1Q13 and included a \$7M gain on investment during the quarter.
- Adjusted tax rate was 11.9% compared to 10.0% a year ago.
- Share count of 1,349M was down 1.1% y/y. BSX repurchased 10M shares for \$125M.
- Adjusted Cash EPS of \$0.20 was up 21.0% and ahead of the Company's previous guidance range of \$0.16-\$0.18.

Figure 182: Key Product Sales Trends

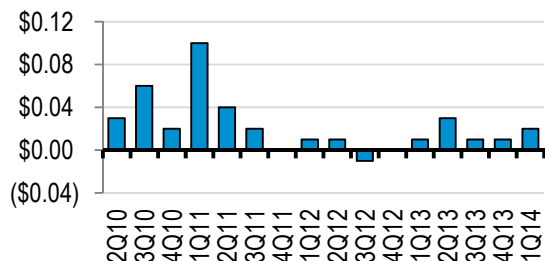
	Actual (\$ mil)	Est Y/Y % Chg Rptd	Ex-FX
Rhythm Mgmt	\$524	2%	3%
CRM	\$466	-3%	-2%
US ICDs	\$208	-6%	-6%
OUS ICDs	\$131	2%	2%
WW ICDs	\$339	-3%	-3%
Pacemakers	\$127	-1%	1%
Electrophysiology	\$58	68%	68%
Cardiovascular	\$700	0%	2%
Bare stents	\$13	-28%	-28%
US DES	\$118	1%	1%
OUS DES	\$158	-10%	-6%
WW DES	\$276	-5%	-3%
Non-Stent IC	\$208	7%	9%
Peripheral Interv	\$203	3%	5%
MedSurg	\$548	7%	9%
Endoscopy	\$314	3%	5%
Uro/Women Hlth	\$125	6%	8%
Neuromodulation	\$109	23%	23%
Divestiture	\$2		
FX Impact	(\$25)		
Total Sales	\$1,774	1%	2%
Ex Divestiture, FX, & Acq			3%

Source: Deutsche Bank, Company reports



Boston Scientific 2Q14 Results Preview

Figure 183: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 186: DB versus Thomson Reuters Estimates

	2013A		2014E		2015E	
	2013A	DB est	TR Est	DB est	TR Est	TR Est
Revenues						
1Q	\$1,761	a	\$1,774	\$1,862	\$1,859	
2Q	\$1,809	e	\$1,878	\$1,866	\$1,941	
3Q	\$1,735	e	\$1,846	\$1,827	\$1,902	
4Q	\$1,838	e	\$1,931	\$1,934	\$2,025	
FY	\$7,143	e	\$7,429	\$7,394	\$7,763	\$7,713

Guidance (04/29/14):

2Q14: \$1,840-\$1,890 million

2014: \$7,300-7,500 million

Earnings Per Share

	2013A		2014E		2015E	
	2013A	DB est	TR Est	DB est	TR Est	TR Est
1Q	\$0.16	a	\$0.20	\$0.21	\$0.21	
2Q	\$0.18	e	\$0.20	\$0.19	\$0.23	
3Q	\$0.17	e	\$0.19	\$0.19	\$0.22	
4Q	\$0.21	e	\$0.22	\$0.22	\$0.24	
FY	\$0.73	e	\$0.80	\$0.80	\$0.90	\$0.90

Guidance (04/29/14):

2Q14: Cash EPS \$0.18-\$0.20 (\$0.06-\$0.08 reported)

2014: Cash EPS \$0.75-\$0.80 (\$0.36-\$0.41 reported)

Source: Deutsche Bank, Thomson Reuters

Figure 184: Earnings Release and Conference Call Information

Earnings Release Date: Thursday, July 24, 2014 before market open**Conf Call Date & Info:** Thursday, July 24, 2014 at 8:00am
www.bostonscientific.com/investors

Source: Company reports, Thomson Reuters

Figure 185: DB Expectation Summary

	DB Est. (\$ mil)	Est Y/Y % Chg Rptd	Ex-FX
Rhythm Mgmt	\$544	7%	6%
CRM	\$487	2%	2%
US ICDs	\$216	1%	1%
OUS ICDs	\$133	3%	2%
WW ICDs	\$349	2%	1%
Pacemakers	\$138	4%	4%
Electrophysiology	\$58	63%	63%
Cardiovascular	\$740	2%	2%
Bare stents	\$12	-27%	-27%
US DES	\$116	-1%	-1%
OUS DES	\$169	0%	-2%
WW DES	\$285	-1%	-1%
Non-Stent IC	\$227	5%	5%
Peripheral Interv	\$214	6%	5%
MedSurg	\$594	7%	7%
Endoscopy	\$338	6%	6%
Uro/Women Hlth	\$133	7%	7%
Neuromodulation	\$123	11%	11%
Divestiture	\$0		
FX Impact	\$4		
Total Sales	\$1,878	4%	4%
Ex Divestiture, FX, & Acq			3%

What to focus on:

- 2014 guidance update
- Margins and restructuring programs
- Cardiac rhythm management business and market dynamics
- S-ICD sales ramp-up
- Drug-eluting stent business and market dynamics
- Product pipeline: an update on products such as Lotus Valve and renal denervation
- Watchman FDA panel update
- Corporate strategy, capital allocation, and longer term outlook

Source: Deutsche Bank



2014 Guidance

Boston Scientific continues to expect full year sales of \$7,300M-\$7,500M, up 2%-5% on a reported and constant currency basis. Excluding FX and the impact of the Neurovascular divestiture, sales are expected to be up 3%-5%. The 3%-5% growth rate does include about a 100bp benefit from the acquisition of the Bard EP business thus organic sales growth is expected to be closer to the 2%-4% level. Boston Scientific expects growth in "adjacencies" to be "100bp-plus;" adjacencies include the Watchman left atrial appendage device, Lotus transcatheter aortic valve, Alair bronchial thermoplasty, Rhythmia mapping, Vercise Deep Brain Stimulation system and Vessix renal denervation. We note these are all products from businesses Boston Scientific acquired over the 2010-2012 period.

- **Watchman Left Atrial Appendage Device:** In June 2014, Boston Scientific disclosed that the FDA stated its WATCHMAN device will need to go before a third FDA Advisory Panel (date TBD). Boston had originally expected WATCHMAN approval in 1H14; Boston has updated their approval timing to 1H15. Recall, the LAA device went before a second FDA panel in December 2013.
- **Lotus transcatheter aortic valve:** In October 2013, BSX received CE Mark (European approval) for the Lotus valve system. The system is currently available in select European centers and commercial site expansion is expected to accelerate as physicians and centers become fully trained in the device. Boston Scientific is planning to start its US IDE trial in 2H14.
- **Alair:** Alair has received both CE Mark and FDA approval. Sales should continue to ramp in 2014 and beyond as reimbursement begins to come online supported by the publication of 5-year AIR clinical trial results. We note that Boston Scientific has pegged the opportunity at approximately \$1 billion annually, based on a 2.5 million target patient population, \$7,500+ revenue per procedure, and an assumed penetration rate of 5%.
- **Rhythmia:** The Rhythmia Mapping System received 510K approval in July 2013. As the launch continues to progress, sales from the device should see a solid ramp.
- **Vercise deep brain stimulation:** The Vercise deep brain stimulation device is currently marketed in CE Mark countries.
- **Vessix Renal Denervation:** The Vessix renal denervation system was launched in Europe in early 2013. Despite the announcement that Medtronic's SYMPLICITY HTN-3 failed its primary efficacy endpoint, management remains optimistic about its prospects though noted that it will use the outcome in the study to inform its pathway for Vessix in the US.

EPS Expectations

Following 1Q results, on a cash EPS basis, Boston Scientific increased its guidance range to \$0.77-\$0.82 (versus prior guidance of \$0.75-\$0.80), which we note, does not include the renewal of the R&D tax credit.

Figure 187: F2014 Guidance vs. DB Estimates

	2013A	2014		DB Est	2Q14	
		Guidance on: 2/4/2014	4/29/2014		BSX guidance 4/29/2014	DB Est
WW CRM	\$1,885			\$1,912		\$487
US CRM	\$1,116			\$1,114		\$284
OUS CRM	\$769			\$798		\$203
WW DES	\$1,113			\$1,129		\$285
US DES	\$448			\$451		\$116
OUS DES	\$665			\$678		\$169
Total Sales	\$7,138	\$7,300-\$7,500	\$7,300-\$7,500	\$7,427	\$1,840-\$1,890	\$1,878
FX	(\$152)	\$0	\$0	(\$2)	(\$5)	\$4
P&L						
Gross margins	69.7%	70%-71%	70%-71%	70.3%	70%-71%	70.4%
SG&A as % of sales	36.7%	36.5%-37.5%	36.5%-37.5%	37.2%	36.5%-37.5%	37.0%
R&D as % of sales	12.0%	11.5%-12%	11.5%-12%	11.5%	11.5%-12%	11.7%
Tax rate	6.7%	13%-15%	13%-15%	12.5%	13%-15%	14%
Adjusted EPS	\$0.46	\$0.47-\$0.52	\$0.49-\$0.54	\$0.52	\$0.11-\$0.13	\$0.13
Amort Expense	\$0.27	\$0.28	\$0.28	\$0.29	\$0.07	\$0.07
Cash EPS	\$0.73	\$0.75-\$0.80	\$0.77-\$0.82	\$0.80	\$0.18-\$0.20	\$0.20
GAAP EPS	(\$0.09)	\$0.35-\$0.40	\$0.36-\$0.41	\$0.48	\$0.06-\$0.08	\$0.12

Source: Deutsche Bank, Company Reports



Figure 188: Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Cardiac Rhythm Management																			
Implantable Defibrillators (ICDs)																			
US Sales	\$1,037	\$948	\$229	\$220	\$205	\$204	\$858	\$221	\$213	\$212	\$204	\$850	\$208	\$216	\$218	\$211	\$853	\$876	
OUS Sales	\$561	\$570	\$139	\$135	\$122	\$126	\$522	\$129	\$129	\$118	\$129	\$505	\$131	\$133	\$123	\$134	\$522	\$536	
WW Sales	\$1,598	\$1,518	\$368	\$355	\$327	\$330	\$1,380	\$350	\$342	\$330	\$333	\$1,355	\$339	\$349	\$342	\$345	\$1,375	\$1,412	
Est FX Impact (\$)	(\$4)	\$37	(\$1)	(\$10)	(\$8)	(\$3)	(\$22)	(\$2)	(\$2)	(\$3)	\$0	(\$7)	\$0	\$2	\$1	\$1	\$4	\$0	
Y/Y % change																			
US Sales	-16.9%	-8.6%	-13.9%	-9.5%	-8.9%	-4.7%	-9.5%	-3.5%	-3.2%	3.4%	0.0%	-0.9%	-5.9%	1.3%	3.0%	3.5%	0.4%	2.7%	
OUS Sales	3.1%	1.6%	-7.9%	-10.0%	-9.6%	-6.0%	-8.4%	-7.2%	-4.4%	-3.3%	2.4%	-3.3%	1.6%	3.1%	4.5%	4.2%	3.3%	2.8%	
WW Sales	-10.8%	-5.0%	-11.8%	-9.7%	-9.2%	-5.2%	-9.1%	-4.9%	-3.7%	0.9%	0.9%	-1.8%	-3.1%	2.0%	3.6%	3.7%	1.5%	2.7%	
OUS Sales Ex-FX	3.8%	-5.0%	-7.3%	-3.3%	-3.7%	-4.1%	-4.6%	-5.8%	-3.0%	-0.8%	2.4%	-1.9%	1.6%	1.6%	3.7%	3.4%	2.5%	2.8%	
WW Sales Ex-FX	-10.6%	-7.3%	-11.5%	-7.1%	-6.9%	-4.5%	-7.7%	-4.3%	-3.1%	1.8%	0.9%	-1.3%	-3.1%	1.4%	3.3%	3.4%	1.2%	2.7%	
Pacemakers																			
US Sales	\$320	\$280	\$63	\$64	\$68	\$61	\$256	\$62	\$69	\$70	\$65	\$266	\$62	\$68	\$69	\$61	\$260	\$264	
OUS Sales	\$261	\$290	\$70	\$69	\$67	\$66	\$272	\$66	\$64	\$64	\$70	\$264	\$65	\$70	\$69	\$73	\$276	\$280	
WW Sales	\$581	\$570	\$133	\$133	\$135	\$127	\$528	\$128	\$133	\$134	\$135	\$530	\$127	\$138	\$138	\$134	\$537	\$544	
Est FX Impact (\$)	\$1	\$17	(\$1)	(\$6)	(\$4)	(\$3)	(\$14)	(\$2)	(\$2)	(\$2)	(\$2)	(\$8)	(\$2)	\$0	\$1	\$1	\$0	\$0	
Y/Y % Chg																			
US Sales	-7.4%	-12.6%	-13.7%	-11.1%	-4.2%	-4.7%	-8.6%	-1.6%	7.8%	2.9%	6.6%	3.9%	0.0%	-1.2%	-1.4%	-6.0%	-2.2%	1.3%	
OUS Sales	-5.1%	11.1%	1.4%	-12.7%	-6.9%	-5.7%	-6.2%	-5.7%	-7.2%	-4.5%	6.1%	-2.9%	-1.5%	8.6%	8.4%	3.6%	4.7%	1.4%	
WW Sales	-6.4%	-1.9%	-6.3%	-11.9%	-5.6%	-5.2%	-7.4%	-3.8%	0.0%	-0.7%	6.3%	0.4%	-0.8%	3.5%	3.3%	-1.0%	1.3%	1.4%	
OUS Sales Ex-FX	-5.4%	4.6%	2.9%	-5.1%	-1.4%	-2.1%	-1.6%	-2.9%	-4.3%	-1.5%	8.3%	-0.2%	1.5%	8.6%	6.9%	2.2%	4.7%	1.4%	
WW Sales Ex-FX	-6.5%	-4.9%	-5.6%	-7.9%	-2.8%	-3.4%	-5.0%	-2.3%	1.5%	0.7%	7.5%	1.8%	0.8%	3.5%	2.5%	-1.8%	1.3%	1.4%	
Electrophysiology																			
US Sales	\$112	\$106	\$26	\$28	\$26	\$28	\$108	\$25	\$26	\$25	\$30	\$106	\$30	\$31	\$30	\$33	\$124	\$134	
OUS Sales	\$35	\$41	\$11	\$9	\$9	\$10	\$39	\$10	\$10	\$9	\$20	\$49	\$28	\$27	\$26	\$28	\$109	\$117	
WW Sales	\$147	\$147	\$37	\$37	\$35	\$38	\$147	\$35	\$36	\$34	\$50	\$155	\$58	\$58	\$56	\$61	\$233	\$251	
Est FX Impact (\$)	\$1	\$3	\$0	(\$1)	\$0	(\$1)	(\$2)	\$0	(\$1)	(\$1)	(\$1)	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0	
Y/Y % Chg																			
US Sales	-4.3%	-5.4%	-3.7%	3.7%	0.0%	7.7%	1.9%	-3.8%	-7.1%	-3.8%	8.6%	-1.5%	20.0%	20.0%	20.0%	8.0%	16.6%	8.0%	
OUS Sales	6.1%	17.1%	10.0%	-18.2%	-10.0%	0.0%	-4.9%	-9.1%	5.6%	0.0%	100.0%	24.4%	180.0%	180.0%	190.0%	40.0%	124.1%	8.0%	
WW Sales	-2.0%	0.0%	0.0%	-2.6%	-2.8%	5.6%	0.0%	-5.4%	-4.1%	-2.9%	32.6%	5.4%	65.7%	62.8%	65.0%	20.7%	50.2%	8.0%	
OUS Sales Ex-FX	3.9%	8.6%	10.0%	-9.1%	-10.0%	5.0%	-1.2%	-9.1%	11.1%	5.6%	110.0%	29.5%	180.0%	180.0%	190.0%	40.0%	124.1%	8.0%	
WW Sales Ex-FX	-2.5%	-2.0%	0.0%	0.0%	-2.8%	6.9%	1.0%	-5.4%	-2.7%	-1.4%	35.3%	6.7%	65.7%	62.8%	65.0%	20.7%	50.2%	8.0%	

Source: Deutsche Bank, Company reports



Figure 188 (cont'd): Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Interventional Cardiology																		
Bare Metal Stents																		
US Sales	\$45	\$31	\$7	\$6	\$6	\$6	\$25	\$5	\$5	\$5	\$4	\$19	\$4	\$4	\$4	\$4	\$16	\$15
OUS Sales	\$89	\$79	\$17	\$16	\$15	\$15	\$63	\$13	\$12	\$10	\$11	\$46	\$9	\$8	\$9	\$8	\$34	\$34
WW Sales	\$133	\$110	\$24	\$22	\$21	\$21	\$88	\$18	\$17	\$15	\$15	\$65	\$13	\$12	\$13	\$12	\$50	\$49
Est FX Impact (\$)	\$11	\$6	\$0	(\$1)	(\$1)	\$0	(\$2)	(\$1)	(\$1)	\$0	\$0	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0
Y/Y % Chg																		
US Sales	-21.9%	-30.3%	-22.2%	-25.0%	-14.3%	-14.3%	-19.4%	-28.6%	-16.7%	-16.7%	-33.3%	-24.0%	-20.0%	-19.0%	-20.7%	-4.2%	-16.6%	-5.7%
OUS Sales	-21.7%	-10.7%	-19.0%	-20.0%	-25.0%	-16.7%	-20.3%	-23.5%	-25.0%	-33.3%	-26.7%	-27.0%	-30.8%	-30.1%	-13.8%	-23.4%	-25.2%	-1.3%
WW Sales	-21.8%	-17.3%	-20.0%	-21.4%	-22.2%	-16.0%	-20.0%	-25.0%	-22.7%	-28.6%	-28.6%	-26.1%	-27.8%	-26.9%	-16.1%	-18.3%	-22.7%	-2.7%
OUS Sales Ex-FX (est)	-31.4%	-17.5%	-19.0%	-15.0%	-20.0%	-16.7%	-17.7%	-17.6%	-18.8%	-33.3%	-26.7%	-23.8%	-30.8%	-30.1%	-13.8%	-23.4%	-25.2%	-1.3%
WW Sales Ex-FX (est)	-28.2%	-21.8%	-20.0%	-17.9%	-18.5%	-16.0%	-18.2%	-20.8%	-18.2%	-28.6%	-28.6%	-23.9%	-27.8%	-26.9%	-16.1%	-18.3%	-22.7%	-2.7%
Drug Eluting Total																		
US Sales	\$805	\$751	\$176	\$140	\$123	\$118	\$557	\$117	\$117	\$106	\$108	\$448	\$118	\$116	\$110	\$107	\$451	\$415
OUS Sales	\$733	\$759	\$187	\$178	\$160	\$194	\$719	\$175	\$170	\$156	\$164	\$665	\$158	\$169	\$168	\$183	\$678	\$703
WW Sales	\$1,538	\$1,510	\$363	\$318	\$283	\$312	\$1,276	\$292	\$287	\$262	\$272	\$1,113	\$276	\$285	\$278	\$289	\$1,129	\$1,118
Est FX Impact (\$)	\$19	\$40	(\$2)	(\$11)	(\$11)	(\$5)	(\$29)	(\$6)	(\$8)	(\$8)	(\$7)	(\$29)	(\$7)	\$2	\$0	\$2	(\$3)	\$0
Y/Y % Chg																		
US Sales	-11.6%	-6.7%	-4.3%	-32.7%	-35.6%	-29.8%	-25.8%	-33.5%	-16.4%	-13.8%	-8.5%	-19.6%	0.9%	-0.8%	3.8%	-1.2%	0.6%	-8.0%
OUS Sales	-8.0%	3.5%	-4.1%	-7.3%	-13.0%	3.2%	-5.3%	-6.4%	-4.5%	-2.5%	-15.5%	-7.5%	-9.7%	-0.4%	7.6%	11.3%	1.9%	3.8%
WW Sales	-10.0%	-1.8%	-4.2%	-20.5%	-24.5%	-12.4%	-15.5%	-19.6%	-9.7%	-7.4%	-12.8%	-12.8%	-5.5%	-0.5%	6.1%	6.4%	1.4%	-0.9%
OUS Sales Ex-FX	-10.4%	-1.8%	-3.1%	-1.6%	-7.1%	5.9%	-1.4%	-3.2%	0.0%	2.5%	-11.8%	-3.4%	-5.7%	-1.5%	7.6%	10.1%	2.4%	3.8%
WW Sales Ex-FX (per rec)	-11.0%	-4.4%	-3.7%	-17.8%	-21.6%	-11.0%	-13.6%	-17.9%	-7.2%	-4.6%	-10.5%	-10.5%	-3.1%	-1.2%	6.1%	5.6%	1.7%	-0.9%
Total Coronary Stents																		
US Sales	\$850	\$782	\$183	\$146	\$129	\$124	\$582	\$122	\$122	\$111	\$112	\$467	\$122	\$120	\$114	\$111	\$467	\$430
OUS Sales	\$822	\$838	\$204	\$194	\$175	\$209	\$782	\$188	\$182	\$166	\$175	\$711	\$167	\$178	\$177	\$191	\$712	\$737
WW Sales	\$1,671	\$1,620	\$387	\$340	\$304	\$333	\$1,364	\$310	\$304	\$277	\$287	\$1,178	\$289	\$298	\$291	\$302	\$1,179	\$1,167
Est FX Impact (\$)	\$30	\$46	(\$2)	(\$12)	(\$12)	(\$5)	(\$31)	(\$7)	(\$9)	(\$8)	(\$7)	(\$31)	(\$7)	\$2	\$0	\$2	(\$3)	\$0
Y/Y % Chg																		
US Sales	-12.2%	-7.9%	-5.2%	-32.4%	-34.8%	-29.1%	-25.6%	-33.3%	-16.4%	-14.0%	-9.7%	-19.8%	0.0%	-1.5%	2.7%	-1.3%	-0.1%	-7.9%
OUS Sales	-9.7%	2.0%	-5.6%	-8.5%	-14.2%	1.5%	-6.7%	-7.8%	-6.2%	-5.1%	-16.3%	-9.1%	-11.2%	-2.3%	6.3%	9.1%	0.2%	3.5%
WW Sales	-11.0%	-3.1%	-5.4%	-20.6%	-24.4%	-12.6%	-15.8%	-19.9%	-10.6%	-8.9%	-13.8%	-13.6%	-6.8%	-2.0%	4.9%	5.1%	0.1%	-1.0%
OUS Sales Ex-FX	-13.0%	-3.5%	-4.6%	-2.8%	-8.3%	3.9%	-3.0%	-4.4%	-1.5%	-0.6%	-12.8%	-5.1%	-7.4%	-3.4%	6.3%	8.0%	0.6%	3.5%
WW Sales Ex-FX	-12.6%	-5.8%	-4.9%	-17.8%	-21.4%	-11.3%	-13.9%	-18.1%	-7.9%	-6.3%	-11.7%	-11.3%	-4.5%	-2.7%	4.9%	4.4%	0.3%	-1.0%

Source: Deutsche Bank, Company reports



Figure 188 (cont'd): Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Other Interventional Cardio																			
US Sales	\$392	\$343	\$83	\$78	\$73	\$76	\$310	\$72	\$74	\$73	\$74	\$293	\$69	\$74	\$73	\$74	\$290	\$313	
OUS Sales	\$538	\$531	\$133	\$131	\$117	\$125	\$506	\$123	\$142	\$122	\$139	\$526	\$139	\$153	\$133	\$151	\$576	\$616	
WW Sales	\$930	\$874	\$216	\$209	\$190	\$201	\$816	\$195	\$216	\$195	\$213	\$819	\$208	\$227	\$206	\$225	\$866	\$929	
Est FX Impact (\$)	\$9	\$28	(\$1)	(\$6)	(\$8)	(\$2)	(\$17)	(\$5)	(\$6)	(\$5)	(\$10)	(\$26)	(\$4)	\$0	\$1	\$2	(\$1)	\$0	
Y/Y % Chg																			
US Sales	-4.2%	-12.5%	-9.8%	-13.3%	-11.0%	-3.8%	-9.6%	-13.3%	-5.1%	0.0%	-2.6%	-5.5%	-4.2%	0.0%	0.0%	0.0%	-1.0%	8.0%	
OUS Sales	-5.9%	-1.3%	-0.7%	-2.2%	-9.3%	-6.7%	-4.7%	-7.5%	8.4%	4.3%	11.2%	4.0%	13.0%	8.0%	8.8%	8.4%	9.5%	7.0%	
WW Sales	-5.2%	-6.0%	-4.4%	-6.7%	-10.0%	-5.6%	-6.6%	-9.7%	3.3%	2.6%	6.0%	0.4%	6.7%	5.3%	5.5%	5.5%	5.7%	7.3%	
OUS Sales Ex-FX	-7.5%	-6.4%	0.0%	2.2%	-3.1%	-5.2%	-1.5%	-3.8%	13.0%	8.5%	18.8%	9.0%	16.3%	8.0%	8.0%	7.0%	9.7%	7.0%	
WW Sales Ex-FX (per	-6.1%	-9.0%	-4.0%	-4.0%	-6.2%	-4.7%	-4.7%	-7.4%	6.2%	5.3%	10.7%	3.5%	8.7%	5.3%	5.0%	4.6%	5.8%	7.3%	
Total Interventional Cardiology																			
US Sales	\$1,242	\$1,125	\$266	\$224	\$202	\$200	\$892	\$194	\$196	\$184	\$186	\$760	\$191	\$194	\$187	\$185	\$757	\$743	
OUS Sales	\$1,360	\$1,369	\$337	\$325	\$292	\$334	\$1,288	\$311	\$324	\$288	\$314	\$1,237	\$306	\$331	\$309	\$342	\$1,288	\$1,354	
WW Sales	\$2,601	\$2,494	\$603	\$549	\$494	\$534	\$2,180	\$505	\$520	\$472	\$500	\$1,997	\$497	\$525	\$496	\$526	\$2,045	\$2,096	
FX Impact (\$) per release	\$38	\$73	(\$3)	(\$18)	(\$20)	(\$7)	(\$48)	(\$14)	(\$15)	(\$13)	(\$17)	(\$59)	(\$11)	\$2	\$1	\$4	(\$4)	\$0	
Y/Y % Chg																			
US Sales	-9.8%	-9.4%	-6.7%	-26.8%	-27.9%	-21.3%	-20.7%	-27.1%	-12.5%	-8.9%	-7.0%	-14.8%	-1.5%	-1.0%	1.6%	-0.8%	-0.4%	-1.8%	
OUS Sales	-8.3%	0.7%	-3.7%	-6.1%	-12.3%	-1.8%	-5.9%	-7.7%	-0.3%	-1.4%	-6.0%	-4.0%	-1.6%	2.2%	7.4%	8.8%	4.1%	5.1%	
WW Sales	-9.0%	-4.1%	-5.0%	-15.8%	-19.4%	-10.1%	-12.6%	-16.3%	-5.3%	-4.5%	-6.4%	-8.4%	-1.6%	1.0%	5.2%	5.3%	2.4%	2.5%	
OUS Sales Ex-FX	-10.9%	-4.7%	-2.9%	-0.9%	-6.3%	0.3%	-2.4%	-3.6%	4.3%	3.1%	-1.0%	0.6%	1.9%	1.6%	7.0%	7.6%	4.5%	5.1%	
WW Sales Ex-FX	-10.4%	-6.9%	-4.6%	-13.0%	-16.2%	-8.9%	-10.7%	-13.9%	-2.6%	-1.8%	-3.2%	-5.7%	0.6%	0.6%	4.9%	4.5%	2.6%	2.5%	
Peripheral Interventions																			
US Sales	\$310	\$311	\$83	\$86	\$86	\$86	\$341	\$88	\$91	\$90	\$93	\$362	\$90	\$94	\$94	\$97	\$375	\$393	
OUS Sales	\$360	\$420	\$107	\$110	\$103	\$113	\$433	\$108	\$112	\$109	\$114	\$443	\$113	\$120	\$119	\$125	\$477	\$520	
WW Sales	\$670	\$731	\$190	\$196	\$189	\$199	\$774	\$196	\$203	\$199	\$207	\$805	\$203	\$214	\$212	\$222	\$852	\$913	
Est FX Impact (\$)	\$5	\$25	\$0	(\$5)	(\$6)	(\$3)	(\$14)	(\$3)	(\$6)	(\$8)	(\$7)	(\$24)	(\$4)	\$1	\$2	\$2	\$2	\$0	
Y/Y % Chg																			
US Sales	-3.4%	0.3%	7.8%	7.5%	11.7%	11.7%	9.6%	6.0%	5.8%	4.7%	8.1%	6.2%	2.3%	3.5%	4.0%	4.0%	3.5%	5.0%	
OUS Sales	5.9%	16.7%	8.1%	0.9%	-1.9%	5.6%	3.1%	0.9%	1.8%	5.8%	0.9%	2.3%	4.6%	7.4%	8.8%	9.8%	7.7%	9.0%	
WW Sales	1.4%	9.1%	8.0%	3.7%	3.8%	8.2%	5.9%	3.2%	3.6%	5.3%	4.0%	4.0%	3.6%	5.6%	6.6%	7.2%	5.8%	7.2%	
OUS Sales Ex-FX	4.4%	9.7%	8.1%	5.8%	3.8%	7.9%	6.4%	3.7%	7.3%	13.6%	7.3%	7.9%	7.9%	6.5%	7.0%	8.0%	7.3%	9.0%	
WW Sales Ex-FX	0.6%	5.4%	8.0%	6.5%	7.1%	9.5%	7.8%	4.7%	6.6%	9.5%	7.7%	7.1%	5.4%	5.2%	5.6%	6.2%	5.6%	7.2%	

Source: Deutsche Bank, Company reports



Figure 188 (cont'd): Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
MedSurg																		
Endoscopy																		
US Sales	\$541	\$561	\$147	\$151	\$149	\$156	\$603	\$150	\$156	\$156	\$162	\$624	\$153	\$162	\$164	\$172	\$651	\$690
OUS Sales	\$537	\$626	\$155	\$160	\$161	\$173	\$649	\$154	\$164	\$161	\$176	\$655	\$161	\$176	\$175	\$193	\$705	\$754
WW Sales	\$1,078	\$1,187	\$302	\$311	\$310	\$329	\$1,252	\$304	\$320	\$317	\$338	\$1,279	\$314	\$338	\$339	\$365	\$1,356	\$1,444
Est FX Impact (\$)	\$10	\$39	\$0	(\$7)	(\$8)	(\$3)	(\$18)	(\$5)	(\$11)	(\$11)	(\$11)	(\$38)	(\$6)	(\$1)	\$1	\$3	(\$3)	\$0
Y/Y % Chg																		
US Sales	4.4%	3.7%	8.9%	7.1%	5.7%	8.3%	7.5%	2.0%	3.3%	4.7%	3.8%	3.5%	2.0%	4.0%	5.0%	6.0%	4.3%	6.0%
OUS Sales	9.8%	16.6%	2.0%	1.9%	2.5%	8.1%	3.7%	-0.6%	2.5%	0.0%	1.7%	0.9%	4.5%	7.4%	8.6%	9.7%	7.6%	7.0%
WW Sales	7.1%	10.1%	5.2%	4.4%	4.0%	8.2%	5.5%	0.7%	2.9%	2.3%	2.7%	2.2%	3.3%	5.7%	6.8%	7.9%	6.0%	6.5%
OUS Sales Ex-FX	7.8%	9.3%	2.0%	6.4%	7.6%	9.7%	6.5%	2.6%	9.4%	6.8%	8.2%	6.8%	8.4%	8.0%	8.0%	8.0%	8.1%	7.0%
WW Sales Ex-FX	6.1%	6.5%	5.2%	6.7%	6.7%	9.0%	7.0%	2.3%	6.4%	5.8%	6.1%	5.2%	5.3%	6.1%	6.5%	7.0%	6.2%	6.5%
Urology & Women's Health																		
US Sales	\$366	\$362	\$86	\$89	\$89	\$91	\$355	\$84	\$88	\$93	\$92	\$357	\$83	\$90	\$95	\$94	\$361	\$376
OUS Sales	\$115	\$136	\$34	\$37	\$36	\$39	\$146	\$34	\$36	\$38	\$40	\$148	\$42	\$43	\$42	\$44	\$171	\$185
WW Sales	\$481	\$498	\$120	\$126	\$125	\$130	\$501	\$118	\$124	\$131	\$132	\$505	\$125	\$133	\$137	\$138	\$533	\$561
Est FX Impact (\$)	\$3	\$8	\$0	(\$1)	(\$1)	(\$1)	(\$3)	(\$3)	(\$3)	(\$4)	(\$4)	(\$14)	(\$2)	\$0	\$1	\$1	\$0	\$0
Y/Y % Chg																		
US Sales	3.7%	-1.1%	-1.1%	-4.3%	-2.2%	0.0%	-1.9%	-2.3%	-1.1%	4.5%	1.1%	0.6%	-1.2%	2.0%	2.0%	2.0%	1.2%	4.0%
OUS Sales	12.7%	18.3%	3.0%	8.8%	9.1%	8.3%	7.4%	0.0%	-2.7%	5.6%	2.6%	1.4%	23.5%	20.0%	10.6%	10.5%	15.8%	7.7%
WW Sales	5.7%	3.5%	0.0%	-0.8%	0.8%	2.4%	0.6%	-1.7%	-1.6%	4.8%	1.5%	0.8%	5.9%	7.2%	4.5%	4.6%	5.5%	5.2%
OUS Sales Ex-FX	9.8%	11.3%	3.0%	11.8%	12.1%	11.1%	9.6%	8.8%	5.4%	16.7%	13.3%	11.1%	29.4%	20.0%	8.0%	8.0%	15.8%	7.7%
WW Sales Ex-FX	5.1%	1.9%	0.0%	0.0%	1.6%	3.1%	1.2%	0.8%	0.8%	8.0%	4.8%	3.6%	7.6%	7.2%	3.7%	3.8%	5.5%	5.2%
Neurmodulation																		
US Sales	\$287	\$317	\$78	\$85	\$82	\$98	\$343	\$82	\$102	\$107	\$127	\$418	\$97	\$112	\$116	\$127	\$452	\$488
OUS Sales	\$18	\$19	\$6	\$6	\$6	\$6	\$24	\$7	\$9	\$8	\$11	\$35	\$12	\$11	\$10	\$13	\$46	\$53
WW Sales	\$305	\$336	\$84	\$91	\$88	\$104	\$367	\$89	\$111	\$115	\$138	\$453	\$109	\$123	\$125	\$140	\$497	\$541
Est FX Impact (\$)	\$1	\$0	\$0	(\$1)	\$0	\$0	(\$1)	(\$1)	\$1	(\$1)	\$0	(\$1)	\$0	\$0	\$0	\$0	\$0	\$0
Y/Y % Chg																		
US Sales	5.9%	10.5%	6.8%	9.0%	3.8%	12.6%	8.2%	5.1%	20.0%	30.5%	29.6%	21.9%	18.3%	10.0%	8.0%	0.0%	8.1%	8.0%
OUS Sales	28.6%	5.6%	50.0%	0.0%	20.0%	50.0%	26.3%	16.7%	50.0%	33.3%	83.3%	45.8%	71.4%	20.0%	20.0%	20.0%	30.3%	16.0%
WW Sales	7.0%	10.2%	9.1%	8.3%	4.8%	14.3%	9.2%	6.0%	22.0%	30.7%	32.7%	23.4%	22.5%	10.8%	8.8%	1.6%	9.8%	8.7%
OUS Sales Ex-FX	21.4%	3.9%	50.0%	16.7%	20.0%	50.0%	31.6%	33.3%	33.3%	50.0%	76.7%	48.3%	71.4%	20.0%	20.0%	20.0%	30.3%	16.0%
WW Sales Ex-FX	6.7%	10.1%	9.1%	9.5%	4.8%	14.3%	9.5%	7.1%	20.9%	31.8%	32.3%	23.6%	22.5%	10.8%	8.8%	1.6%	9.8%	8.7%

Source: Deutsche Bank, Company reports



Figure 188 (cont'd): Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Neurovascular																		
US Sales	\$119	\$45	\$9	\$8	\$9	\$8	\$34	\$8	\$6	\$1	\$1	\$16	\$1					
OUS Sales	\$221	\$96	\$20	\$22	\$23	\$22	\$87	\$28	\$13	\$1	\$1	\$43	\$1					
WW Sales	\$340	\$141	\$29	\$30	\$32	\$30	\$121	\$36	\$19	\$2	\$2	\$59	\$2					
Est FX Impact (\$)	\$7	\$3	\$0	(\$2)	\$0	\$0	(\$2)	\$0	\$1	\$0	\$0	\$1	\$0					
Y/Y % Chg																		
US Sales	-4.8%	-62.2%	-25.0%	-42.9%	-10.0%	-11.1%	-24.4%	-11.1%	-25.0%	-88.9%	-87.5%	-52.9%	-87.5%					
OUS Sales	-0.9%	-56.6%	-9.1%	-24.1%	-4.2%	4.8%	-9.4%	40.0%	-40.9%	-95.7%	-95.5%	-50.6%	-96.4%					
WW Sales	-2.3%	-58.5%	-14.7%	-30.2%	-5.9%	0.0%	-14.2%	24.1%	-36.7%	-93.8%	-93.3%	-51.2%	-94.4%					
OUS Sales Ex-FX	-4.0%	-57.9%	-9.1%	-17.2%	-4.2%	4.8%	-7.3%	40.0%	-45.5%	-95.7%	-95.5%	-51.7%	-96.4%					
WW Sales Ex-FX	-4.3%	-59.4%	-14.7%	-25.6%	-5.9%	0.0%	-12.8%	24.1%	-40.0%	-93.8%	-93.3%	-52.1%	-94.4%					
Total Boston Scientific																		
US Sales	\$4,334	\$4,055	\$987	\$955	\$916	\$932	\$3,790	\$914	\$947	\$938	\$960	\$3,759	\$915	\$968	\$972	\$979	\$3,833	\$3,964
OUS Sales	\$3,471	\$3,567	\$879	\$873	\$819	\$889	\$3,460	\$847	\$861	\$796	\$875	\$3,379	\$859	\$911	\$873	\$952	\$3,594	\$3,800
WW Sales	\$7,806	\$7,622	\$1,866	\$1,828	\$1,735	\$1,821	\$7,250	\$1,761	\$1,808	\$1,734	\$1,835	\$7,138	\$1,774	\$1,878	\$1,846	\$1,931	\$7,427	\$7,763
Est FX Impact (\$)	\$62	\$205	(\$5)	(\$51)	(\$47)	(\$19)	(\$122)	(\$30)	(\$38)	(\$43)	(\$42)	(\$152)	(\$25)	\$4	\$7	\$12	(\$2)	\$0
Y/Y % Chg																		
US Sales	-7.3%	-6.4%	-4.6%	-9.4%	-8.4%	-3.5%	-6.5%	-7.4%	-0.8%	2.4%	3.0%	-0.8%	0.1%	2.2%	3.7%	1.9%	2.0%	3.4%
OUS Sales	-1.1%	2.8%	-1.2%	-5.2%	-6.3%	0.8%	-3.0%	-3.6%	-1.4%	-2.8%	-1.6%	-2.4%	1.4%	5.8%	9.7%	8.8%	6.4%	5.7%
WW Sales	-4.7%	-2.4%	-3.1%	-7.4%	-7.4%	-1.5%	-4.9%	-5.6%	-1.1%	-0.1%	0.8%	-1.5%	0.7%	3.9%	6.4%	5.2%	4.1%	4.5%
OUS Sales Ex-FX	-2.9%	-3.1%	-0.7%	0.4%	-0.9%	2.9%	0.4%	-0.2%	2.9%	2.4%	3.1%	2.0%	4.3%	5.4%	8.8%	7.5%	6.4%	5.7%
WW Sales Ex-FX	-5.4%	-5.0%	-2.8%	-4.8%	-4.9%	-0.5%	-3.3%	-4.0%	0.9%	2.4%	3.1%	0.5%	2.1%	3.7%	6.0%	4.6%	4.1%	4.5%

Source: Deutsche Bank, Company reports



Figure 188 (cont'd): Boston Scientific's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Adjusted Income Statement																			
Sales	\$7,806	\$7,622	\$1,866	\$1,828	\$1,735	\$1,821	\$7,250	\$1,761	\$1,809	\$1,735	\$1,838	\$7,143	\$1,774	\$1,878	\$1,846	\$1,931	\$7,429	\$7,763	
Cost of Good Sold	\$2,550	\$2,617	\$626	\$575	\$556	\$580	\$2,337	\$577	\$528	\$509	\$552	\$2,166	\$534	\$556	\$542	\$573	\$2,205	\$2,273	
Gross profit	\$5,256	\$5,005	\$1,240	\$1,253	\$1,179	\$1,241	\$4,913	\$1,184	\$1,281	\$1,226	\$1,286	\$4,977	\$1,240	\$1,322	\$1,304	\$1,358	\$5,224	\$5,490	
<i>Gross profit margin</i>	67.3%	65.7%	66.5%	68.5%	68.0%	68.1%	67.8%	67.2%	70.8%	70.7%	70.0%	69.7%	69.9%	70.4%	70.0%	70.0%	70.3%	70.7%	
SG&A Expense	\$2,570	\$2,480	\$654	\$641	\$586	\$630	\$2,511	\$626	\$650	\$645	\$704	\$2,625	\$655	\$695	\$693	\$724	\$2,767	\$2,826	
<i>% of sales</i>	32.9%	32.5%	35.0%	35.1%	33.8%	34.6%	34.6%	35.5%	35.9%	37.2%	38.3%	36.7%	36.9%	37.0%	37.5%	37.5%	37.2%	36.4%	
R&D Expense	\$940	\$894	\$215	\$213	\$220	\$242	\$890	\$204	\$223	\$217	\$215	\$859	\$191	\$220	\$218	\$226	\$854	\$908	
<i>% of sales</i>	12.0%	11.7%	11.5%	11.7%	12.7%	13.3%	12.3%	11.6%	12.3%	12.5%	11.7%	12.0%	10.8%	11.7%	11.8%	11.7%	11.5%	11.7%	
Royalty Expense	\$184	\$172	\$48	\$48	\$29	\$28	\$153	\$41	\$47	\$28	\$24	\$140	\$40	\$44	\$32	\$31	\$147	\$152	
<i>% of sales</i>	2.4%	2.3%	2.6%	2.6%	1.7%	1.5%	2.1%	2.3%	2.6%	1.6%	1.3%	2.0%	2.3%	2.3%	1.8%	1.6%	2.0%	2.0%	
Amortization Expense	\$513	\$421	\$97	\$99	\$99	\$101	\$396	\$103	\$101	\$101	\$106	\$411	\$109	\$110	\$110	\$111	\$440	\$444	
Total Op Expenses	\$4,207	\$3,967	\$1,014	\$1,001	\$934	\$1,001	\$3,950	\$974	\$1,021	\$991	\$1,049	\$4,035	\$995	\$1,069	\$1,053	\$1,092	\$4,208	\$4,330	
Operating Profit	\$1,049	\$1,038	\$226	\$252	\$245	\$240	\$963	\$210	\$260	\$235	\$237	\$942	\$245	\$253	\$251	\$266	\$1,016	\$1,160	
<i>op margin</i>	13.4%	13.6%	12.1%	13.8%	14.1%	13.2%	13.3%	11.9%	14.4%	13.5%	12.9%	13.2%	13.8%	13.5%	13.6%	13.8%	13.7%	14.9%	
<i>op marg (ex-amort)</i>	20.0%	19.1%	17.3%	19.2%	19.8%	18.7%	18.7%	17.8%	20.0%	19.4%	18.7%	18.9%	20.0%	19.3%	19.6%	19.5%	19.6%	20.7%	
Interest Expense	\$394	\$282	\$69	\$64	\$65	\$64	\$262	\$65	\$65	\$67	\$58	\$255	\$54	\$53	\$53	\$53	\$213	\$204	
Other (Income)	\$15	\$17	\$4	\$6	\$4	\$1	\$15	(\$1)	\$3	\$6	\$10	\$18	(\$4)	\$4	\$3	\$3	\$5	(\$1)	
Total Other Exp (Inc)	\$409	\$299	\$73	\$70	\$69	\$65	\$277	\$64	\$68	\$73	\$68	\$273	\$50	\$57	\$56	\$56	\$219	\$203	
Pretax Income	\$640	\$739	\$153	\$182	\$176	\$175	\$686	\$146	\$192	\$162	\$169	\$669	\$195	\$197	\$195	\$211	\$797	\$957	
<i>pretax margin</i>	8.2%	9.7%	8.2%	10.0%	10.1%	9.6%	9.5%	8.3%	10.6%	9.3%	9.2%	9.4%	11.0%	10.5%	10.6%	10.9%	10.7%	12.3%	
Taxes paid	\$10	\$61	\$15	\$27	\$38	\$23	\$103	\$11	\$31	\$20	(\$17)	\$45	\$24	\$28	\$27	\$21	\$100	\$134	
<i>Tax rate</i>	1.6%	8.3%	9.8%	14.8%	21.6%	13.1%	15.0%	7.5%	15.9%	12.3%	-10.1%	6.7%	12.3%	14.0%	14.0%	10.0%	12.5%	14.0%	
Adjusted Net Income	\$630	\$678	\$138	\$155	\$138	\$152	\$583	\$135	\$162	\$142	\$186	\$625	\$171	\$169	\$168	\$189	\$697	\$823	
<i>net margin</i>	8.1%	8.9%	7.4%	8.5%	8.0%	8.3%	8.0%	7.7%	8.9%	8.2%	10.1%	8.7%	9.6%	9.0%	9.1%	9.8%	9.4%	10.6%	
Diluted shares	1,528	1,519	1,454	1,423	1,393	1,375	1,407	1,365	1,359	1,364	1,356	1,361	1,349	1,349	1,346	1,343	1,347	1,341	
Adjusted EPS	\$0.41	\$0.45	\$0.09	\$0.11	\$0.10	\$0.11	\$0.41	\$0.10	\$0.12	\$0.10	\$0.14	\$0.46	\$0.13	\$0.13	\$0.12	\$0.14	\$0.52	\$0.61	
Reconciliation to Cash EPS																			
Amortization Expense	\$0.27	\$0.22	\$0.06	\$0.06	\$0.06	\$0.07	\$0.25	\$0.07	\$0.06	\$0.06	\$0.08	\$0.27	\$0.07	\$0.07	\$0.07	\$0.07	\$0.29	\$0.28	
Cash EPS	\$0.69	\$0.67	\$0.15	\$0.17	\$0.16	\$0.18	\$0.66	\$0.16	\$0.18	\$0.17	\$0.21	\$0.73	\$0.20	\$0.20	\$0.19	\$0.22	\$0.80	\$0.90	
Year-over-Year % Change																			
Sales	-4.7%	-2.4%	-3.1%	-7.4%	-7.4%	-1.5%	-4.9%	-5.6%	-1.0%	0.0%	0.9%	-1.5%	0.7%	3.8%	6.4%	5.1%	4.0%	4.5%	
Gross Profit Margin	-7.2%	-4.8%	-5.1%	-3.5%	-2.0%	3.6%	-1.8%	-4.5%	2.2%	4.0%	3.6%	1.3%	4.7%	3.2%	6.4%	5.6%	5.0%	5.1%	
SG&A	-1.9%	-3.5%	10.5%	0.2%	-6.7%	1.6%	1.3%	-4.3%	1.4%	10.1%	11.7%	4.5%	4.6%	6.9%	7.4%	2.8%	5.4%	2.1%	
R&D	-8.9%	-4.9%	1.4%	-4.5%	-3.9%	5.2%	-0.4%	-5.1%	4.7%	-1.4%	-11.2%	-3.5%	-6.4%	-1.4%	0.4%	5.1%	-0.5%	6.3%	
Operating Income	-19.8%	-1.0%	-29.2%	-12.2%	15.0%	9.6%	-7.2%	-7.1%	3.2%	-4.1%	-1.3%	-2.2%	16.7%	-2.6%	6.8%	12.4%	7.8%	14.2%	
Pretax income	-26.4%	15.5%	-34.1%	-12.5%	17.3%	17.4%	-7.2%	-4.6%	5.5%	-8.0%	-3.4%	-2.5%	33.6%	2.4%	20.2%	24.6%	19.1%	20.1%	
Net Income	-17.2%	7.6%	-37.8%	-15.3%	-4.8%	18.8%	-14.0%	-2.2%	4.2%	2.9%	22.4%	7.1%	26.7%	4.7%	18.0%	1.9%	11.6%	18.1%	
Average Diluted Shares	0.8%	-0.6%	-5.4%	-7.3%	-8.6%	-7.1%	-7.4%	-6.1%	-4.5%	-2.1%	-1.4%	-3.3%	-1.1%	-0.7%	-1.3%	-0.9%	-1.0%	-0.5%	
Adjusted EPS	-17.8%	8.2%	-34.3%	-8.6%	4.2%	27.8%	-7.1%	4.2%	9.1%	5.1%	24.1%	10.7%	28.1%	5.5%	19.5%	2.8%	12.8%	18.6%	
Cash EPS	-11.8%	-2.5%	-30.8%	-1.6%	8.5%	37.7%	-1.1%	8.5%	8.5%	6.3%	16.7%	10.0%	21.0%	7.3%	15.5%	0.7%	10.4%	11.7%	

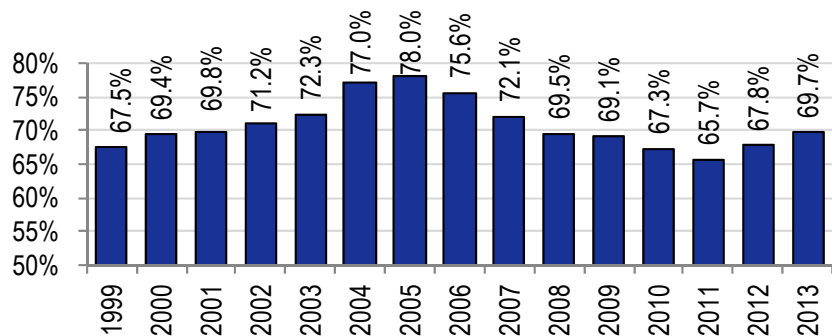
Source: Deutsche Bank, Company reports



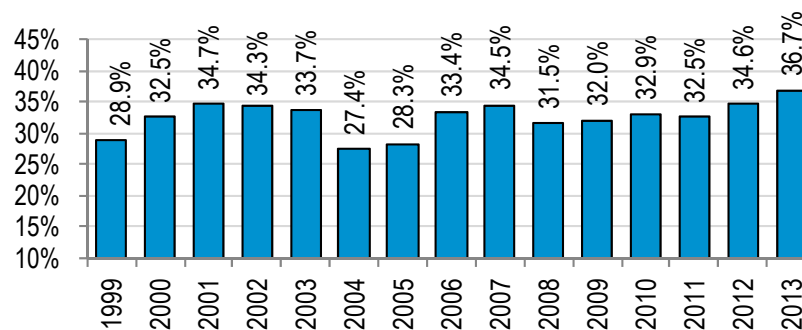
Boston Scientific Historical Margin Trends

Figure 189: Historical Margin Trends

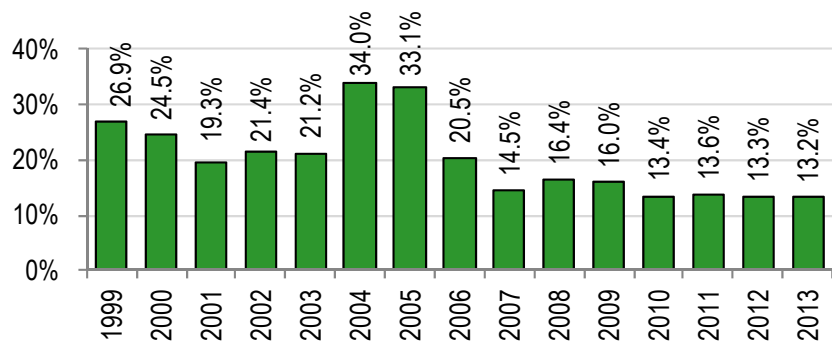
Gross margins



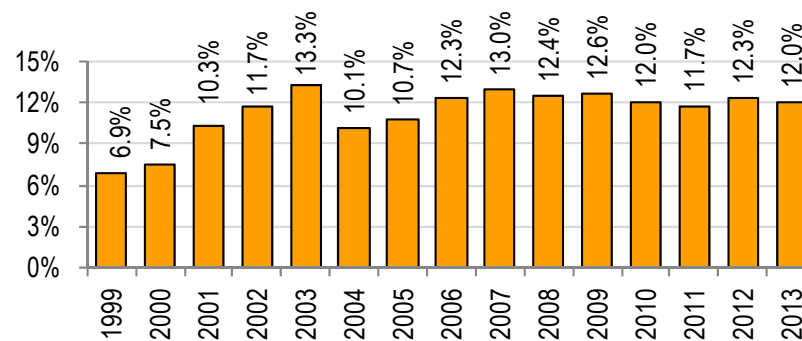
SG&A as % of sales



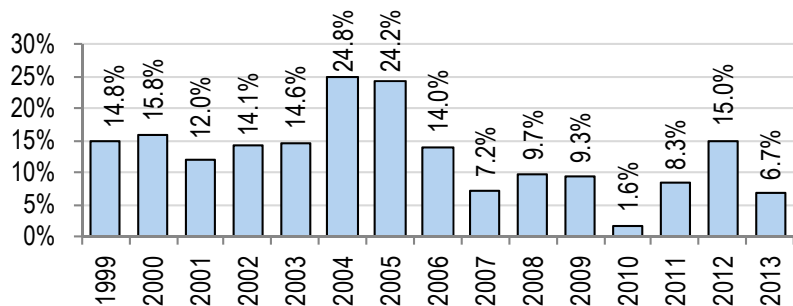
Operating Margin (includes amortization)



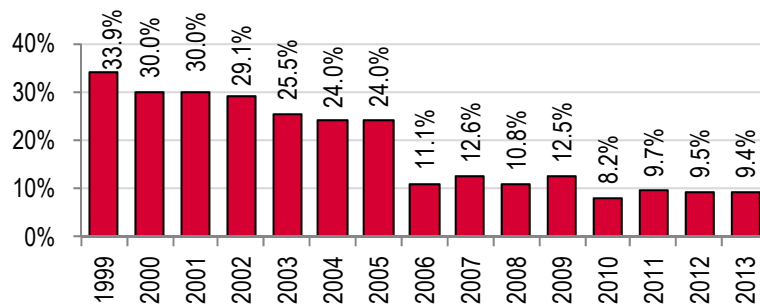
R&D as % of sales



Net Margin



Tax Rate

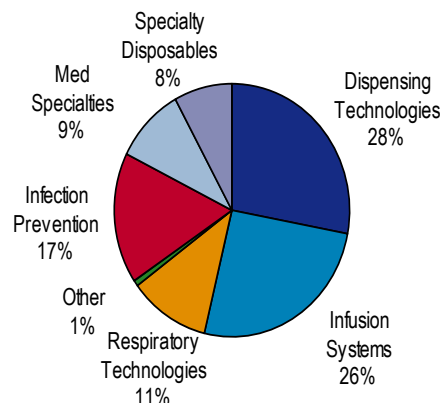


Source: Deutsche Bank, Company reports



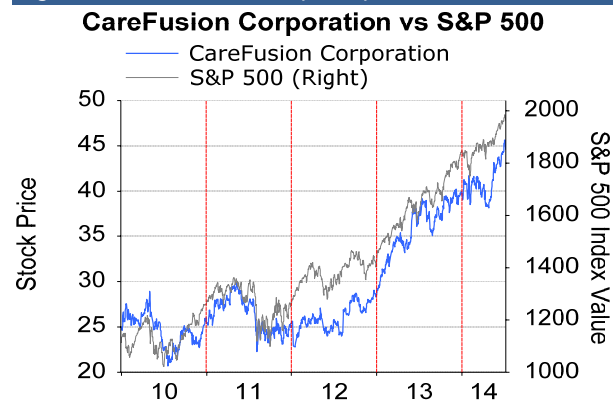
CareFusion (CFN-Hold)

Figure 190: Sales mix, Fiscal 2013



Source: Deutsche Bank, Company reports

Figure 192: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters.

Figure 191: Rating and Valuation Summary

Mkt cap (\$M):	\$9,271	DB Rating:	Hold	FY EPS Projections		PE Valuation	
Price 07/09/14:	\$44.72	DB Target Price:	\$44.00	DB	TR Cons	CY	Abs PE
52 Wk Range: \$35.01-\$45.81		implied % chg: -2%		2013A	\$2.12	NTM	16.9x
2013 Price Perf: 39.3%		Dividend Yield: 0.0%		2014E	\$2.31	2014E	17.8x
YTD 2014 Price Perf:	12.3%	Target PE (C15E):	15.5x	2015E	\$2.69	2015E	15.8x

EPS estimates exclude intangible amort

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

CareFusion spun from Cardinal Health in 2009 and over several years has made progress in restructuring itself for improved profitability. We see additional opportunity for margin expansion through the company's "business simplification" efforts. However, we believe the growth rate of the company will be defined by its end markets, which are growing in the low (to at best case mid-) single digits. Acquisitions are going to be increasingly important in accelerating growth. Share repurchases are also required to get to its targeted 12-14% EPS growth goals. Though we see some upside, we rate CFN shares Hold as we would like greater clarity on the M&A strategy.

Upcoming Potential Catalysts

- **July 18:** Baxter's earnings release (commentary on pumps)
- **July 30:** Hospira's earnings release (commentary on pumps)
- **August 7:** CFN earnings release

Valuation and Risks

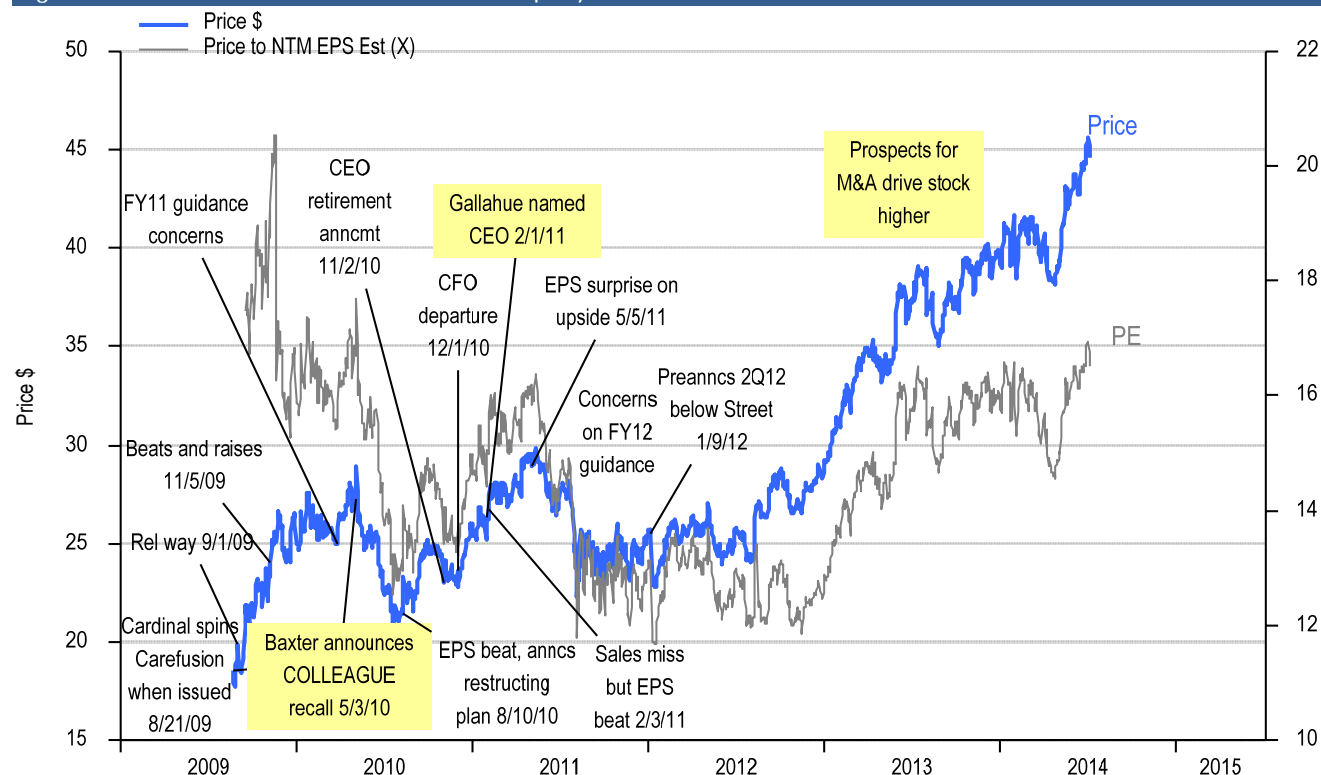
Our price target reflects a market multiple applied (16x) on our 16x our CY2015E cash EPS. This multiple is in line with the broader MedTech group and the overall market. Downside risks include inability to do M&A, pricing pressures, hospital capex budget constraints, and weakness in procedure volumes. Upside risks include accretive M&A, improvement in hospital capex, and improved margins.



Historical Stock Price Performance

CFN shares trade on updates relative to the infusion pump business, its sales and earnings performance, as well as corporate actions.

Figure 193: Stock Price Performance and Company News Events



Performance Commentary
 CFN shares have mainly traded on its earnings release and updated on the infusion pump market. After the spin-off from Cardinal in 2009, there was significant interest in the stock as most MedTech spin offs have historically outperformed. The stock did pull back following softer top line results and the announcement that the CEO and CFO were retiring and leaving the company, respectively. Despite continued top line softness, the stock has outperformed as EPS continues to beat and investors anticipate continued margin expansion opportunities. The stock pulled back earlier this year on fiscal 2012 concerns as well as the performance of the broader markets. However, throughout 2013, the stock rallied along with the overall market and perhaps reflecting optimism around the company's transformation longer term.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
CFN	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35.2%	2.8%	-1.1%	12.5%	39.3%	12.3%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&C	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



CareFusion Product Portfolio Overview

Figure 194: Product overview

Product	% sales	Description	DB Commentary
MEDICAL SYSTEMS			
Dispensing Technologies	28%	In F2013, we estimate sales totaled \$993 million. CareFusion Pyxis medication management products are designed to automate and control the transition of drugs from the pharmacy to the nursing unit and are generally integrated into a hospital's IT infrastructure. Dispensing products are designed to reduce medication errors, improve clinician workflow, increase operational efficiency, and improve billing accuracy. This business unit is unchanged relative to Critical Care Technologies (prior reporting structure).	The Dispensing market comprises several players, including Omnicell, McKesson, Eclipsys, and Amerisource Bergen. CareFusion Pyxis enjoyed a significant first mover advantage, helping it to establish its dominant market share (70%).
Infusion Systems	26%	In F2013, we estimate sales totaled \$916 million. Products include IV medication safety and infusion therapy delivery systems that include disposables, software applications and patient monitoring equipment. Products are primarily sold under the Alaris brand name. Relative to Critical Care Technologies (former reporting structure), non-dedicated infusion sets is no longer included.	CareFusion competitors include Baxter, Hospira and B. Braun.
Respiratory Technologies	11%	In F2013, we estimate sales totaled \$393 million. Includes ventilators and dedicated disposables. Key brands include AVEA, Vela, and LTV Series. Relative to Critical Care Technologies (former reporting structure), non-dedicated are no longer included.	CareFusion competes against Covidien, and Philips. .
Other	1%	In F2013, we estimate sales totaled \$27 million. Other medical systems include MedMined Software Infection Detection Services, which enable healthcare providers to identify hospital acquired infections and adverse drug events.	
PROCEDURAL SOLUTIONS			
Infection Prevention	17%	In F2013, we estimate sales totaled \$594 million. It includes ChloroPrep, Legacy Prep, and non-dedicated infusion disposables (e.g. MaxPlus, MaxGuard & SmartSite) that were previously reported within the Critical Care Technologies business.	CareFusion competes again companies such as Covidien, 3M, and Medline.
Medical Specialties	9%	In F2013, we estimate sales totaled \$344 million. Includes Surgical instruments and interventional specialty products, like biopsy needles and diagnostic trays, drainage catheters, and vertebral augmentation products. Products are sold under the V. Mueller and Snowden-Pencer brands.	CareFusion competes against a variety of companies such as Covidien, Medtronic, and Stryker.
Specialty Disposables	8%	In F2013, we estimate sales totaled \$283 million. Includes non-dedicated disposable ventilator circuits and oxygen masks. Products are sold under the AirLife brand. Sales from CareFusion's recent GE Vital Signs acquisition are also included in this segment.	

Source: Deutsche Bank, Company reports



Medical Systems

Figure 195: Sales Mix

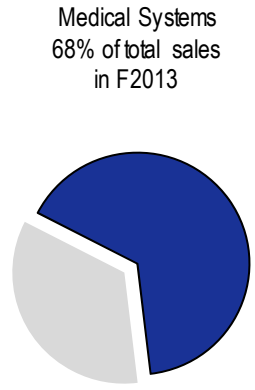
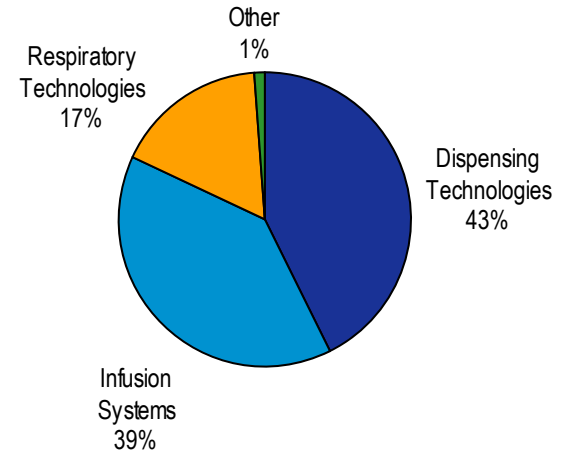


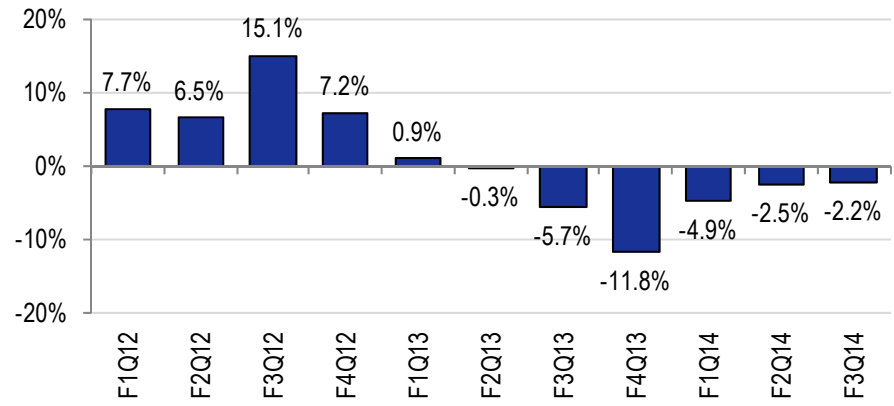
Figure 196: Sales by Key Products (F2013)



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 197: Year-over-Year % Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

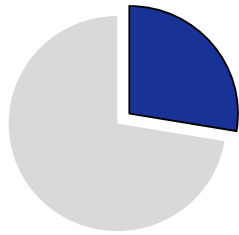


Medical Systems Sales Trends

Dispensing Technologies

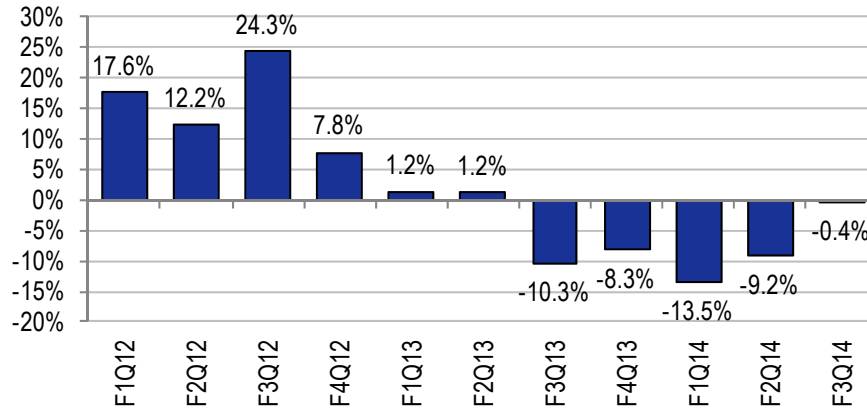
Figure 198: Sales mix

Dispensing Technologies
28% of total sales
F2013



Source: Deutsche Bank, Company reports

Figure 199: Year-over-Year Change in Sales, Constant Currency



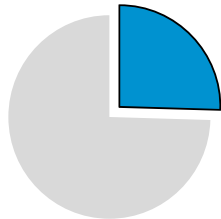
Source: Deutsche Bank, Company reports

The Dispensing Technologies segment primarily consists of the Pyxis brand, which aids healthcare providers in reducing medication errors, increase efficiency, and improve accuracy in billing. This segment has experienced a decline in sales lately as customers awaited to upgrade existing systems until after CareFusion released a key technology upgrade.

Infusion Systems

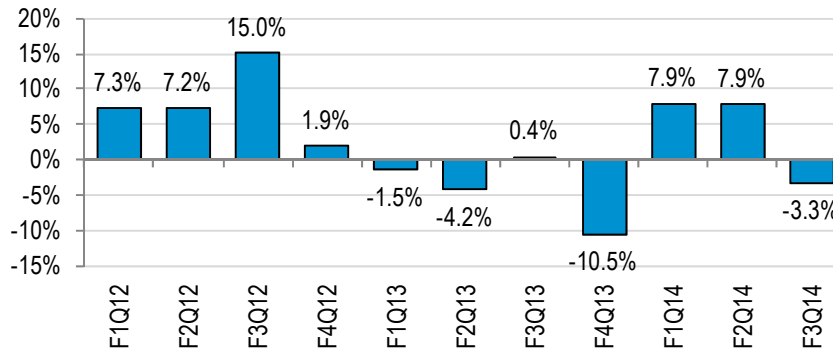
Figure 200: Sales mix

Infusion
26% of total sales
F2013



Source: Deutsche Bank, Company reports

Figure 201: Year-over-Year Change in Sales, Constant Currency



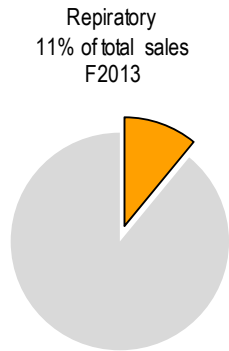
Source: Deutsche Bank, Company reports

CareFusion's Infusion Systems business primarily consists of its Alaris infusion pump. Sales are primarily generated in the United States.



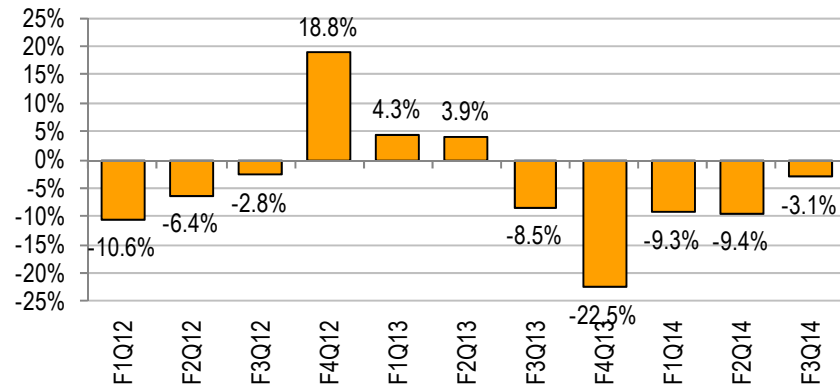
Respiratory Technologies

Figure 202: Sales mix



Source: Deutsche Bank, Company reports

Figure 203: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Respiratory Technologies sales include ventilators and associated products and are sold worldwide. Sales also include respiratory diagnostics products.



Procedural Solutions

Figure 204: Sales Mix

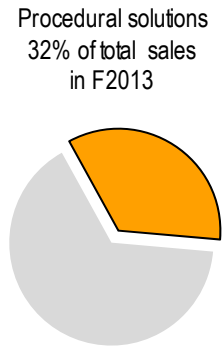
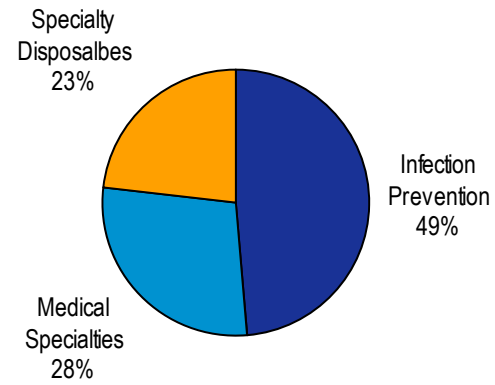


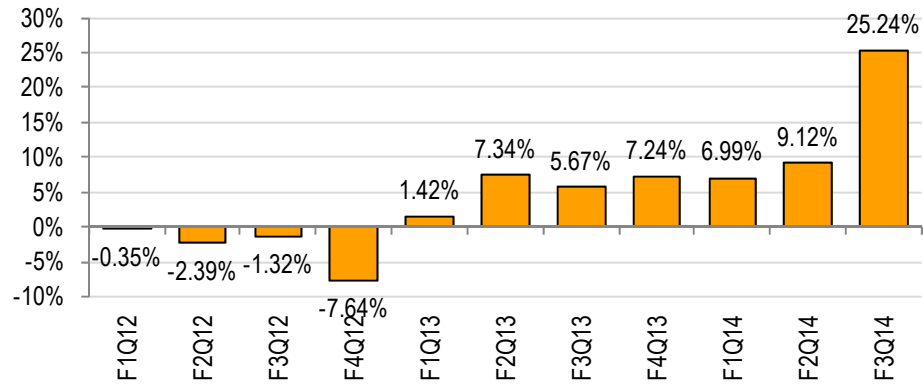
Figure 205: Sales by Key Products (F2013)



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 206: Year-over-Year % Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports



Procedural Solutions Sales Trends

Infection Prevention

Figure 207: Sales mix

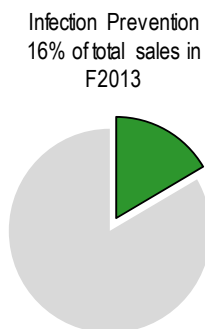
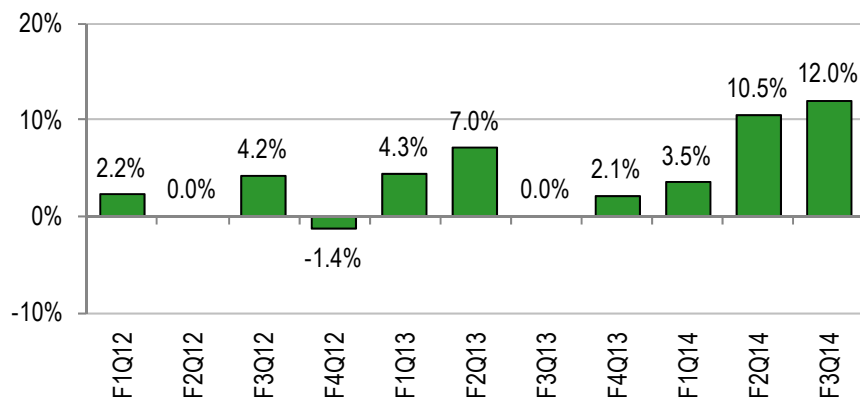


Figure 208: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Medical Specialties

Figure 209: Sales mix

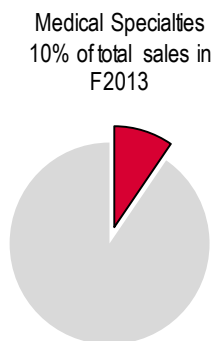
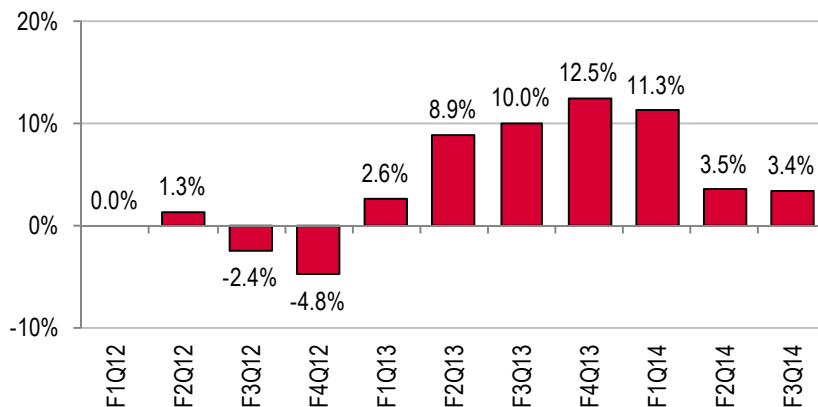


Figure 210: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

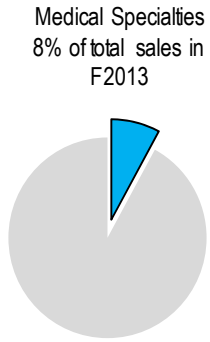
Infection Prevention sales include one-time use surgical and vascular access products. CareFusion's key skin prep product is ChloroPrep, but the company also markets a wide array of patient preparation, hair removal and skin care products for operation room professionals. The segment also includes disposable IV sets and accessories.

Medical Specialties sales include devices used in interventional care (ie. x-ray, ultrasound, and computed tomography) and reusable surgical instrumentation products (ie. clamps, needle holders, forceps).



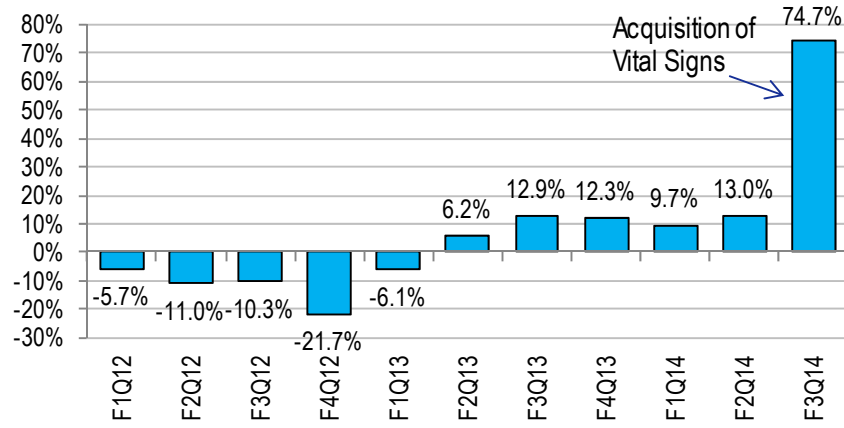
Specialty Disposables

Figure 211: Sales mix



Source: Deutsche Bank, Company reports

Figure 212: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Specialty Disposable sales primarily include respiratory consumable products. This segment also houses revenue generated from serving as a distributor for certain product manufacturers, such as oxygen masks, humidifiers, and nebulizers).



CareFusion's F3Q14 Results

Our Take on the Quarter

F3Q14 sales of \$968M came in below Thomson Reuters (TR) \$987M and DBe \$984M. Sales were up 7% on a reported/ex-FX basis and we estimate flat on an organic basis. The miss was due to Medical Systems, where revs were down 2%. Procedural Solutions were stronger than expected, up 25% reflecting base growth but mostly acquisition contribution. In addition to the sales miss, gross (and op) margins came in weaker though lower SG&A and tax rate helped to minimize the EPS miss to \$0.02 (Cash EPS was \$0.60 vs Street/DBe \$0.62).

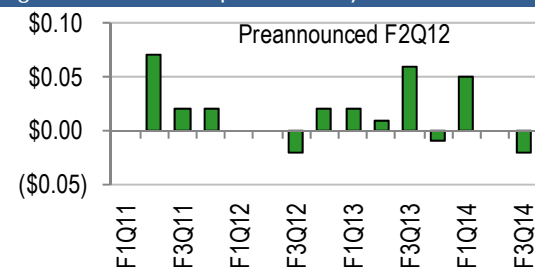
Figure 213: Quarter Variance

(\$ in mil except
per share)

	Actual	TR Consensus	DB Estimate
Sales	\$968M	\$987M	\$984M
EPS	\$0.60	\$0.62	\$0.62

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 214: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Strong Procedural Solutions sales (+25%), though aided by contributions from acquisitions. Organic PS sales were up 5%
- Committed contracts and backlog remain high indicating a strong fiscal 4Q and momentum into F2015.
- Continued appetite for M&A but noted it would remain disciplined.

Negatives

- Lower than expected Medical Systems sales (-2%) as management continues to await installation (and therefore, revenue) of Pyxis ES systems.

Quick P&L Recap

- Total sales of \$968M, up 7% on both a reported and constant currency basis. On an organic basis, we estimate that sales were flat for the quarter.
 - Medical Systems sales totaled \$571M, down 2% on both a reported and constant currency basis driven primarily by delay of Pyxis ES conversions.
 - Procedural Solutions sales totaled \$397M, up 25% on both a reported and constant currency basis. On an organic basis, sales were up in the mid-to-high single digits.
- Gross margin of 49.5% was down 330bps y/y driven by lower margin acquisitions such as GE Vital Signs, product revenue mix (primarily in dispensing), and the impact of a key supplier winding down its business.
- SG&A margin of 24.5% was down 80bps y/y as inflationary increases and go-to-market investments within the businesses were offset by cost savings. We note, SG&A was higher on a \$ basis due solely to acquired SG&A.
- R&D margin of 5.2% was flat with the prior year's quarter. CareFusion continues to make investments across its businesses, particularly Procedural Solutions.
- Operating margin of 20.2% was down 210bps y/y driven by unfavorable revenue and mix and the aforementioned impact of a supplier winding down its business. On a sequential basis, operating margin expanded 60bps.
- Interest / other was \$27M, up \$10M y/y driven by a write off of a tax settlement related to a foreign tax position (which was offset on the tax line).
- Tax rate of 24.9% 220bps favorable y/y driven by a tax related settlement the Company received during the quarter.
- Cash EPS of \$0.60, up \$0.01 y/y or 2%, below Company expectations. CareFusion repurchased 2.5M shares in the quarter.

Figure 215: Key Product Sales Trends

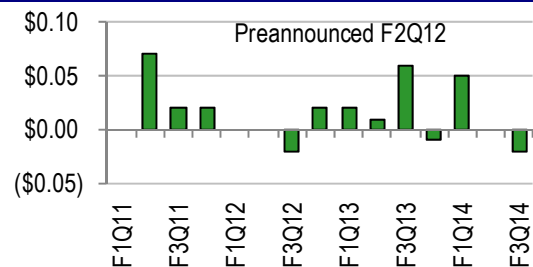
	Actual (\$ mil)	Y/Y % Chg Rptd
Medical Systems	\$571	-2%
Dispensing	\$233	0%
Infusion Systems	\$238	-3%
Respiratory	\$94	-3%
Other	\$6	-14%
Procedural Solutions	\$397	25%
Infection Prevention	\$168	12%
Med Specialties	\$91	3%
Specialty Disposables	\$138	75%
Total Sales	\$968	7%
Total Sales ex-FX		7%

Source: Deutsche Bank, Company reports



CareFusion's F4Q14 Results Preview

Figure 216: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 219: DB versus Thomson Reuters Estimates

2013A	2014E		2015E	
	DB est	TR Est	DB est	TR Est
1Q	\$837	\$830	\$969	\$935
2Q	\$909	\$922	\$1,040	\$1,021
3Q	\$901	\$968	\$1,032	\$1,011
4Q	\$903	\$1,049	\$1,074	\$1,082
FY	\$3,550	\$3,769	\$4,115	\$4,046

Guidance (05/05/14)

F2014: Organic up 2%-4% y/y; Incl acquisitions up 5%-7%

Earnings Per Share

2013A	2014E		2015E	
	DB est	TR Est	DB est	TR Est
1Q	\$0.44	\$0.44	\$0.53	\$0.54
2Q	\$0.54	\$0.54	\$0.67	\$0.66
3Q	\$0.59	\$0.60	\$0.73	\$0.70
4Q	\$0.55	\$0.72	\$0.76	\$0.79
FY	\$2.12	\$2.31	\$2.69	\$2.68

Guidance (05/05/14)

F2014: Lower end of \$2.30-\$2.40

Source: Deutsche Bank, Thomson Reuters

Figure 217: Earnings Release and Conference Call Information

Earnings Release Date: Thursday, August 7, 2014 after market close

Conf Call Date & Info: Thursday, August 7, 2014 at 5:00pm
Dial In: +1 800 706 7741, Code: 76419223
ir.carefusion.com/

Source: Company reports, Thomson Reuters

Figure 218: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Chg Rptd
Medical Systems	\$666	12%
Dispensing	\$293	15%
Infusion Systems	\$270	14%
Respiratory	\$96	3%
Other	\$7	10%
Procedural Solutions	\$383	23%
Infection Prevention	\$161	9%
Med Specialties	\$93	3%
Specialty Disposables	\$129	77%
Total Sales	\$1,049	16%
Total Sales ex-FX		16%

What to focus on:

- Initial F2015 guidance
- Corporate strategy, capital allocation, and longer term outlook
- Pyxis MedStation ES system trends
- Integration of GE Vital Signs
- Procedural Solutions Market
- Infusion Pumps Business Dynamics

Source: Deutsche Bank



F2014 Guidance update

For FY 2014, CareFusion now expects organic constant currency sales growth of 2%-4% versus prior guidance of 1%-4%. Including acquisitions, management expects revenue growth between 5%-7% on a reported basis.

- Medical Systems is expected to grow 1%-4%, with Infusion growing above that range and Dispensing and Respiratory seeing declines for the year but growth in F4Q13.
- Procedural Solutions business is expected to grow between 4%-6% organically, up from prior guidance of 2%-4%. Including the Sendal and GE Vital Signs acquisitions, reported growth is expected to be 15%-17% up from 13%-15% prior.

Adjusted operating margin ex-amortization is now expected to be 20%, down from prior guidance of 20.5%-21.5%, and initial guidance of 21%-22%. The lower guidance is largely a result of product mix as well as impact from acquisitions.

Tax rate is now expected to be around 27%, down from 28%-30% due to the tax benefit seen in F3Q14.

Avg diluted shares are still expected to be slightly below 215 million based on \$500 million in planned share repurchases.

Adjusted EPS is now expected to be near the lower-end of the company's previously issued guidance range of \$2.30-\$2.40, excluding amortization.

Longer term goals reaffirmed

Management continues to believe that it is making progress against its longer term goals. It expects sales growth to be at a FY13-FY15 CAGR of 3%-5% or in the high single digits including acquisitions. It also expects an EPS CAGR of 12%-14%.



Figure 220: CareFusion abbreviated models (\$ in millions, except per share data)

	Jun'10	Jun'11	Sep'11	Dec'11	Mar'12	Jun'12	Jun'12	Sep'12	Dec'12	Mar'13	Jun'13	Jun'13	Sep'13	Dec'13	Mar'14	Jun'14	Jun'14	Jun'15	
	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	
Medical Systems																			
Dispensing Technologies	\$868	\$910	\$241	\$257	\$261	\$278	\$1,037	\$244	\$260	\$234	\$255	\$993	\$211	\$236	\$233	\$293	\$973	\$1,143	
Infusion Systems	\$840	\$889	\$206	\$239	\$245	\$266	\$955	\$203	\$229	\$246	\$238	\$916	\$219	\$247	\$238	\$270	\$974	\$991	
Respiratory Technologies	\$338	\$423	\$93	\$102	\$106	\$120	\$420	\$97	\$106	\$97	\$93	\$393	\$88	\$96	\$94	\$96	\$374	\$378	
Other	\$25	\$24	\$6	\$6	\$7	\$7	\$26	\$7	\$7	\$7	\$6	\$27	\$6	\$8	\$6	\$7	\$27	\$27	
Med Systems Sales	\$2,071	\$2,246	\$546	\$604	\$619	\$671	\$2,438	\$551	\$602	\$584	\$592	\$2,329	\$524	\$587	\$571	\$666	\$2,348	\$2,539	
Y/Y % Change																			
Dispensing Technologies		4.8%	17.6%	12.2%	24.3%	7.8%	14.0%	1.2%	1.2%	-10.3%	-8.3%	-4.2%	-13.5%	-9.2%	-0.4%	15.0%	-2.0%	17.5%	
Infusion Systems		5.8%	7.3%	7.2%	15.0%	1.9%	7.4%	-1.5%	-4.2%	0.4%	-10.5%	-4.1%	7.9%	7.9%	-3.3%	14.0%	6.3%	1.7%	
Respiratory Technologies		25.1%	-10.6%	-6.4%	-2.8%	18.8%	-0.7%	4.3%	3.9%	-8.5%	-22.5%	-6.4%	-9.3%	-9.4%	-3.1%	3.0%	-4.9%	1.0%	
Other		-4.0%	0.0%	0.0%	16.7%	16.7%	8.3%	16.7%	16.7%	0.0%	-14.3%	3.8%	-14.3%	14.3%	-14.3%	10.0%	-1.5%	3.2%	
Med Systems Sales		8.5%	7.7%	6.5%	15.1%	7.2%	8.5%	0.9%	-0.3%	-5.7%	-11.8%	-4.5%	-4.9%	-2.5%	-2.2%	12.4%	0.8%	8.2%	
Procedural Solutions																			
Infection Prevention	\$463	\$568	\$138	\$142	\$150	\$145	\$576	\$144	\$152	\$150	\$148	\$594	\$149	\$168	\$168	\$161	\$646	\$673	
Med Specialties	\$310	\$322	\$78	\$79	\$80	\$80	\$317	\$80	\$86	\$88	\$90	\$344	\$89	\$89	\$91	\$93	\$362	\$373	
Specialty Disposables	\$300	\$304	\$66	\$65	\$70	\$65	\$266	\$62	\$69	\$79	\$73	\$283	\$68	\$78	\$138	\$129	\$413	\$530	
Procedural Solutions	\$1,073	\$1,194	\$282	\$286	\$300	\$290	\$1,159	\$286	\$307	\$317	\$311	\$1,221	\$306	\$335	\$397	\$383	\$1,421	\$1,576	
Y/Y % Change																			
Infection Prevention		22.7%	2.2%	0.0%	4.2%	-1.4%	1.4%	4.3%	7.0%	0.0%	2.1%	3.1%	3.5%	10.5%	12.0%	9.0%	8.8%	4.2%	
Med Specialties		3.9%	0.0%	1.3%	-2.4%	-4.8%	-1.6%	2.6%	8.9%	10.0%	12.5%	8.5%	11.3%	3.5%	3.4%	3.0%	5.1%	3.0%	
Specialty Disposables		1.3%	-5.7%	-11.0%	-10.3%	-21.7%	-12.5%	-6.1%	6.2%	12.9%	12.3%	6.4%	9.7%	13.0%	74.7%	76.8%	46.0%	28.4%	
Procedural Solutions		11.3%	-0.4%	-2.4%	-1.3%	-7.6%	-2.9%	1.4%	7.3%	5.7%	7.2%	5.3%	7.0%	9.1%	25.2%	23.2%	16.4%	10.9%	
Total Sales																			
Medical Systems	\$2,071	\$2,246	\$546	\$604	\$619	\$671	\$2,438	\$551	\$602	\$584	\$592	\$2,329	\$524	\$587	\$571	\$666	\$2,348	\$2,539	
Procedural Solutions	\$1,073	\$1,194	\$282	\$286	\$300	\$290	\$1,159	\$286	\$307	\$317	\$311	\$1,221	\$306	\$335	\$397	\$383	\$1,421	\$1,576	
Total Company Sales	\$3,144	\$3,440	\$828	\$890	\$919	\$961	\$3,597	\$837	\$909	\$901	\$903	\$3,550	\$830	\$922	\$968	\$1,049	\$3,769	\$4,115	
Y/Y % Change Reported																			
Medical Systems		8.5%	7.7%	6.5%	15.1%	7.2%	8.5%	0.9%	-0.3%	-5.7%	-11.8%	-4.5%	-4.9%	-2.5%	-2.2%	12.4%	0.8%	8.2%	
Procedural Solutions		11.3%	-0.4%	-2.4%	-1.3%	-7.6%	-2.9%	1.4%	7.3%	5.7%	7.2%	5.3%	7.0%	9.1%	25.2%	23.2%	16.4%	10.9%	
Y/Y % Change Reported		9.4%	4.8%	3.5%	9.1%	2.2%	4.6%	1.1%	2.1%	-2.0%	-6.0%	-1.3%	-0.8%	1.4%	7.4%	16.1%	6.2%	9.2%	
Y/Y % Change Ex-FX		9.0%	3.0%	3.5%	9.1%	3.1%	4.5%	2.1%	2.5%	-1.6%	-5.8%	-0.8%	-0.8%	1.4%	7.4%	16.1%	6.2%	9.2%	
FX Impact (\$)		\$12	\$9	\$0	\$0	(\$8)	\$1	(\$9)	(\$3)	(\$3)	(\$2)	(\$17)	\$0	\$0	\$0	\$0	\$0	\$0	
FX Impact (%)		0.4%	1.8%	0.0%	0.0%	-0.9%	0.0%	-1.0%	-0.3%	-0.3%	-0.2%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

Source: Deutsche Bank, Company reports



Figure 220 (cont'd): CareFusion abbreviated models (\$ in millions, except per share data)

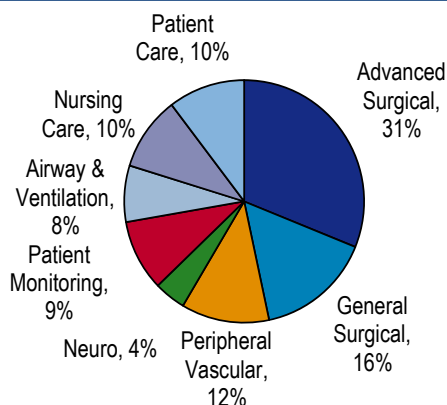
	Jun'10	Jun'11	Sep'11	Dec'11	Mar'12	Jun'12	Jun'12	Sep'12	Dec'12	Mar'13	Jun'13	Jun'13	Sep'13	Dec'13	Mar'14	Jun'14	Jun'14	Jun'15
	2010RR	2011RR	1Q12R	2Q12R	3Q12R	4Q12RR	2012RR	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E
Sales	\$3,377	\$3,440	\$828	\$890	\$919	\$961	\$3,598	\$837	\$909	\$901	\$903	\$3,550	\$830	\$922	\$968	\$1,049	\$3,769	\$4,115
COGS	\$1,686	\$1,672	\$405	\$443	\$460	\$486	\$1,794	\$401	\$438	\$425	\$436	\$1,700	\$407	\$453	\$489	\$503	\$1,852	\$1,947
Gross Profit	\$1,691	\$1,768	\$423	\$447	\$459	\$475	\$1,804	\$436	\$471	\$476	\$467	\$1,850	\$423	\$469	\$479	\$545	\$1,916	\$2,168
Gross Margin	50.1%	51.4%	51.1%	50.2%	49.9%	49.4%	50.1%	52.1%	51.8%	52.8%	51.7%	52.1%	51.0%	50.9%	49.5%	52.0%	50.8%	52.7%
SG&A Expense (ex-amort)	\$964	\$942	\$242	\$242	\$222	\$247	\$953	\$229	\$234	\$228	\$228	\$919	\$233	\$241	\$237	\$254	\$965	\$1,054
% Sales	28.5%	27.4%	29.2%	27.2%	24.2%	25.7%	26.5%	27.4%	25.7%	25.3%	25.2%	25.9%	28.1%	26.1%	24.5%	24.2%	25.6%	25.6%
R&D Expense	\$148	\$146	\$37	\$36	\$45	\$46	\$164	\$47	\$48	\$47	\$50	\$192	\$48	\$47	\$47	\$52	\$194	\$215
% Sales	4.4%	4.2%	4.5%	4.0%	4.9%	4.8%	4.6%	5.6%	5.3%	5.2%	5.5%	5.4%	5.8%	5.2%	5.2%	5.0%	5.2%	5.2%
Total Op Expense (incl-amort)	\$1,175	\$1,158	\$297	\$297	\$286	\$313	\$1,193	\$291	\$297	\$291	\$293	\$1,172	\$296	\$304	\$305	\$326	\$1,231	\$1,349
Share of Net Earnings Equity Investee															\$1	\$2	\$3	\$6
Op Inc (ex M&A amort)	\$579	\$680	\$144	\$169	\$192	\$182	\$687	\$160	\$189	\$201	\$189	\$739	\$142	\$181	\$196	\$241	\$760	\$906
Operating Margin	17.1%	19.8%	17.4%	19.0%	20.9%	18.9%	19.1%	19.1%	20.8%	22.3%	20.9%	20.8%	17.1%	19.6%	20.2%	23.0%	20.2%	22.0%
Interest & Other, net	\$83	\$79	\$25	\$17	\$21	\$24	\$87	\$19	\$19	\$17	\$21	\$76	\$20	\$21	\$27	\$21	\$89	\$91
Pre-tax income	\$496	\$601	\$119	\$152	\$171	\$158	\$601	\$141	\$170	\$184	\$168	\$663	\$122	\$160	\$169	\$220	\$671	\$814
Pre-tax Margin	14.7%	17.5%	14.4%	17.1%	18.6%	16.4%	16.7%	16.8%	18.7%	20.4%	18.6%	18.7%	14.7%	17.4%	17.5%	21.0%	17.8%	19.8%
Adj. Tax	\$151	\$176	\$26	\$41	\$45	\$47	\$159	\$42	\$49	\$50	\$47	\$188	\$26	\$44	\$42	\$68	\$180	\$244
Tax Rate	30.4%	29.3%	21.8%	27.0%	26.3%	29.7%	26.5%	29.8%	28.8%	27.2%	28.0%	28.4%	21.3%	27.3%	24.9%	31.0%	26.8%	30.0%
Adj. "Cash" Net Income	\$345	\$425	\$93	\$111	\$126	\$111	\$442	\$99	\$121	\$134	\$121	\$475	\$96	\$116	\$127	\$152	\$491	\$570
Net margin	10.2%	12.4%	11.2%	12.5%	13.7%	11.6%	12.3%	11.8%	13.3%	14.9%	13.4%	13.4%	11.6%	12.6%	13.1%	14.5%	13.0%	13.9%
Diluted Shares	223.0	225.1	226.3	226.6	226.8	224.2	226.0	224.4	224.9	225.6	221.2	224.0	217.4	213.7	211.1	210.5	213.2	211.7
Adjusted "Cash" EPS	\$1.55	\$1.89	\$0.41	\$0.49	\$0.56	\$0.50	\$1.95	\$0.44	\$0.54	\$0.59	\$0.55	\$2.12	\$0.44	\$0.54	\$0.60	\$0.72	\$2.31	\$2.69
Recon to Adjusted EPS																		
"Cash" Net Income	\$345	\$425	\$93	\$111	\$126	\$111	\$442	\$99	\$121	\$134	\$121	\$475	\$96	\$116	\$127	\$152	\$491	\$570
M&A Intang Amort	\$63	\$70	\$18	\$19	\$19	\$20	\$76	\$15	\$15	\$16	\$15	\$61	\$15	\$16	\$21	\$20	\$72	\$80
Adjusted Net Income	\$304	\$379	\$81	\$98	\$113	\$98	\$390	\$89	\$111	\$123	\$113	\$434	\$86	\$106	\$113	\$137	\$439	\$510
Adjusted EPS	\$1.36	\$1.68	\$0.36	\$0.43	\$0.50	\$0.43	\$1.73	\$0.40	\$0.49	\$0.55	\$0.51	\$1.94	\$0.40	\$0.50	\$0.54	\$0.65	\$2.06	\$2.41
Growth Rates																		
Sales	6.0%	1.9%	4.8%	3.5%	9.1%	2.2%	4.6%	1.1%	2.1%	-2.0%	-6.0%	-1.3%	-0.8%	1.4%	7.4%	16.1%	6.2%	9.2%
Gross Profit	-2.3%	4.6%	5.0%	3.3%	5.0%	-2.8%	2.0%	3.1%	5.4%	3.7%	-1.7%	2.5%	-3.0%	-0.4%	0.6%	16.8%	3.6%	13.1%
SG&A	-8.6%	-2.3%	5.7%	4.3%	-2.6%	-2.4%	1.2%	-5.4%	-3.3%	2.7%	-7.7%	-3.6%	1.7%	3.0%	3.9%	11.2%	5.0%	9.3%
R&D	-7.4%	-1.4%	-2.6%	5.9%	25.0%	21.1%	12.3%	27.0%	33.3%	4.4%	8.7%	17.1%	2.1%	-2.1%	0.0%	4.9%	1.3%	10.6%
Operating Income	12.1%	17.4%	6.0%	1.4%	11.0%	-7.8%	1.0%	11.1%	11.8%	4.7%	3.8%	7.6%	-11.3%	-4.2%	-2.5%	27.7%	2.9%	19.1%
Pretax income	19.8%	21.2%	4.5%	3.0%	10.3%	-11.5%	-0.1%	18.5%	11.8%	7.6%	6.3%	10.4%	-13.5%	-5.9%	-8.2%	31.2%	1.3%	21.3%
Adjusted Cash Net Income	9.4%	23.2%	19.4%	6.1%	20.0%	-15.6%	3.9%	6.5%	9.0%	6.3%	9.0%	7.6%	-3.0%	-3.9%	-5.2%	25.7%	3.4%	16.0%
Share Count	1.1%	1.0%	1.1%	0.9%	0.5%	-1.0%	0.4%	-0.8%	-0.8%	-0.5%	-1.3%	-0.9%	-3.1%	-5.0%	-6.4%	-4.9%	-4.8%	-0.7%
Cash EPS	8.1%	22.0%	18.1%	5.1%	19.4%	-14.7%	3.5%	7.4%	9.8%	6.9%	10.5%	8.5%	0.1%	1.2%	1.3%	32.1%	8.7%	16.8%
Adj. EPS		23.5%	19.8%	3.7%	20.9%	-17.6%	2.5%	10.8%	14.1%	9.4%	17.5%	12.2%	-0.3%	0.8%	-1.8%	27.5%	6.4%	16.9%

Source: Deutsche Bank, Company reports



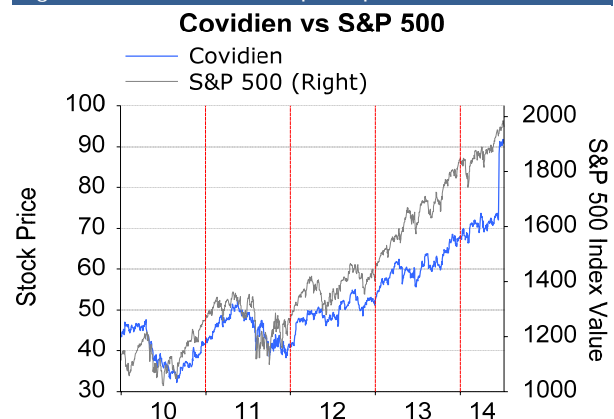
Covidien (COV-Buy)

Figure 221: Sales mix, F2013



Source: Deutsche Bank, Company reports

Figure 223: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 222: Rating and Valuation Summary

Mkt cap (\$M):	\$40,989	DB Rating:	Buy	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$90.91	DB Target Price:	\$114.00	DB	TR Cons	CY	Abs PE	
52 Wk Range: \$57.53-\$92.68		implied % chg: 25%		2013A	\$3.72	NTM	22.0x	
2013 Price Perf: 29.7%		Dividend Yield: 1.8%		2014E	\$3.97	\$3.99	2014E	22.6x
YTD 2014 Price Perf: 33.5%		Target PE (C15E): 25.6x		2015E	\$4.36	\$4.45	2015E	20.4x
EPS estimates include intangible amort								

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

On June 15, Medtronic and Covidien announced an agreement whereby Medtronic would acquire Covidien in a cash-and-stock transaction. We believe there is a high likelihood (90%) that the merger is completed and value Covidien as such. We believe both Medtronic and Covidien can sustain mid-single digit top line growth. Covidien on a standalone basis is capable of growing its EPS in the double digits (as is the combined MDT-COV entity). We believe the merger offers a compelling long-term investment opportunity as it improves the outlook for the combined organization. Hence we maintain our Buy rating.

Upcoming Potential Catalysts

- **Ongoing:** Updates from Medtronic – Covidien merger
- **July 25:** COV earnings release
- **2H14:** Updates on the neurovascular product recalls
- **September 13-17:** Transcatheter Cardiovascular Therapeutics (TCT), Washington, DC

Valuation and Risks

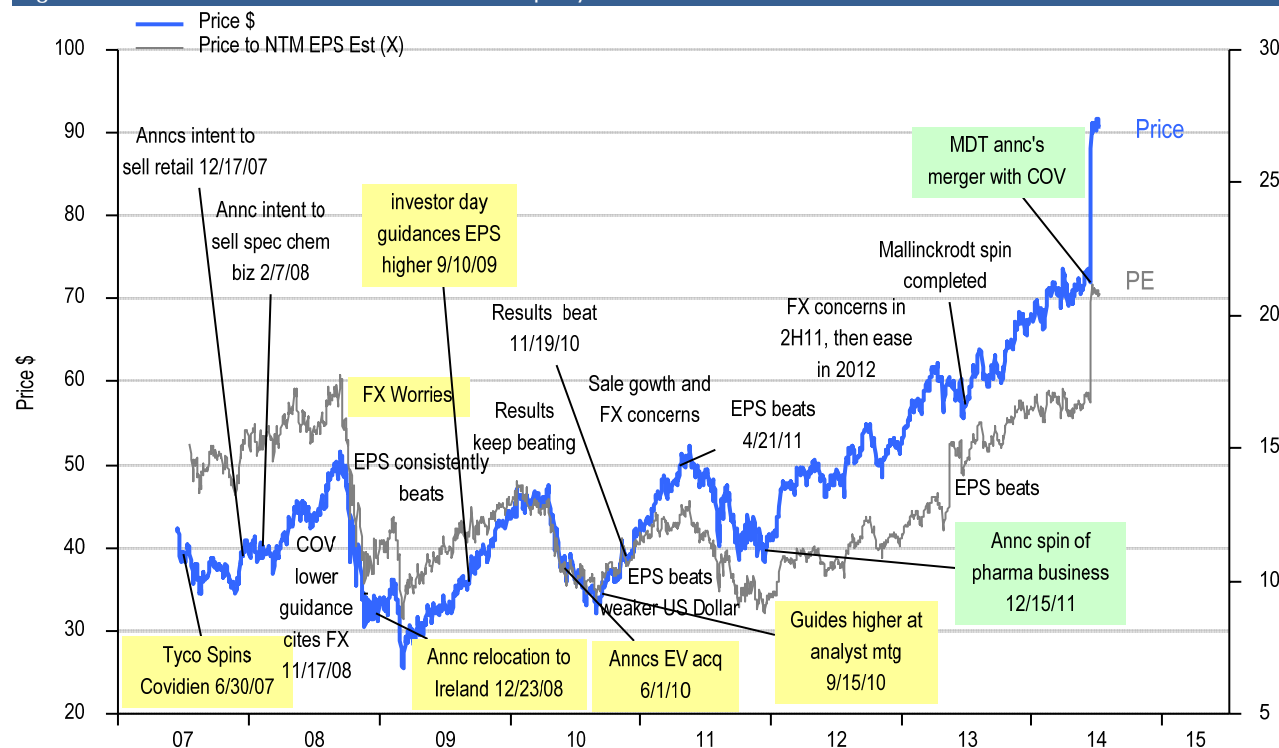
We believe there is a high likelihood for a transaction to close and have valued the stock on this basis. For the combined MDT-COV entity we apply a peer/market multiple on our projected EPS. Using our Medtronic combined valuation and applying the cash (\$35.19)-and-stock (exchange ratio of 0.956)-components, we derive a valuation range of \$110-\$117. On a standalone basis, we estimate Covidien's 2016 cash EPS to be \$5.34 and apply a market/peer multiple (16x) on our cash calendar 2016 EPS estimates to arrive at valuation of \$85. Applying a 90% weighting to the detail close and factoring in the cash and stock components, we arrive at our price target for Covidien. Key downside risk is the merger not closing. Other risks include adverse IRS judgments, failure of pipeline products, product recalls, the inability to realize projected merger cost synergies, failure to retain key talent, and pricing pressures.



Historical Stock Price Performance

COV shares have been volatile over the past three years. Due to the exposure to FX rates, the stock tends to trade along with major currencies like the Euro.

Figure 224: Stock Price Performance and Company News Events



Performance Commentary

Covidien spun from Tyco in 2007. After the spin, the stock struggled as the investor base shifted over and investors grew concerned about the progress on the portfolio rebalancing initiatives and earnings outlook. Following F4Q07 results and announcement that it was intending to sell its retail business in December, followed by consistent upside surprises, the stock increased in value throughout 2008. The stock pulled back dramatically at the end of 2008 along with the broader markets but also due to FX worries, which proved to be correct as the company lowered guidance in November 2008. The relocation to Ireland & removal from the S&P 500 index also put pressure on the stock. However, concerns eased as performance improved (as did FX rates) and Covidien returned to beating expectations. The stock did pull back in early 2011 as the top line softened due to the macroeconomic environment and concerns regarding the ev3 acquisition. However, following the announcement of the spin-off of its pharmaceutical business in December 2011 and strong underlying results through the course of 2012. The stock continued to move higher throughout 2013, and thus far into 2014, notably after the announcement of the merger with Medtronic.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
COV	N/A	N/A	N/A	N/A	N/A	N/A	-3.7%	-18.2%	32.1%	-4.7%	-1.4%	28.3%	29.7%	33.5%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Covidien Product Portfolio Overview

Figure 225: Product overview

Products	% sales	Description
SURGICAL SOLUTIONS		
Advanced Surgical	31%	In F2013, Advanced Surgical sales totaled \$3,186 million. Includes the company's stapling, vessel sealing, fixation, mesh, hardware, interventional lung, GI solutions, and ablation products.
General Surgical	16%	In F2013, General Surgical sales totaled \$1,589 million. Includes the company's surgical instruments, sutures, and electrocautery products. Sales also previously included Covidien's biosurgery sales, but the Company divested its biosurgery business in January 2014.
VASCULAR THERAPIES		
Peripheral Vascular	12%	In F2013, Peripheral Vascular sales totaled \$1,215 million. Includes Covidien's compression, dialysis, chronic venous insufficiency, other peripheral, peripheral stents, and directional atherectomy products.
Neurovascular	4%	In F2013, Neurovascular sales totaled \$437 million. Sales primarily include solutions to treat hemorrhagic and acute ischemic stroke, as well as other neuroradiologic access and delivery devices.
RESPIRATORY AND PATIENT CARE		
Patient Monitoring	9%	In F2013, Patient Monitoring sales totaled \$969 million. Key products include bedside and handheld pulse oximeters and brain monitoring sensors.
Airway and Ventilation	8%	In F2013, Airway and Ventilation sales totaled \$770 million. Products include endotracheal tubes, airway accessories and ventilator systems.
Nursing Care	10%	In F2013, Nursing Care sales totaled \$1,011 million. Products include incontinence, wound care, enteral feeding, and urology products.
Patient Care	10%	In F2013, Patient Care sales totaled \$1,058 million. Includes medical surgical, sharp safety, and OEM products.

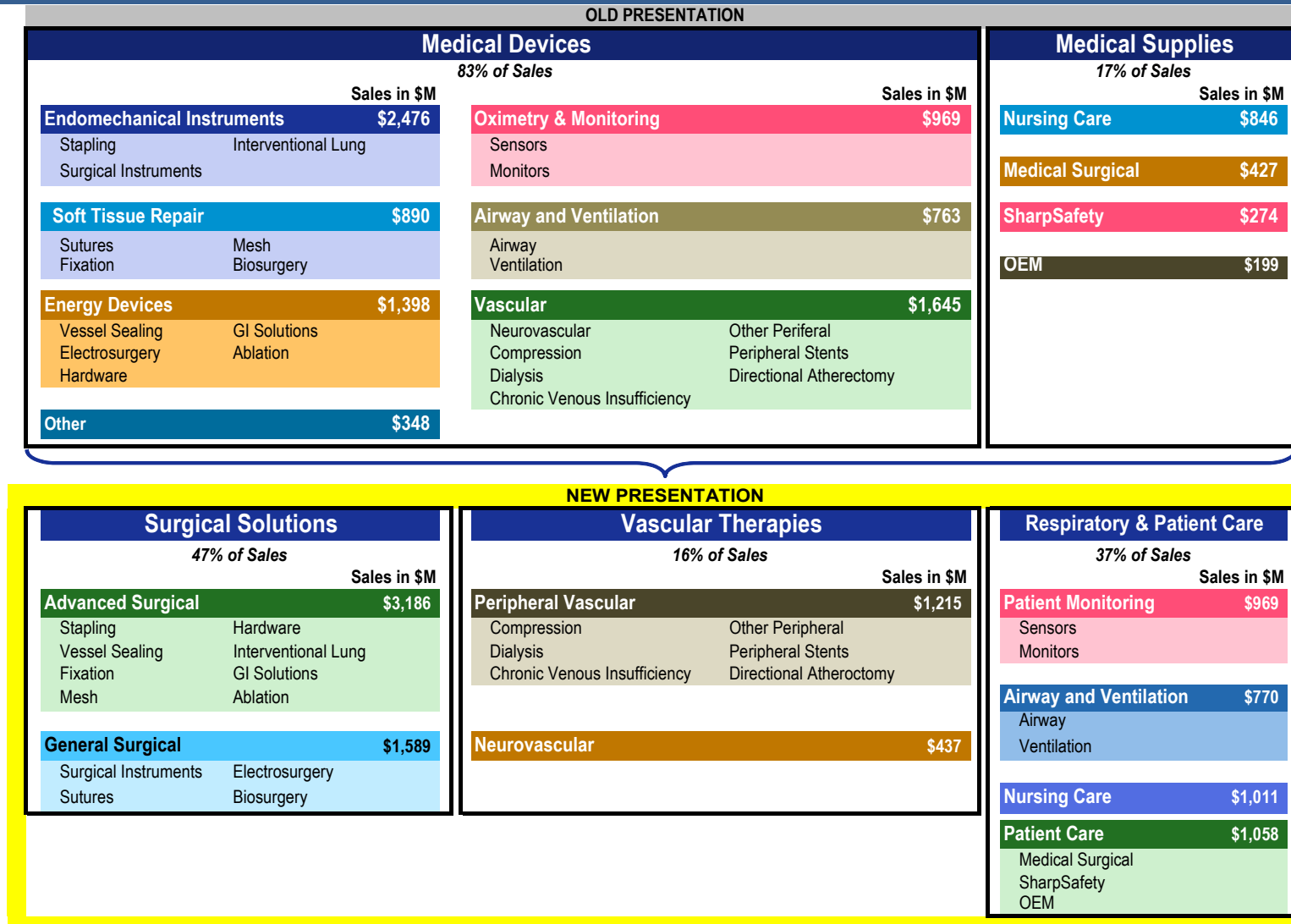
Source: Deutsche Bank, Company reports



Covidien's new reporting presentation

Beginning in F1Q14, Covidien will begin reporting under a new structure, which we illustrate in Figure 226.

Figure 226: Covidien's new business classification



Source: Deutsche Bank, Thomson Reuters, Company Reports



Surgical solutions

Figure 227: Sales Mix

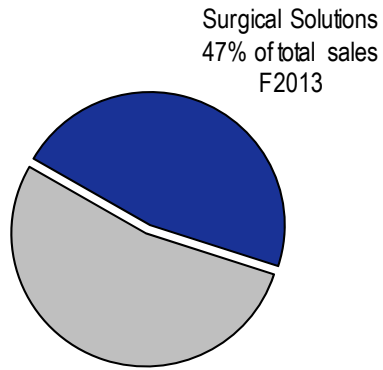
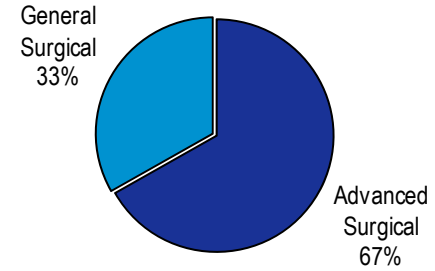


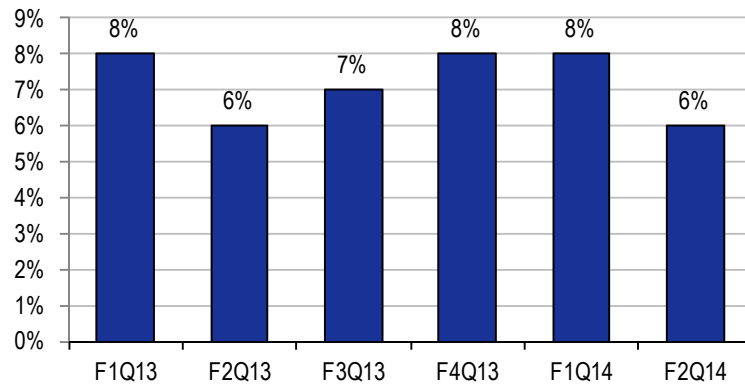
Figure 228: Sales by Key Products



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 229: Year-over-Year % Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

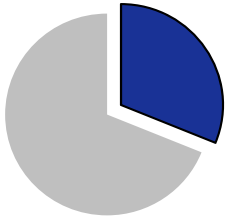


Surgical Solutions Sales Trends

Advanced Surgical

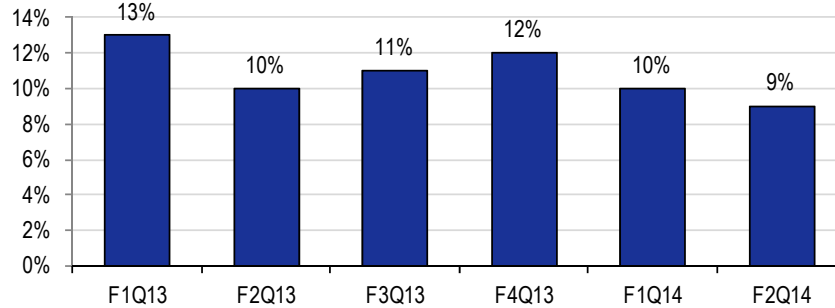
Figure 230: Sales mix

Advanced Surgical
 31% of total sales
 F2013



Source: Deutsche Bank, Company reports

Figure 231: Year-over-Year Change in Sales, Constant Currency



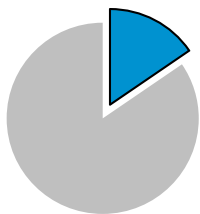
Source: Deutsche Bank, Company reports

Covidien's Advanced Surgical business includes sales of Stapling, Vessel Sealing, Fixation, Mesh, Hardware, Interventional Lung, GI Solutions and Ablation. Also includes sales from Given Imaging.

General Surgical

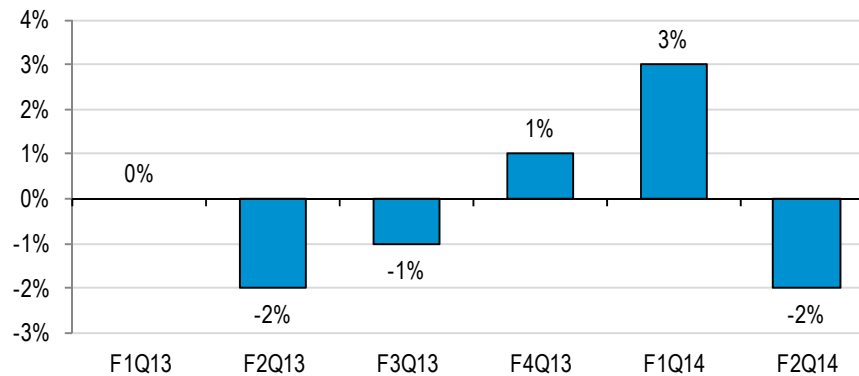
Figure 232: Sales mix

General Surgical
 16% of total sales
 F2013



Source: Deutsche Bank, Company reports

Figure 233: Year-over-Year Change in Sales, Constant Currency



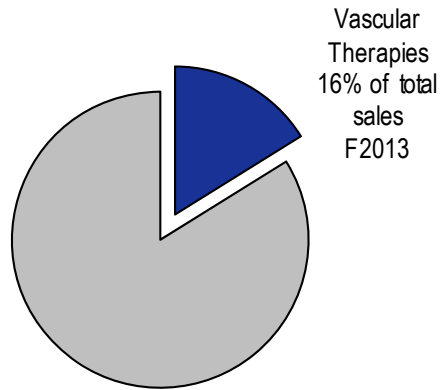
Source: Deutsche Bank, Company reports

Covidien's General Surgical business includes sales of Surgical instruments, Sutures, and Electrosurgery. Sales previously included Covidien's biosurgery business, but the Company divested its Confluent biosurgery business in January 2014.



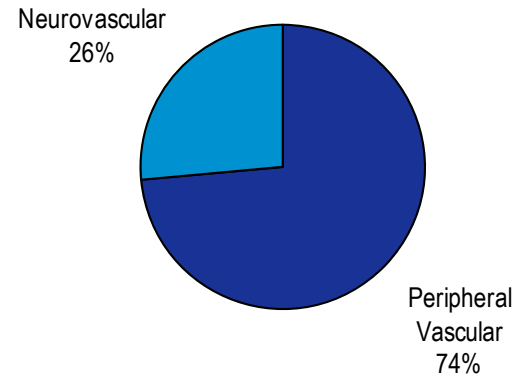
Vascular Therapies

Figure 234: Sales Mix



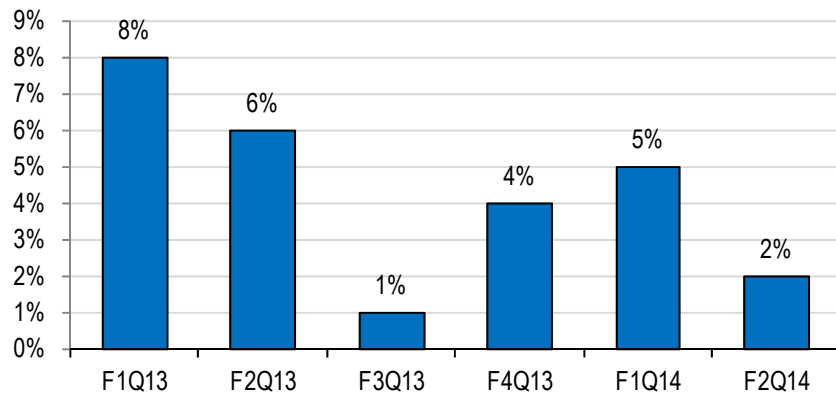
Source: Deutsche Bank, Company reports

Figure 235: Sales by Key Products (F2013)



Source: Deutsche Bank, Company reports

Figure 236: Year-over-Year % Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports



Vascular Therapies Sales Trends

Peripheral Vascular

Figure 237: Sales mix

Peripheral Vascular
 12% of total sales
 F2013

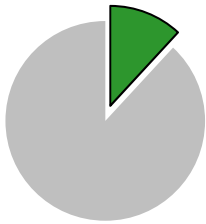
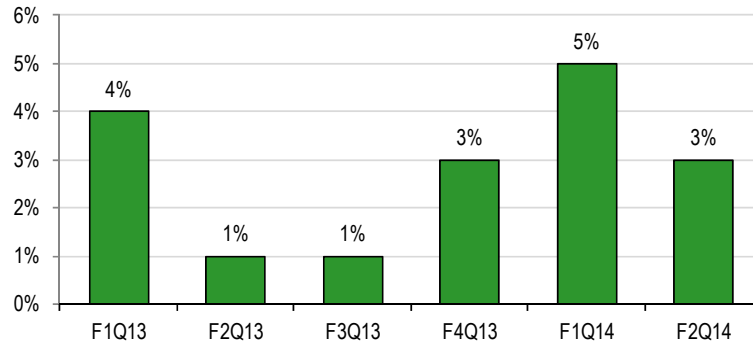


Figure 238: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Covidien's peripheral vascular business includes sales of Compression, Dialysis, Chronic Venous Insufficiency, Other Peripheral, Peripheral Stents and Directional Atherectomy.

Neurovascular

Figure 239: Sales mix

Neurovascular
 4% of total sales
 F2013

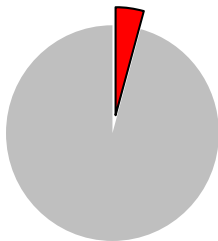
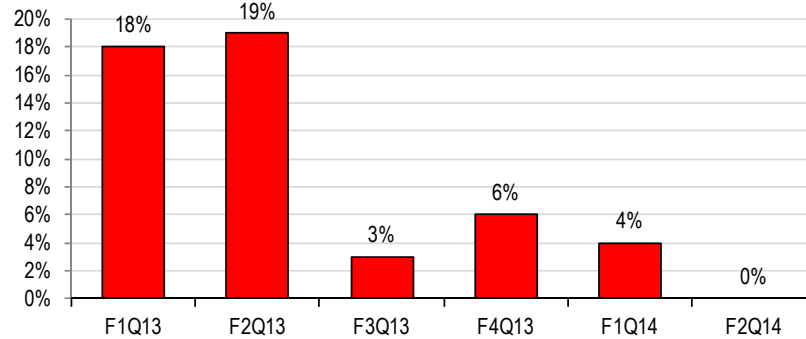


Figure 240: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

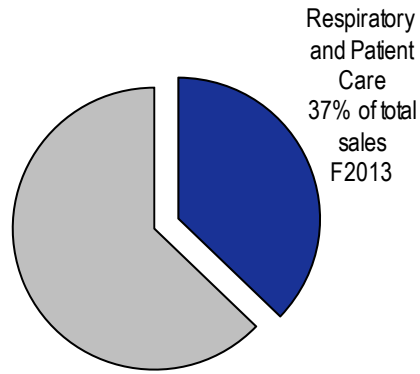
Source: Deutsche Bank, Company reports

Covidien's neurovascular business includes sales of minimally invasive solutions for neurovascular care.



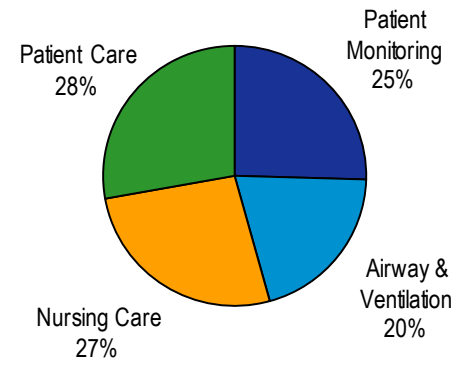
Respiratory and Patient Care

Figure 241: Sales Mix



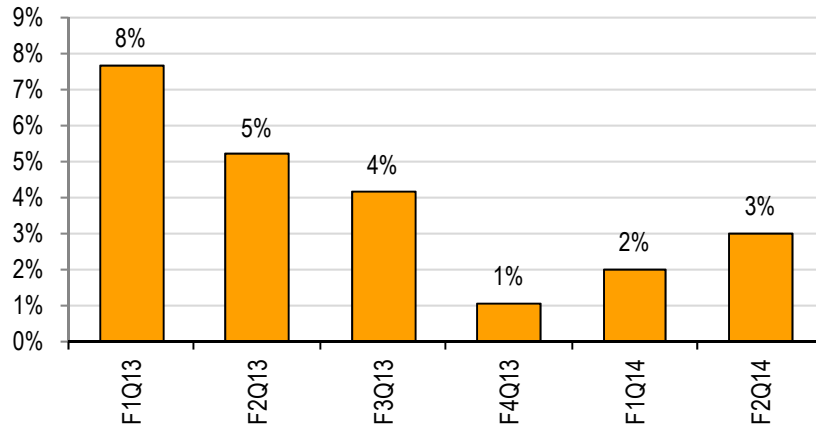
Source: Deutsche Bank, Company reports

Figure 242: Sales by Key Products (F2013)



Source: Deutsche Bank, Company reports

Figure 243: Year-over-Year % Change in Sales, Constant Currency



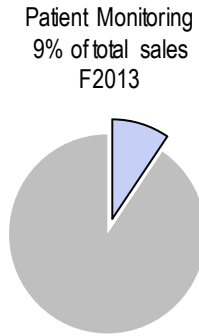
Source: Deutsche Bank, Company reports



Respiratory and Patient Care Sales Trends

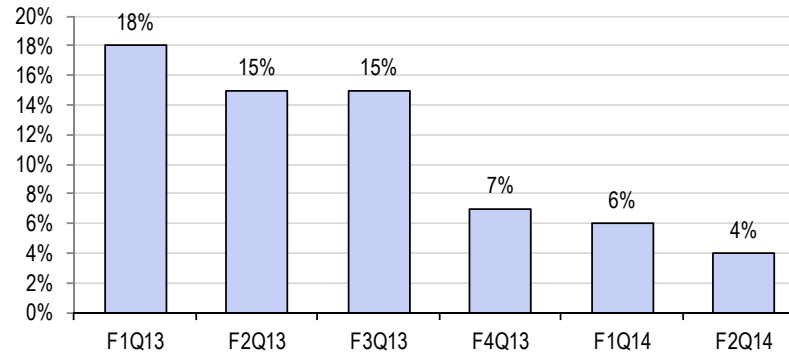
Patient Monitoring

Figure 244: Sales mix



Source: Deutsche Bank, Company reports

Figure 245: Year-over-Year Change in Sales, Constant Currency

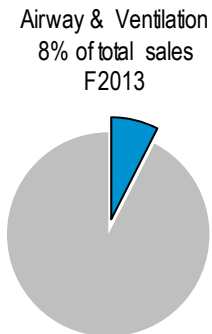


Source: Deutsche Bank, Company reports

Covidien's Patient Monitoring business includes sales of Sensors and Monitors.

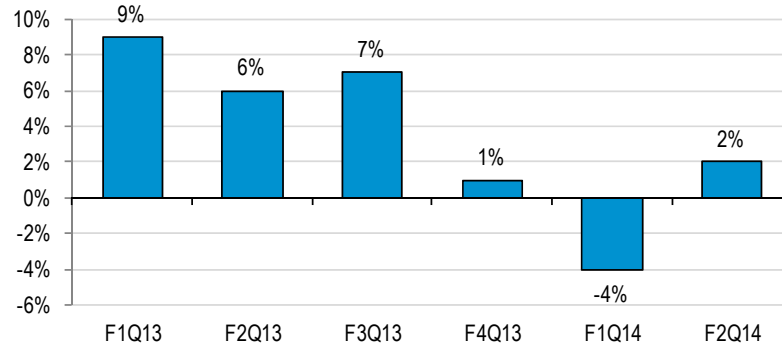
Airway & Ventilation

Figure 246: Sales mix



Source: Deutsche Bank, Company reports

Figure 247: Year-over-Year Change in Sales, Constant Currency



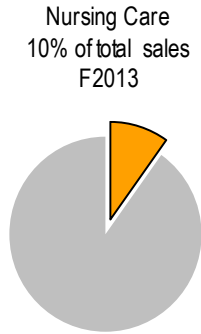
Source: Deutsche Bank, Company reports

Covidien's Airway and Ventilation business includes sales from ventilators, airway management products, and associated accessories.



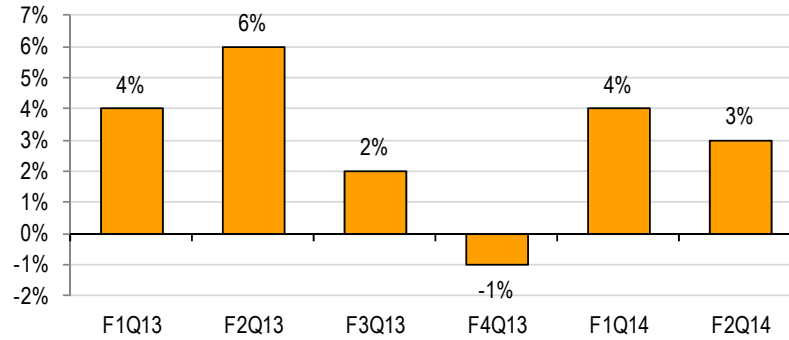
Nursing Care

Figure 248: Sales mix



Source: Deutsche Bank, Company reports

Figure 249: Year-over-Year Change in Sales, Constant Currency

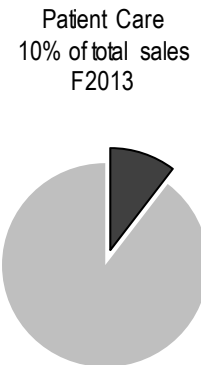


Source: Deutsche Bank, Company reports

Covidien's nursing care business includes sales of traditional wound care, incontinence, and open suction supplies. Products are primarily sold under the Kendall brand.

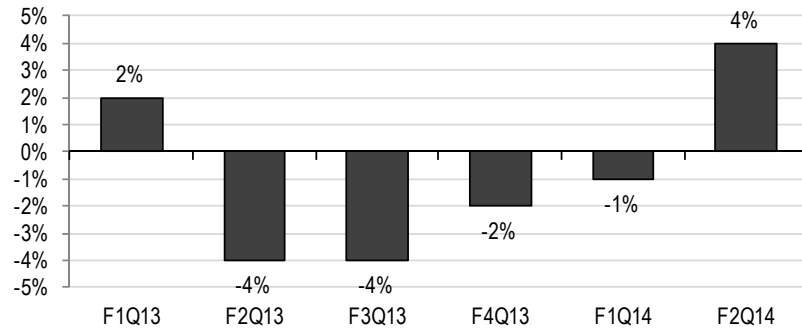
Patient Care

Figure 250: Sales mix



Source: Deutsche Bank, Company reports

Figure 251: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Covidien's patient care business includes sales of Medical Surgical, Sharp Safety and OEM.



Covidien's F2Q14 Results

Our Take on the Quarter

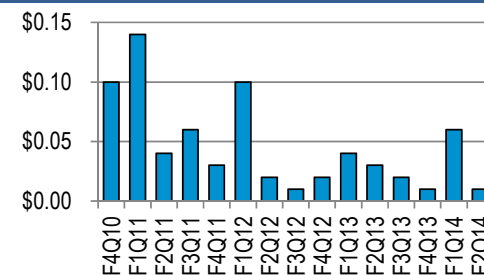
Sales of \$2,598M were slightly below Thomson Reuters at \$2,609M and DBE at \$2,602M. Sales were up 3% on a reported basis and up 4% on a constant currency and organic basis. Relative to the Street, sales were lighter in Advanced Surgical and Vascular Therapies though higher in "supplies." Despite the top line, EPS of \$0.96 (including \$0.09 in amortization) was higher than the Street \$0.95 and DB \$0.94. Relative to our model, COV beat on other income and lower taxes.

Figure 252: Quarter Variance

	Actual	TR Consensus	DB Estimate
<i>(\$ in mil except per share)</i>			
Sales	\$2,598M	\$2,609M	\$2,602M
EPS	\$0.96	\$0.95	\$0.94

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 253: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Strong sales in emerging markets across all product categories (+14% constant currencies)
- Foreign exchange and medical device tax headwinds anticipated to ease in the back half of the year.
- SG&A expense came in ahead of expectations.

Negatives

- Slower organic growth trends in the Advanced Surgical business as well as in Vascular therapies.
- FX negatively impacted operating margins by a greater than anticipated rate

Quick P&L Recap

- Total sales of \$2,598M were up 2% reported and up 4% excluding FX. US sales of \$1,277M were up 2% while emerging markets sales of \$383M grew 14% and non-US Developed Markets sales of \$938M increased 4% ex-FX.
- Gross margin was 58.6%, a decline of 180 bps y/y primarily due to the negative impact of foreign exchange. COV continued to drive positive volume / mix though it was partially offset by weaker vascular sales and increased sales of low margin supplies products.
- SG&A expense was 31.9% of sales, down 110 bps y/y driven by the continued positive impact of operational leverage from productivity improvements. Management commented that recently closed acquisitions may put upward pressure on SG&A margins in the back half of the year.
- R&D expense was 5.2% of sales, up 40 bps vs the prior year as management continues to make investments in pipeline programs.
- Operating margins were 21.6%, down 100bps y/y, but in line with the company's guidance range. Headwinds of approximately 140 bps were from the impact of unfavorable foreign exchange.
- Net interest exp was \$48 million, down \$2M sequentially. Management anticipates that interest expense will be lower going forward.
- Other income was \$10 million versus \$5 million in F1Q13.
- Tax rate was 16.7%, within COV's full year guidance range of 16.5%-17.5%.
- Share count of 454 million was down 4.6% y/y. The Company repurchased \$80M of stock in the quarter.
- EPS of \$0.96 were ahead of both Street at \$0.95 and DBE at \$0.94 and was up 3% year-over-year. Amortization expense of \$0.09 is included in results..

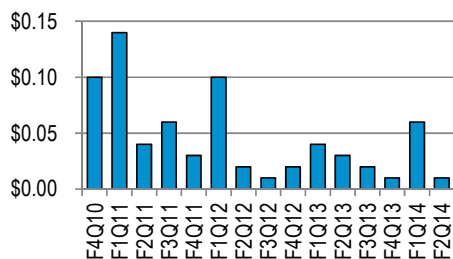
Figure 254: Key Product Sales Trends

F2Q14	Actual (\$ mil)	YY % Chg	
		Rptd	Ex-FX
Surgical Solutions	\$1,213	4%	6%
Advanced Surgical	\$835	8%	9%
General Surgical	\$378	-4%	-2%
Vascular Therapies	\$409	1%	2%
Peripheral Vascular	\$298	1%	3%
Neurovascular	\$111	0%	0%
Respiratory & Patient	\$976	2%	3%
Patient Monitoring	\$258	3%	4%
Airway & Ventilation	\$190	-1%	2%
Nursing Care	\$258	2%	3%
Patient Care	\$270	3%	4%
Total Sales	\$2,598	3%	4%

Source: Deutsche Bank, Company reports



Covidien's F3Q14 Results Preview

Figure 255: EPS Surprise History


Source: Deutsche Bank, Thomson Reuters

Figure 258: DB versus Thomson Reuters Estimates

Revenues					
2013A	2014E		2015E		TR Est
	DB est	TR Est	DB est	TR Est	
1Q	\$2,567	\$2,639	\$2,787	\$2,780	
2Q	\$2,530	\$2,598	\$2,734	\$2,728	
3Q	\$2,578	\$2,687	\$2,694	\$2,811	\$2,805
4Q	\$2,560	\$2,690	\$2,689	\$2,829	\$2,810
FY	\$10,235	\$10,614	\$10,622	\$11,161	\$11,136

Guidance (4/27/14):
 F2014: Up 2%-5% ex-FX (includes a negative 100-125bp from FX).

Earnings Per Share					
2013A	2014E		2015E		TR Est
	DB est	TR Est	DB est	TR Est	
1Q	\$0.97	\$1.00	\$1.06	\$1.09	
2Q	\$0.93	\$0.96	\$1.07	\$1.08	
3Q	\$0.91	\$0.99	\$1.00	\$1.10	\$1.12
4Q	\$0.91	\$1.01	\$1.03	\$1.13	\$1.14
FY	\$3.72	\$3.97	\$3.99	\$4.36	\$4.45

Guidance (4/27/14):

F2014: COV does not provide explicit EPS guidance, but implied range of \$3.72-\$4.17.

Source: Deutsche Bank, Thomson Reuters

Figure 256: Earnings Release and Conference Call Information
Earnings Release Date: Friday, July 25, 2014 before market open

Conf Call Date & Info: Friday, July 25, 2014 at 8:30am
 Dial In: +1 877 546 5021, Code: 44793724

Source: Company reports, Thomson Reuters

Figure 257: DB Expectation Summary

Note: We expect sales growth trends to be somewhat weaker this quarter due to the neurovascular recall.

What to focus on:

We do not expect Covidien to provide an update on its guidance during the quarter. Covidien does not provide quarterly guidance and does not update its full year guidance on its F3Q call because in doing so it would give quarterly guidance. We also do not expect an update due to the pending acquisition by Medtronic.

- Updates on Medtronic - Covidien merger
- Organic growth in the quarter
- General Healthcare utilization trends
- M&A activity, including the integration of Given Imaging
- Update on the neurovascular recall
- Surgical Solutions Performance

F3Q14E	DB Est. (\$ mil)	YY % Chg	
		Rptd	Ex-FX
Surgical Solutions	\$1,292	6%	7%
Advanced Surgical	\$900	11%	12%
General Surgical	\$392	-3%	-2%
Vascular Therapies	\$425	2%	2%
Peripheral Vascular	\$317	4%	4%
Neurovascular	\$108	-4%	-4%
Respiratory & Patient	\$970	2%	3%
Patient Monitoring	\$249	5%	5%
Airway & Ventilation	\$193	0%	1%
Nursing Care	\$259	2%	2%
Patient Care	\$269	2%	2%
Total Sales	\$2,687	4%	5%

Source: Deutsche Bank



2014 Guidance update

Covidien reaffirmed reported sales growth guidance of 2%-5%. Surgical Solutions and Vascular Therapies Sales are expected to be up 3%-6%, while Respiratory and Patient Care sales are expected to be up 1%-4%. Covidien expects operating margins in the 21.5%-22.5% range and its full year effective tax rate guidance between 16.5%-17.5%.

Covidien divested its Confluent biosurgery product line in during last fiscal quarter, which sat in the General Surgical product line. Sales of this business were approximately \$15-\$20 million per quarter, primarily in the US. This divestiture will negatively impact General Surgical's sales growth in the coming quarters. Covidien also acquired Given Imaging which is expected to add \$40-\$50 million per quarter to sales within the Advanced Surgical business.

The one caveat to guidance is that if the timelines to restore Pipeline and Alligator take longer than anticipated, it could weigh on the back half's performance.

We have provided a summary of the guidance in the figure below:

Figure 259: FY2014 Financial Guidance

	FY13 \$ in mil	FY2014 Guidance 12/16/2013		FY2014 Guidance 1/24/2014		FY2014 Guidance 4/25/2014		current guidance implied ranges		Fiscal 2014 DB estimates			
		Low	High	Low	High	Low	High	Low	High	\$ millions	Rptd	ex-FX	
Sales Y/Y % Chg (all guidance on a reported basis)													
Surgical Solutions	\$4,775	3%	- 6%	3%	- 6%	3%	- 6%	\$4,918	- \$5,062	\$5,057	5.9%	7.0%	
Vascular Therapies	\$1,652	3%	- 6%	3%	- 6%	3%	- 6%	\$1,702	- \$1,751	\$1,683	1.9%	2.7%	
Respiratory & Patient Care	\$3,808	1%	- 4%	1%	- 4%	1%	- 4%	\$3,846	- \$3,960	\$3,874	1.7%	2.6%	
Total Company	\$10,235	2%	- 5%	2%	- 5%	2%	- 5%	\$10,440	- \$10,747	\$10,614	3.7%	4.7%	
P&L Line Items													
Operating Margin		21.5%	- 22.5%	21.5%	- 22.5%	21.5%	- 22.5%	21.5%	- 22.5%		22.2%		
Tax Rate		16.0%	- 17.0%	16.5%	- 17.5%	16.5%	- 17.5%	16.5%	- 17.5%		17.1%		
DB est non operating exp									(\$169)		(\$169)		
Diluted avg share count (M)		450	460	450	460	450	460	450	- 460		457		
Implied EPS range	\$3.71							\$3.72	\$4.17		\$3.97		

Source: Deutsche Bank, Company reports



Figure 260: Covidien's Earnings Model (\$ in millions, except per share data)

	12/30/11	3/30/12	6/29/12	9/28/12	9/28/12	12/28/12	3/29/13	6/28/13	9/27/13	9/27/13	12/27/13	3/28/14	6/27/14	9/26/14	9/26/14	9/25/15
	F1Q12	F2Q12	F3Q12	F4Q12	F2012	F1Q13	F2Q13	F3Q13	F4Q13	F2013	F1Q14	F2Q14	F3Q14E	F4Q14E	F2014E	F2015E
Surgical Solutions																
Sales by Product Category																
Advanced Surgical	\$712	\$718	\$745	\$743	\$2,918	\$790	\$774	\$810	\$812	\$3,186	\$853	\$835	\$900	\$911	\$3,498	\$3,829
General Surgical	\$409	\$406	\$416	\$393	\$1,624	\$404	\$392	\$403	\$390	\$1,589	\$408	\$378	\$392	\$381	\$1,559	\$1,577
Surgical Solutions	\$1,121	\$1,124	\$1,161	\$1,136	\$4,542	\$1,194	\$1,166	\$1,213	\$1,202	\$4,775	\$1,261	\$1,213	\$1,292	\$1,292	\$5,057	\$5,406
Reported Y/Y % Chg																
Advanced Surgical						11%	8%	9%	9%	9%	8%	8%	11%	12%	10%	9%
General Surgical						-1%	-3%	-3%	-1%	-2%	1%	-4%	-3%	-2%	-2%	1%
Surgical Solutions						7%	4%	4%	6%	5%	6%	4%	6%	7%	6%	7%
Constant Currency Y/Y % Chg																
Advanced Surgical						13%	10%	11%	12%	11%	10%	9%	12%	12%	11%	9%
General Surgical						0%	-2%	-1%	1%	-1%	3%	-2%	-2%	-2%	-1%	1%
Surgical Solutions						8%	6%	7%	8%	7%	8%	6%	7%	7%	7%	6%
Vascular Therapies																
Sales by Product Category																
Peripheral Vascular	\$300	\$297	\$310	\$307	\$1,214	\$310	\$295	\$305	\$305	\$1,215	\$315	\$298	\$317	\$320	\$1,250	\$1,310
Neurovascular	\$91	\$94	\$110	\$102	\$397	\$106	\$111	\$112	\$108	\$437	\$110	\$111	\$108	\$104	\$432	\$474
Vascular Therapies	\$391	\$391	\$420	\$409	\$1,611	\$416	\$406	\$417	\$413	\$1,652	\$425	\$409	\$425	\$424	\$1,683	\$1,784
Reported Y/Y % Chg																
Peripheral Vascular						3%	-1%	-2%	-1%	0%	2%	1%	4%	5%	3%	5%
Neurovascular						16%	18%	2%	6%	10%	4%	0%	-4%	-4%	-1%	10%
Vascular Therapies						6%	4%	-1%	1%	3%	2%	1%	2%	3%	2%	6%
Constant Currency Y/Y % Chg																
Peripheral Vascular						4%	1%	1%	3%	2%	5%	3%	4%	4%	4%	5%
Neurovascular						18%	19%	3%	6%	11%	4%	0%	-4%	-4%	-1%	9%
Vascular Therapies						8%	6%	1%	4%	5%	5%	2%	2%	2%	3%	6%

Source: Deutsche Bank, Company reports



Figure 260 (continued): Covidien's Earnings Model (\$ in millions, except per share data)

	12/30/11	3/30/12	6/29/12	9/28/12	9/28/12	12/28/12	3/29/13	6/28/13	9/27/13	9/27/13	12/27/13	3/28/14	6/27/14	9/26/14	9/26/14	9/25/15
	F1Q12	F2Q12	F3Q12	F4Q12	F2012	F1Q13	F2Q13	F3Q13	F4Q13	F2013	F1Q14	F2Q14	F3Q14E	F4Q14E	F2014E	F2015E
Respiratory and Patient Care																
Sales by Product Category																
Patient Monitoring	\$207	\$220	\$210	\$230	\$867	\$241	\$250	\$237	\$241	\$969	\$250	\$258	\$249	\$255	\$1,012	\$1,063
Airway & Ventilation	\$182	\$187	\$185	\$194	\$748	\$196	\$191	\$193	\$190	\$770	\$182	\$190	\$193	\$194	\$759	\$774
Nursing Care	\$246	\$242	\$253	\$258	\$999	\$254	\$254	\$254	\$249	\$1,011	\$259	\$258	\$259	\$256	\$1,033	\$1,048
Patient Care	\$261	\$274	\$277	\$272	\$1,084	\$266	\$263	\$264	\$265	\$1,058	\$262	\$270	\$269	\$269	\$1,070	\$1,086
Respiratory and Patient	\$896	\$923	\$925	\$954	\$3,698	\$957	\$958	\$948	\$945	\$3,808	\$953	\$976	\$970	\$975	\$3,874	\$3,971
Reported Y/Y % Chg																
Patient Monitoring						16%	14%	13%	5%	12%	4%	3%	5%	6%	4%	5%
Airway & Ventilation						8%	2%	4%	-2%	3%	-7%	-1%	0%	2%	-1%	2%
Nursing Care						3%	5%	0%	-3%	1%	2%	2%	2%	3%	2%	1%
Patient Care						2%	-4%	-5%	-3%	-2%	-2%	3%	2%	1%	1%	1%
Respiratory and Patient Care						7%	4%	2%	-1%	3%	0%	2%	2%	3%	1.7%	3%
Constant Currency Y/Y % Chg																
Patient Monitoring						18%	15%	15%	7%	14%	6%	4%	5%	5%	5%	5%
Airway & Ventilation						9%	6%	7%	1%	6%	-4%	2%	1%	2%	0%	2%
Nursing Care						4%	6%	2%	-1%	3%	4%	3%	2%	3%	3%	1%
Patient Care						2%	-4%	-4%	-2%	-2%	-1%	4%	2%	2%	2%	1%
Respiratory and Patient Care						8%	5%	4%	1%	4%	2%	3%	3%	3%	3%	3%

Source: Deutsche Bank, Company reports



Figure 260 (cont'd): Covidien's Earnings Model (\$ in millions, except per share data)

	12/30/11	3/30/12	6/29/12	9/28/12	9/28/12	12/28/12	3/29/13	6/28/13	9/27/13	9/27/13	12/27/13	3/28/14	6/27/14	9/26/14	9/26/14	9/25/15
	F1Q12	F2Q12	F3Q12	F4Q12	F2012	F1Q13	F2Q13	F3Q13	F4Q13	F2013	F1Q14	F2Q14	F3Q14E	F4Q14E	F2014E	F2015E
Total Company Sales																
Sales by Division																
Surgical Solutions	\$1,121	\$1,124	\$1,161	\$1,136	\$4,542	\$1,194	\$1,166	\$1,213	\$1,202	\$4,775	\$1,261	\$1,213	\$1,292	\$1,292	\$5,057	\$5,406
Vascular Therapies	\$391	\$391	\$420	\$409	\$1,611	\$416	\$406	\$417	\$413	\$1,652	\$425	\$409	\$425	\$424	\$1,683	\$1,784
Respiratory and Patient C	\$896	\$923	\$925	\$954	\$3,698	\$957	\$958	\$948	\$945	\$3,808	\$953	\$976	\$970	\$975	\$3,874	\$3,971
Total Sales	\$2,408	\$2,438	\$2,506	\$2,499	\$9,851	\$2,567	\$2,530	\$2,578	\$2,560	\$10,235	\$2,639	\$2,598	\$2,687	\$2,690	\$10,614	\$11,161
Reported Y/Y % Chg																
Surgical Solutions						7%	4%	4%	6%	5%	6%	4%	6%	7%	6%	7%
Vascular Therapies						6%	4%	-1%	1%	3%	2%	1%	2%	3%	2%	6%
Respiratory and Patient Care						7%	4%	2%	-1%	3%	0%	2%	2%	3%	2%	3%
Total Sales						7%	4%	3%	2%	4%	3%	3%	4%	5%	4%	5%
Constant Currency																
Surgical Solutions						8%	6%	7%	8%	7%	8%	6%	7%	7%	7%	6%
Vascular Therapies						8%	6%	1%	4%	5%	5%	2%	2%	2%	3%	6%
Respiratory and Patient Care						8%	5%	4%	1%	4%	2%	3%	3%	3%	3%	3%
Total Sales						8%	6%	5%	5%	6%	5%	4%	5%	5%	5%	5%

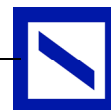


Figure 260 (cont'd): Covidien's Earnings Model (\$ in millions, except per share data)

	9/30/11 F2011	12/30/11 F1Q12	3/30/12 F2Q12	6/29/12 F3Q12	9/28/12 F4Q12	9/28/12 F2012	12/28/12 F1Q13	3/29/13 F2Q13	6/28/13 F3Q13	9/27/13 F4Q13	9/27/13 F2013	12/27/13 F1Q14	3/28/14 F2Q14	6/27/14 F3Q14E	9/26/14 F4Q14E	9/26/14 F2014E	9/25/15 F2015E
Adjusted Income Statement																	
Total Net Sales	\$9,607	\$2,408	\$2,438	\$2,506	\$2,499	\$9,851	\$2,567	\$2,530	\$2,578	\$2,560	\$10,235	\$2,639	\$2,598	\$2,687	\$2,690	\$10,614	\$11,161
COGS	\$3,852	\$924	\$967	\$990	\$1,026	\$3,907	\$1,030	\$1,001	\$1,044	\$1,071	\$4,146	\$1,071	\$1,075	\$1,093	\$1,092	\$4,332	\$4,503
Gross Profit	\$5,755	\$1,484	\$1,471	\$1,516	\$1,473	\$5,944	\$1,537	\$1,529	\$1,534	\$1,489	\$6,089	\$1,568	\$1,523	\$1,593	\$1,598	\$6,282	\$6,658
Gross Margin	59.9%	61.6%	60.3%	60.5%	58.9%	60.3%	59.9%	60.4%	59.5%	58.2%	59.5%	59.4%	58.6%	59.3%	59.4%	59.2%	59.7%
SG&A Expense	\$3,118	\$761	\$805	\$811	\$814	\$3,191	\$822	\$836	\$851	\$830	\$3,339	\$844	\$828	\$865	\$861	\$3,398	\$3,532
% of Sales	32.5%	31.6%	33.0%	32.4%	32.6%	32.4%	32.0%	33.0%	33.0%	32.4%	32.6%	32.0%	31.9%	32.2%	32.0%	32.0%	31.6%
R&D Expense	\$412	\$107	\$119	\$125	\$116	\$467	\$111	\$122	\$129	\$129	\$491	\$125	\$135	\$137	\$135	\$532	\$566
% of Sales	4.3%	4.4%	4.9%	5.0%	4.6%	4.7%	4.3%	4.8%	5.0%	5.0%	4.8%	4.7%	5.2%	5.1%	5.0%	5.0%	5.1%
Operating Income	\$2,225	\$616	\$547	\$580	\$543	\$2,286	\$604	\$571	\$554	\$530	\$2,259	\$599	\$560	\$591	\$603	\$2,353	\$2,560
Op Inc Margin	23.2%	25.6%	22.4%	23.1%	21.7%	23.2%	23.5%	22.6%	21.5%	20.7%	22.1%	22.7%	21.6%	22.0%	22.4%	22.2%	22.9%
Interest Expense	(\$203)	(\$51)	(\$51)	(\$53)	(\$51)	(\$206)	(\$51)	(\$51)	(\$53)	(\$53)	(\$208)	(\$53)	(\$54)	(\$50)	(\$47)	(\$204)	(\$191)
Interest Income	\$19	\$5	\$4	\$3	\$3	\$15	\$3	\$2	\$2	\$9	\$16	\$2	\$6	\$1	\$2	\$12	\$11
Other Inc (exp), net	\$28	\$1	\$8	\$8	\$7	\$24	\$1	\$9	\$4	\$4	\$18	\$5	\$10	\$5	\$4	\$24	\$13
Pretax Income	\$2,069	\$571	\$508	\$538	\$502	\$2,119	\$557	\$531	\$507	\$490	\$2,085	\$553	\$522	\$547	\$562	\$2,184	\$2,393
Pretax Margin	21.5%	23.7%	20.8%	21.4%	20.1%	21.5%	21.7%	21.0%	19.7%	19.1%	20.4%	21.0%	20.1%	20.4%	20.9%	20.6%	21.4%
Tax Expense	\$389	\$98	\$85	\$95	\$89	\$367	\$97	\$86	\$80	\$71	\$334	\$97	\$87	\$93	\$96	\$373	\$395
Tax Rate	18.8%	17.2%	16.7%	17.7%	17.7%	17.3%	17.4%	16.2%	15.8%	14.5%	16.0%	17.5%	16.7%	17.0%	17.0%	17.1%	16.5%
Adj Net Income	\$1,680	\$473	\$423	\$443	\$413	\$1,752	\$460	\$445	\$427	\$419	\$1,751	\$456	\$435	\$454	\$466	\$1,812	\$1,998
Net IncMargin	17.5%	19.6%	17.4%	17.7%	16.5%	17.8%	17.9%	17.6%	16.6%	16.4%	17.1%	17.3%	16.7%	16.9%	17.3%	17.1%	17.9%
Diluted Shares	497	486	487	486	483	486	477	476	469	463	471	456	454	457	460	457	458
Adjusted EPS	\$3.38	\$0.97	\$0.87	\$0.91	\$0.86	\$3.61	\$0.97	\$0.93	\$0.91	\$0.91	\$3.72	\$1.00	\$0.96	\$0.99	\$1.01	\$3.97	\$4.36
Year-over-Year % change																	
Sales						2.5%	6.6%	3.8%	2.9%	2.4%	3.9%	2.8%	2.7%	4.2%	5.1%	3.7%	5.2%
Gross Profits						1.4%	11.5%	3.5%	5.5%	4.4%	6.1%	4.0%	7.4%	4.7%	2.0%	4.5%	4.0%
SG&A Expense						2.3%	8.0%	3.9%	4.9%	2.0%	4.6%	2.7%	-1.0%	1.7%	3.7%	1.8%	3.9%
R&D Expense						13.3%	3.7%	2.5%	3.2%	11.2%	5.1%	12.6%	10.7%	6.2%	4.3%	8.3%	6.5%
Operating Income						2.7%	-1.9%	4.4%	-4.5%	-2.4%	-1.2%	-0.8%	-1.9%	6.7%	13.7%	4.1%	8.8%
Pretax Income						2.4%	-2.5%	4.5%	-5.7%	-2.4%	-1.6%	-0.7%	-1.7%	7.9%	14.6%	4.8%	9.6%
Net income						4.3%	-2.7%	5.2%	-3.5%	1.5%	0.0%	-0.9%	-2.2%	6.4%	11.3%	3.5%	10.3%
Share count						-2.3%	-2.0%	-2.3%	-3.5%	-4.2%	-3.0%	-4.3%	-4.6%	-2.5%	-0.7%	-3.1%	0.3%
EPS						6.7%	-0.8%	7.6%	0.0%	5.9%	3.0%	3.6%	2.5%	9.2%	12.0%	6.7%	10.0%

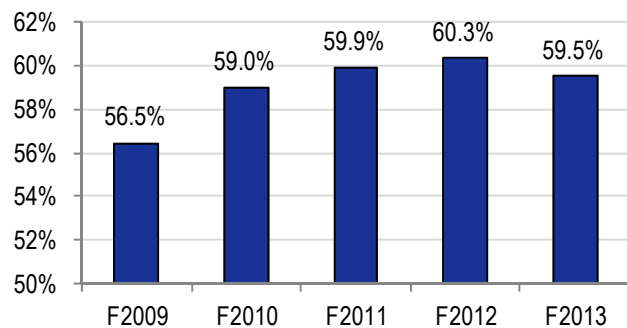
Source: Deutsche Bank, Company reports



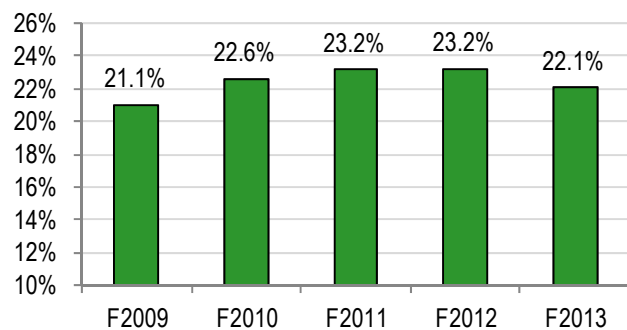
Historical Margin Trends (with and without Pharma)

Figure 261: Historical Margin Trends

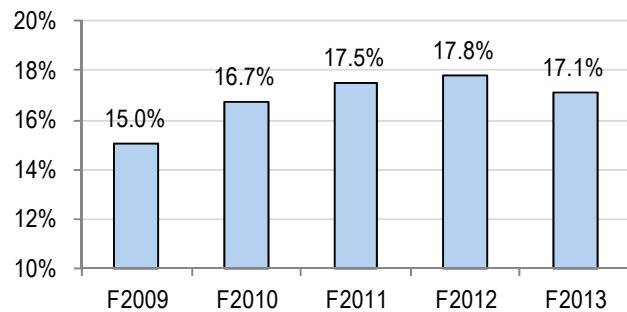
Gross margins



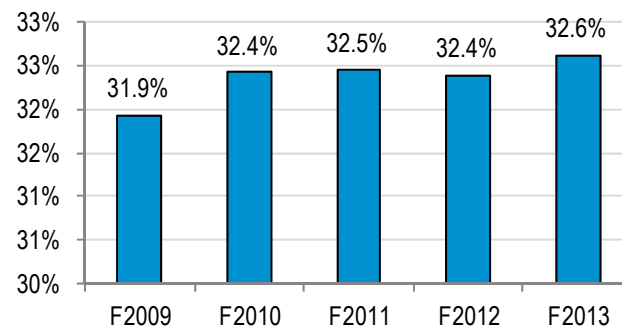
Operating Margin



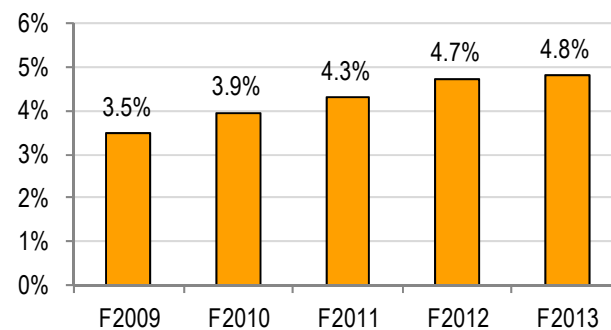
Net Margin



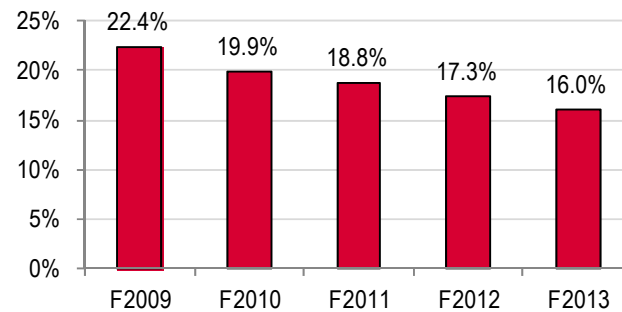
SG&A as % of sales



R&D as % of sales



Tax Rate

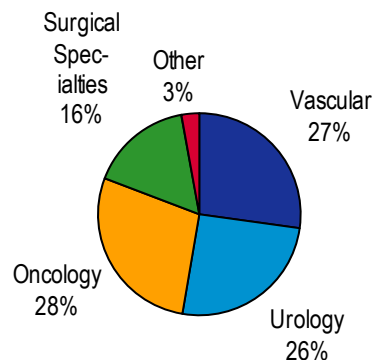


Source: Deutsche Bank, Company reports



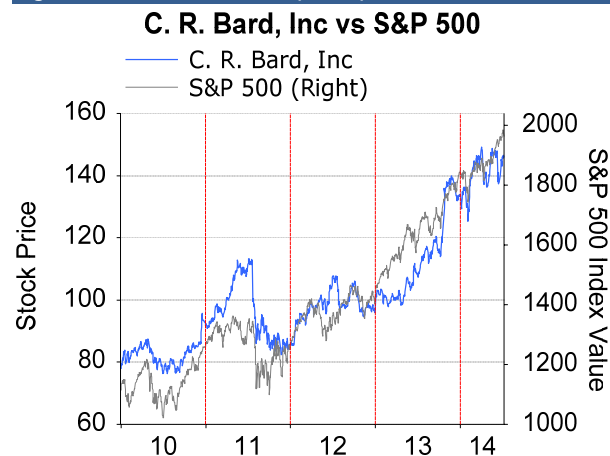
C.R. Bard (BCR-Hold)

Figure 262: Sales mix, 2013



Source: Deutsche Bank, Company reports

Figure 264: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 263: Rating and Valuation Summary

Mkt cap (\$M):	\$11,119	DB Rating:	Hold	FY EPS Projections		PE Valuation	
Price 07/09/14:	\$145.81	DB Target Price:	\$146.00	DB	TR Cons	CY	Abs PE
52 Wk Range: \$107.88-\$150.13		implied % chg: 0%		2013A	\$6.51	NTM	17.3x
2013 Price Perf: 37.0%		Dividend Yield: 0.7%		2014E	\$8.25	2014E	17.7x
YTD 2014 Price Perf: 8.9%		Target PE (C15E): 16.0x		2015E	\$9.10	2015E	16.0x
EPS estimates exclude intangible amort							

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

Bard is heavily investing the Gore patent litigation proceeds into its business with the goal of accelerating the underlying growth rate of the company. Over the past few years, Bard has also taken several portfolio acquisitions (acquisitions and the divestiture of the EP business) to enhance the growth profile of the company. In the near term, the accelerated growth prospects turns on the drug-coated balloon opportunity. It's all about execution. That all said, we rate BCR shares a Hold based on our view that the valuation reflects the anticipated improvement in growth.

Upcoming Potential Catalysts

- Anyday: Publication of LEVANT 2 results in a journal
- July 24: BCR earnings release
- Aug 19: MDT's earnings release (read-thrus on drug-coated balloons)
- Sept 13-17: TCT conference
- Late 14/early 15: LUTONIX FDA approval

Valuation and Risks

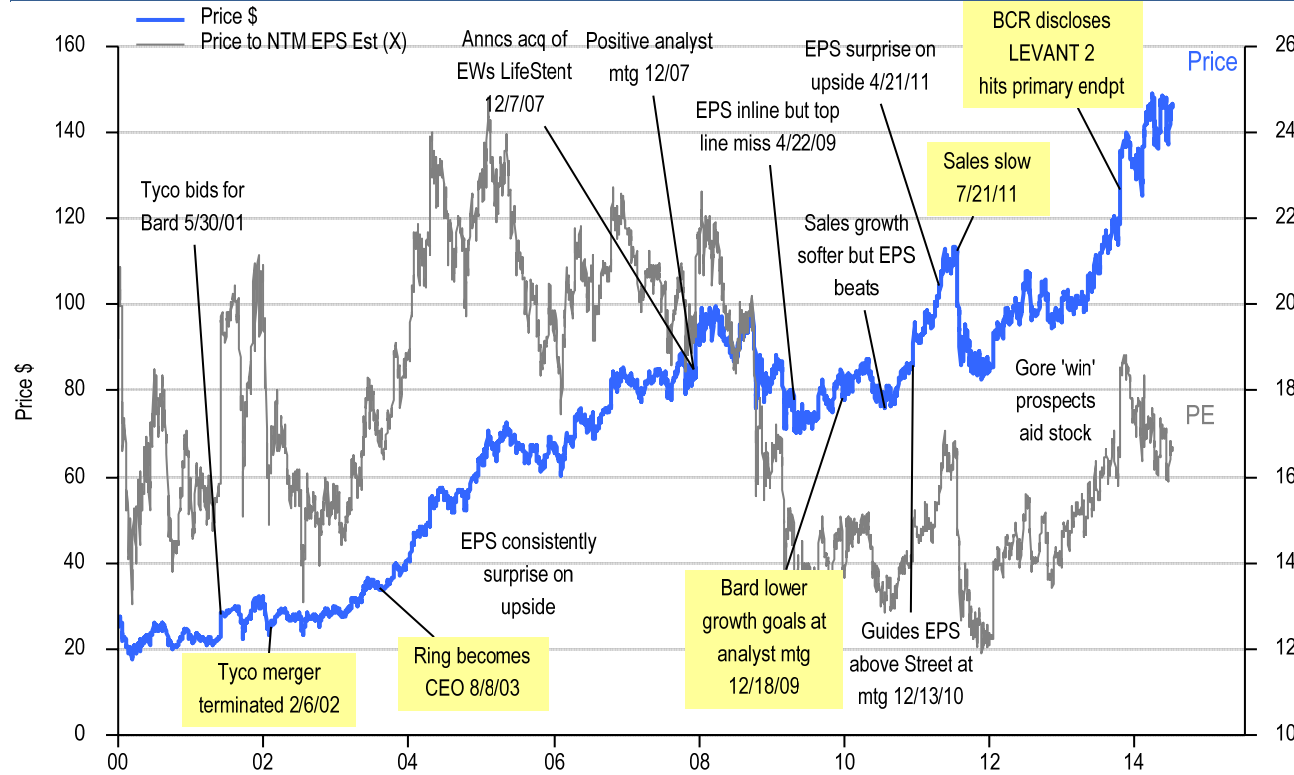
Our price target is based on 18x our 2015 adjusted EPS estimate and 16x our Cash EPS estimate which are comparable to the MedTech peer group. Downside risks include lower returns on investment spending on R&D and sales & marketing, increased competition and a slower launch of the drug-coated balloon and other pipeline products. Upside risks include greater success from investment spending (including the drug-coated stent opportunity), and success on willful infringement (thus more proceeds).



Historical Stock Price Performance

BCR shares typically just trade on sales and earnings results as there is little intra-quarter news flow, though more recently shares have traded on news and data related to BCR's LUTONIX drug coated balloon.

Figure 265: Stock Price Performance and Company News Events



Performance Commentary

Shares have historically been driven by quarterly earnings releases as there tends to be little in the way of intra-quarter news. Following the termination of the merger agreement with Tyco in 2002, Bard restructured itself and under the leadership of Tim Ring became a faster growing more profitable company. During the 2004-07 period, BCR consistently beat Consensus forecasts. Momentum slowed in 2008 and particularly in 2009-10 as the macro environment weighed on utilization trends. In early 2011, BCR shares appreciated based on the view that utilization trends should increase as the year progresses and the company could benefit from a favorable outcome in its patent litigation suit versus Gore. Shares fell post 2Q11 earnings as top-line growth decelerated, which mgmt attributed to weakness in the US market as well as increased pricing pressures and some share losses. Throughout 2012 & 2013, shares appreciated considerably driven by the anticipated successful patent litigation with Gore which resulted in a onetime payment and ongoing annual royalties. In late 2013, shares appreciated after BCR announced that LEVANT 2 met its primary endpoint, but shares have been volatile in 2014 as MDT announced strong results for its drug coated balloon and the fact that competition could come earlier than anticipated.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
BCR	38.5%	-10.1%	40.1%	57.5%	3.0%	25.9%	14.3%	-11.1%	-7.5%	17.8%	-6.8%	14.3%	37.0%	8.9%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



C.R. Bard Product Portfolio Overview

Figure 266: Product overview (sales are estimated)

Product	% sales	Description	DB Commentary
VASCULAR	27%		
Endovascular	21%	In 2013, we estimate Endovascular sales totaled \$633 million and includes self-expanding (SE) stents, stent grafts, PTA balloons, guidewires, and biopsy devices.	Competitors include Abbott, Covidien, Cook, Medtronic, J&J and Boston Scientific.
Electrophysiology	4%	We estimate electrophysiology sales totaled \$119 million in 2013. We note, Bard sold the vast majority of business to Boston Scientific in November 2013.	This is no longer a part of Bard.
Grafts	3%	Key products in this business are Peripheral Vascular Grafts.	Competitors include Gore (private) and J&J.
UROLOGY	26%		
Basic Drainage	15%	In 2013, we estimate Basic Drainage sales totaled \$451 million. Products include urinary catheters and trays, urine collection devices, ureteral catheters and stents.	Bard's primary competitors in this market are Covidien and Coloplast.
Continence	3%	In 2013, we estimate Continence sales totaled \$74 million and includes devices to treat female incontinence and pelvic floor prolapsed.	Bard's primary competitor in this market is Boston Scientific.
Urological Specialties	3%	We estimate Urological Specialties sales totaled \$95 million in 2013 and include stone mgmt, ureteroscopic procedures, and to a lesser extent, brachytherapy.	Bard's primary competitor in this market is Boston Scientific.
StatLock Catheter Fixation	3%	We estimate StatLock sales totaled \$101 million in 2013. StatLock is a system used in lieu of tape or sutures to secure IV catheters.	This competes against products offered by J&J as well as basic tape products (3M).
Medivance	2%	In 2013, we estimate Medivance sales totaled \$53 million.	Competitors include Philips and Stryker.
Rochester	0%	In 2013, Rochester we estimate sales totaled \$4 million.	Rochester deal closed in November 2013.
ONCOLOGY	28%		
PICC	13%	In 2013, we estimate sales totaled \$397 million. Peripherally inserted central catheter (PICCs) are inserted to allow for the delivery of chemotherapy agents.	Competitors include Teleflex, and Angiodynamics.
Port	9%	In 2013, we estimate sales totaled \$264 million. Ports are catheters for the administration of chemotherapy.	Competitors include Teleflex, Smiths Medical and Angiodynamics.
Other sales	6%	Sales include dialysis catheters and vascular access ultrasound devices.	
SURGICAL SPECIALTIES	16%		
Soft Tissue Repair	13%	The soft tissues repair business includes synthetic and natural-tissue hernia repair implants, breast reconstruction implants, and hernia fixation products.	Competitors include Covidien, J&J, Gore, and Kinetic Concepts.
Hemostasis	2%	In October 2013, Bard acquired Medafor and its Arista AH plant-based hemostat product line, thus, complementing Bard's Progel surgical sealant technology. Medafor also markets FlexiTip Hemostatic Delivery System.	
Other	2%	Includes performance irrigation and other surgical specialties.	
OTHER	3%		

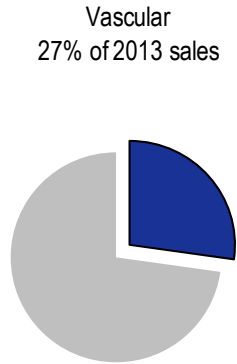
Source: Deutsche Bank, Company reports



C.R. Bard Operating Divisions

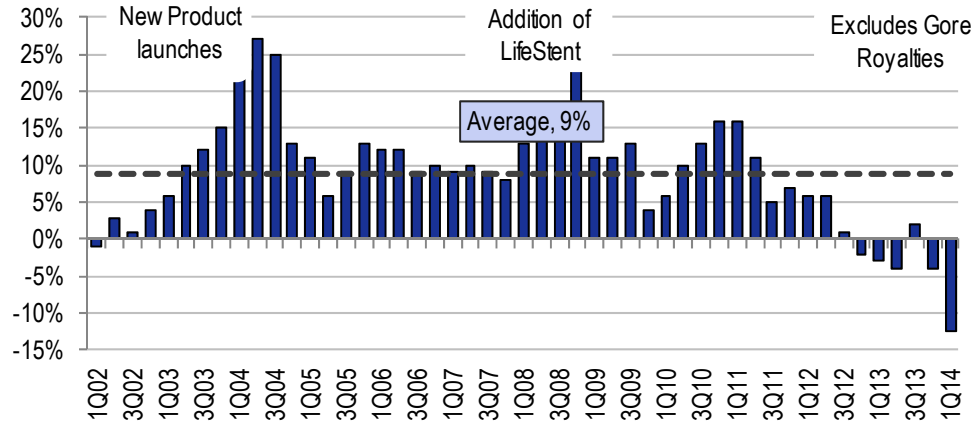
Vascular

Figure 267: Sales mix



Source: Deutsche Bank, Company reports

Figure 268: Year-over-Year Change in Sales, Constant Currency

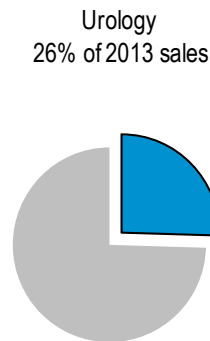


Source: Deutsche Bank, Company reports

Bard's vascular business consists of three main product categories—endovascular (which includes peripheral stents, PTA catheters, biopsy products), electrophysiology (diagnostic catheters and lab equipment), and grafts.

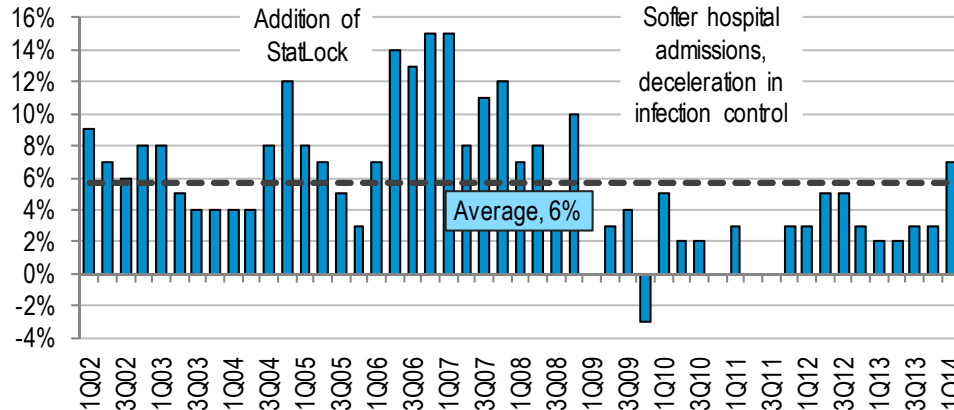
Urology

Figure 269: Sales mix



Source: Deutsche Bank, Company reports

Figure 270: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

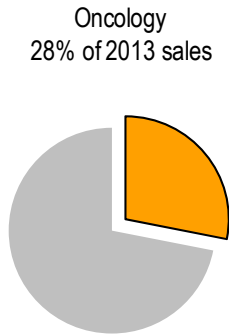
Bard's urology franchise consists of the basic drainage business (Foley catheters), continence (pelvic floor repair), urological specialties (brachytherapy), and the StatLock catheter fixation business.

Sales growth has decelerated and is below historical trend as reduced hospital admissions are impacting results. There has also been some pressure on converting to infection control Foley catheters. In 2014, urology growth has been aided by the acquisition of Rochester Medical.



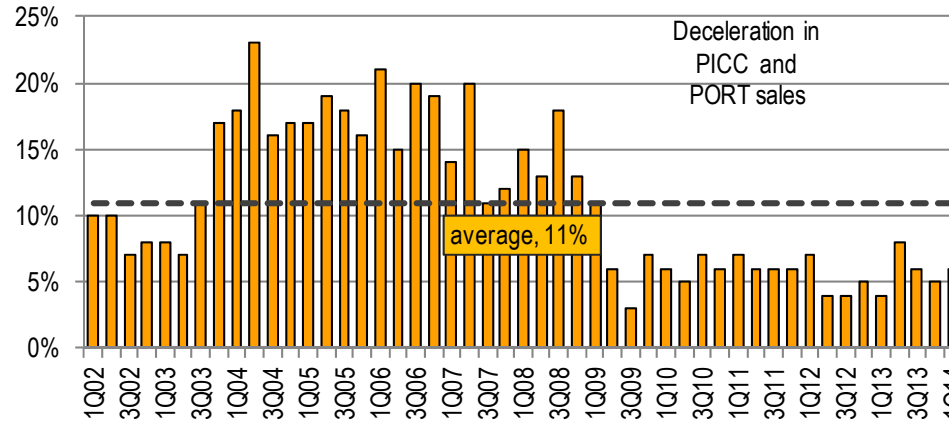
Oncology

Figure 271: Sales mix



Source: Deutsche Bank, Company reports

Figure 272: Year-over-Year Change in Sales, Constant Currency



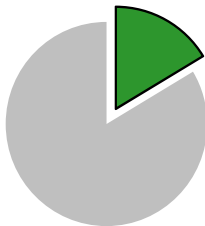
Source: Deutsche Bank, Company reports

Bard's oncology business includes a range of specialty vascular access products such as ports and peripherally inserted central catheter (PICCs) primarily used to deliver chemotherapy agents (and other medications). The business also includes dialysis access catheter, enteral feeding devices and vascular access ultrasound systems.

Surgical Specialties

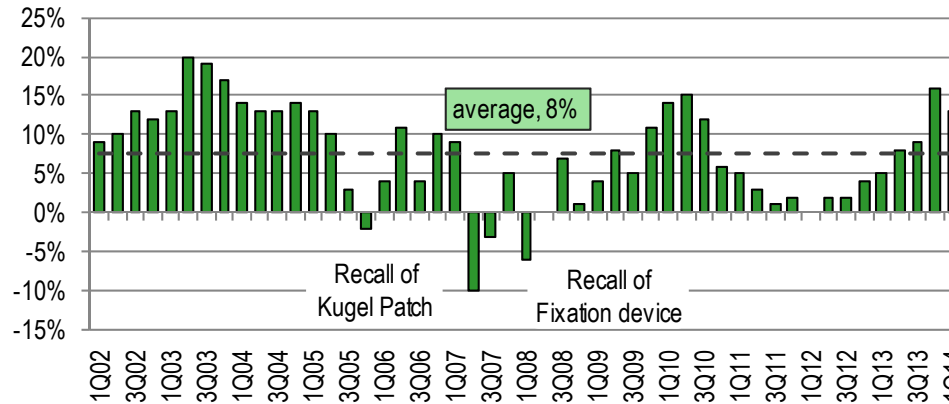
Figure 273: Sales mix

Surgical Specialties
16% of 2013 sales



Source: Deutsche Bank, Company reports

Figure 274: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Bard's surgical specialties business consists of hernia and other soft tissue repair products, performance irrigation devices for orthopedic, gynecological and laparoscopic procedures, and topical hemostasis products.



Bard's 1Q14 Earnings Results

Our Take on the Quarter

Sales of \$799M were ahead of both TR of \$789M and our estimate of \$790M. Sales were up 8% on both a reported and a constant currency basis, above guidance of up 6%-7%. Adjusted Cash EPS of \$1.91 were also ahead of TR and DBe at \$1.84, and BCR guidance of \$1.83-\$1.87. Cash EPS excluded \$0.22 in intangible amortization. The beat was primarily a result of higher sales across several product categories, higher gross margins, and lower operating expenses.

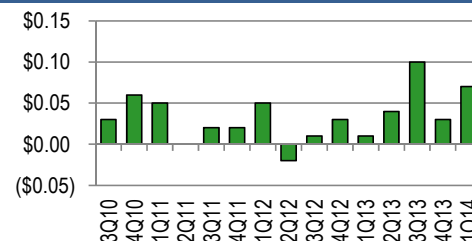
Figure 275: Quarter Variance

(\$ in mil except per share)

	Actual	TR Consensus	DB Estimate
Sales	\$799M	\$789M	\$790M
EPS	\$1.91	\$1.84	\$1.84

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 276: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Net sales growth (+8%) exceeded expectations driven by the Gore royalty and to a lesser extent helped by recently acquired businesses and products.
- Both gross and operating margins came in better than anticipated driven by the Gore royalty and cost improvement initiatives.
- FDA has scheduled an advisory panel for June 12 and Bard expects to be on it.

Negatives

- Organic (Ex Gore, acq/div, FX), sales growth was somewhat modest at up 2.7% with US sales growth was flat with the prior year. Stent sales were down 11%.
- Mgmt noted that its underlying markets continue to see uncertainty.
- Bard's prior estimate of \$100M in DCB sales in year 1 was more so a view on the overall mkt and based on no competitors... Medtronic will now be a competitor so unless the market expands, BCR would see just a portion of that.
- FDA asked for a change in the LEVANT II statistical analysis, which has delayed the publication of 12 month data.

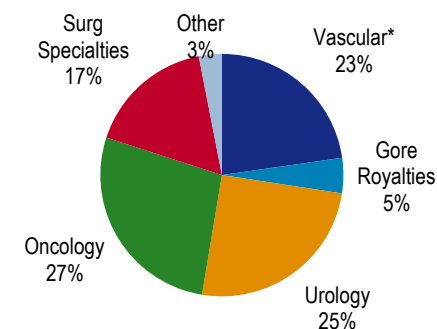
Quick P&L Recap

- Sales of \$799M were +8% on a reported and CC basis. Net acqs/divestitures was a benefit of 40bps; Gore added 5.1%pts
 - Vascular sales:** +8% on a reported and CC basis driven by the Gore royalty of \$37M. Excluding the Gore royalty and the impact from the divestiture of the EP unit, vascular sales were flat in the quarter. Stents down 11%.
 - Urology sales:** +7% on a reported and CC basis driven by growth from acquired Rochester Medical products. Excluding Rochester, sales were flat.
 - Oncology:** +6% on a reported and CC basis driven by growth across the sub-segments, including +3% growth in ports, +11% growth in PICCs, and +8% growth in dialysis catheters partially offset by a decline of 5% in vascular access ultrasound products.
 - Surgical Specialties:** +12% on a reported and +13% on a CC basis. Sales were primarily driven by its recently acquired Arista product. Excluding Arista, surgical specialties were up 3% in constant currencies.
 - Other:** up 17% on a reported and CC basis with growth mainly Rochester.
- Gross margin** was 61.4%, up 100 bps y/y driven by the Gore royalty (190bps) and cost improvement initiatives (+130bps) partially offset by foreign exchange (-50bps), pricing (-40bps), mix (-50bp), new amortization (-80bp). **SG&A expense** was 29.6%, up 40 bps y/y as it investment spends. **R&D expense** was 8.0%, flat y/y as a % but up 8% in dollars. **Operating margin** was 23.7%, up 50 bps y/y as a result of leverage in the P&L. Interest expense was \$11 million, consistent with recent quarters.
- Tax rate** was 24.9%, up 40 bps y/y due to larger sales mix from higher tax jurisdictions. We note the quarter did not include the R&D tax credit. Share count of 78.5M, down 4.8% y/y. Bard repurchased 1.8M shares in 1Q14.
- Adjusted Cash EPS** of \$1.91 was up 18.5% y/y. Cash EPS excluded \$0.22 in intangible asset amortization.

Figure 277: Key Product Sales Trends

1Q14	Actual (\$ mil)	Y/Y % Change Rptd	Ex-FX	Organic
Vascular*	\$182	-11%		0%
Gore Royalties	\$38			
Total Vascular	\$219	8%	8%	0%
Urology	\$201	7%	7%	0%
Oncology	\$219	6%	6%	6%
Surg Specialties	\$135	12%	13%	3%
Other	\$25	17%	17%	0%
Total Revs	\$799	8%	8%	3%

*Product sales only, excludes Gore royalties

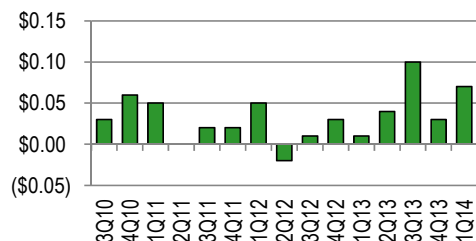


Source: Deutsche Bank, Company reports



Bard's 2Q14 Earnings Preview

Figure 278: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 281: DB versus Thomson Reuters Estimates

Revenues					
2013A		2014E		2015E	
		DB est	TR Est	DB est	TR Est
1Q	\$740 ^a	\$799		\$823	\$828
2Q	\$760 ^e	\$817	\$815	\$849	\$850
3Q	\$758 ^e	\$814	\$813	\$850	\$850
4Q	\$791 ^e	\$849	\$849	\$894	\$894
FY	\$3,050 ^e	\$3,278	\$3,275	\$3,416	\$3,429

Guidance (04/22/14):

2Q14: Expect 6%-8% ex-FX

F2014: Expect 6%-8% ex-FX (assumes \$130-\$140M in Gore royalties & 0-30bps of the EP divest & acqui)

Earnings Per Share

2013A		2014E		2015E	
		DB est	TR Est	DB est	TR Est
1Q	\$1.61 ^a	\$1.91		\$2.08	\$2.14
2Q	\$1.59 ^e	\$1.99	\$2.01	\$2.22	\$2.28
3Q	\$1.68 ^e	\$2.09	\$2.10	\$2.32	\$2.33
4Q	\$1.63 ^e	\$2.26	\$2.26	\$2.48	\$2.51
FY	\$6.51 ^e	\$8.25	\$8.26	\$9.10	\$9.17

Guidance (4/22/14):

2Q14: \$1.98-\$2.02

2014: \$8.20-\$8.30

Source: Deutsche Bank, Thomson Reuters

Figure 279: Earnings Release and Conference Call Information

Earnings Release Date: Thursday, July 24, 2014 after market close

Conf Call Date & Info: Thursday, July 24, 2014 at 5:00pm
 Dial In: +1 800 288 8975
<http://investorrelations.crbard.com>

Source: Company reports, Thomson Reuters

Figure 280: DB Expectation Summary

2Q14E	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
Vascular*	\$187	-12%	-13%
Gore Royalties	\$35		
Total Vascular	\$222	5%	4%
Urology	\$212	11%	11%
Oncology	\$225	5%	5%
Surg Specialties	\$133	10%	10%
Other	\$25	15%	15%
Total Revs	\$817	7%	7%

*Product sales only, excludes Gore royalties

We note Vascular product sales are negatively impacted from the divestiture of the EP business.

What to look for:

- Update on the drug-coated balloon FDA discussions
- 2014 guidance and long-term outlook
- Organic sales growth trends
- Update on acquisition integration (particularly Rochester Medical)
- International trends and Emerging Markets investments
- Update on product liability reserves (pelvic floor)

Source: Deutsche Bank



2014 Guidance update

Despite the upside in 1Q, Bard reiterated its 2014 guidance. The Company continues to expect full year 2014 sales to increase 6%-8% on a constant currency basis. Guidance assumes \$130-\$140M in Gore royalties and 0-30bps of growth from the net impact of the EP divestiture and acquisitions. Guidance does not assume any improvement in the market.

By product category, Bard expects (on a constant currency basis):

- **Vascular sales** to grow 5%-8%. This includes a 600bp contribution from the net impact of the Gore royalties and the EP divestiture.
- **Urology sales** to grow 5%-8%, which includes a 600bps contribution from Rochester Medical.
- **Oncology sales** to grow 2%-5%.
- **Surgical Specialties sales** to grow 7%-10%, which includes a 700bps benefit from the MedaFor acquisition.
- **Other sales** to grow 5%-10%, which includes a contribution from Rochester Medical.

Additional P&L Line Item Guidance

- **Gross margin** is expected to improve 30-60bps over 2013, which results in 61.3%-61.6%. Guidance includes 160-170bps of a benefit from Gore royalties and 50bps from cost savings offset by amortization and pricing headwinds of 60bps and 40-50bps, respectively. Bard also faces a mix headwind of 60-70bps due to the negative impact of the EP divestiture and resulting OEM transition agreement, integration expenses, and Rochester Medical's lower margin.
- **SG&A** is expected to decline 90-110bps, resulting in 28.9%-29.1% of revenues. Bard noted that it continues to invest in faster growing markets and seeks to further leverage SG&A as it moves forward into 2015.
- **R&D** is expected to be "above 8%" as a percent of revenues.
- **Interest expense** is anticipated to be between \$47-\$48M.
- **Tax rate** is expected to improve 100bps from the 2013 rate of 25.2%. The tax rate guidance assumes the renewal of the R&D tax credit.
- **Amortization** expense is expected to be \$106 million on a pre-tax basis and on an after tax basis, \$0.90 per share.

Adjusted Cash EPS is anticipated to be in the range of \$8.20-\$8.30, which implies growth of 26%-27% on a year-over-year basis.

2Q14 Guidance

Sales in 2Q14 are expected to increase 6%-8% on a constant currency basis. Adjusted Cash EPS is expected to be in the range of \$1.98-\$2.02.



Figure 282: C.R. Bard's Earnings Model (\$ in millions, except per share data)

Product sales are ests.	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Vascular																		
Sales																		
Endovascular	\$540	\$625	\$154	\$167	\$157	\$162	\$639	\$150	\$159	\$160	\$165	\$633	\$150	\$162	\$163	\$170	\$645	\$653
Electrophysiology	\$133	\$135	\$34	\$36	\$29	\$30	\$129	\$33	\$35	\$31	\$19	\$119	\$8	\$7	\$6	\$5	\$26	\$24
Grafts, other	\$83	\$82	\$22	\$18	\$17	\$20	\$77	\$20	\$18	\$19	\$20	\$77	\$23	\$18	\$19	\$20	\$81	\$81
US Drug Coated Balloons										\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$36
Total Product Sales	\$756	\$842	\$209	\$221	\$203	\$212	\$845	\$203	\$212	\$210	\$205	\$830	\$182	\$187	\$188	\$195	\$752	\$793
Royalty Revenue												\$0	\$38	\$35	\$34	\$31	\$138	\$138
Total Sales & Royalties	\$972	\$544	\$209	\$221	\$203	\$212	\$845	\$203	\$212	\$210	\$205	\$830	\$219	\$222	\$222	\$226	\$889	\$931
Y/Y % Change Reported																		
Endovascular	16%	16%	8%	7%	-1%	-4%	2%	-2%	-5%	2%	2%	-1%	0%	2%	2%	3%	2%	1%
Electrophysiology	2%	2%	-2%	-6%	-8%	-3%	-5%	-2%	-2%	7%	-35%	-8%	-75%	-80%	-81%	-74%	-78%	-9%
Grafts	-4%	-1%	2%	-10%	-9%	-6%	-6%	-10%	0%	-4%	0%	-5%	19%	1%	-1%	0%	5%	0%
US Drug Coated Balloons																		
Y/Y % Change	11%	11%	6%	3%	-3%	-4%	0%	-3%	-4%	4%	-3%	-2%	-11%	-12%	-11%	-5%	-9%	6%
Royalty revenue																		0%
Y/Y % Change with Royalties													8%	5%	6%	11%	7%	5%
Y/Y % Change Ex-FX																		
Endovascular	16%	14%	9%	9%	3%	-3%	4%	-3%	-5%	2%	2%	-1%	0%	1%	2%	2%	1%	1%
Electrophysiology	2%	-1%	-1%	-2%	-4%	-2%	-2%	-1%	-1%	7%	-35%	-8%	-75%	-80%	-81%	-75%	-78%	-9%
Grafts	-3%	-4%	-4%	-7%	-6%	-5%	-5%	-10%	-4%	-4%	-4%	-6%	-1%	0%	-1%	-1%	-1%	0%
US Drug Coated Balloons																		
Ex-FX Y/Y % Change	11%	10%	6%	6%	1%	-2%	2.7%	-3%	-4%	2%	-4%	-2%	-12%	-13%	-11%	-6%	-10%	6%
Ex-FX Y/Y % Change with Royalty													8%	4%	6%	10%	6%	1%
FX Impact (est.)																		
Endovascular	-1%	1%	-1%	-2%	-4%	-1%	-2%	1%	0%	0%	0%	0%	0%	1%	0%	1%	1%	0%
Electrophysiology	0%	3%	-1%	-4%	-4%	-1%	-3%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Grafts	0%	2%	6%	-3%	-3%	-1%	0%	0%	4%	0%	4%	2%	0%	1%	0%	1%	0%	0%
US Drug Coated Balloons																0%		0%
Total Vascular	-1%	2%	0%	-3%	-4%	-2%	-2%	0%	0%	2%	1%	1%	0%	1%	0%	1%	0%	0%

Source: Deutsche Bank, Company reports



Figure 282 (cont'd): C.R. Bard's Earnings Model (\$ in millions, except per share data)

Product sales are ests.	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Urology																		
Sales																		
Basic drainage	\$417	\$433	\$106	\$108	\$106	\$115	\$435	\$109	\$112	\$111	\$119	\$451	\$109	\$114	\$113	\$123	\$459	\$468
Urological specialties	\$98	\$100	\$26	\$20	\$24	\$25	\$94	\$24	\$22	\$24	\$24	\$95	\$26	\$23	\$25	\$25	\$98	\$100
Continence	\$101	\$87	\$20	\$21	\$20	\$19	\$79	\$19	\$17	\$18	\$20	\$74	\$16	\$17	\$16	\$17	\$67	\$66
Statlock	\$103	\$110	\$24	\$29	\$27	\$25	\$105	\$25	\$28	\$28	\$21	\$101	\$24	\$29	\$27	\$20	\$99	\$98
Medivance		\$6	\$10	\$11	\$11	\$12	\$44	\$12	\$14	\$13	\$15	\$53	\$13	\$15	\$15	\$16	\$58	\$64
Rochester											\$4	\$4	\$14	\$15	\$15	\$16	\$60	\$68
Total Sales	\$718	\$735	\$185	\$188.8	\$188	\$196	\$758	\$189	\$192	\$194	\$202	\$777	\$201	\$212	\$210	\$217	\$841	\$863
Y/Y % Change Reported																		
Basic Drainage	2%	3%	0%	0%	-1%	3%	1%	3%	3%	4%	4%	4%	0%	2%	2%	3%	2%	2%
Urological Specialties	-3%	2%	1%	-13%	-7%	-2%	-5%	-5%	8%	2%	-3%	0%	6%	5%	1%	2%	3%	2%
Continence	-5%	-14%	-16%	-8%	-2%	-6%	-8%	-5%	-18%	-9%	4%	-7%	-14%	-2%	-8%	-12%	-9%	-2%
Statlock	19%	7%	-4%	1%	-6%	-5%	-3%	-1%	-8%	1%	-18%	-4%	-5%	3%	-3%	-3%	-2%	-1%
Medivance						100%	100%	15%	25%	21%	21%	21%	10%	12%	10%	10%	11%	9%
Rochester																300%		13%
Y/Y % Change	3%	2%	3.06%	3%	3%	3%	3.1%	2%	2%	3%	3%	2%	7%	11%	9%	7%	8%	3%
Y/Y % Change Ex-FX																		
Basic Drainage	2%	3%	0%	1%	1%	4%	2%	3%	3%	3%	3%	3%	0%	2%	2%	3%	2%	2%
Urological Specialties	-4%	0%	1%	-10%	-5%	-1%	-4%	-5%	9%	1%	-4%	0%	6%	5%	1%	2%	3%	2%
Continence	-5%	-14%	-15%	-6%	0%	-5%	-7%	-5%	-17%	-9%	4%	-7%	-14%	-2%	-8%	-12%	-9%	-2%
Statlock	18%	5%	-1%	1%	-4%	-5%	-2%	-1%	-8%	1%	3%	-1%	-4%	3%	-3%	-3%	-2%	-1%
Medivance						100%	100%	15%	20%	20%	20%	31%	10%	12%	10%	10%	11%	9%
Rochester																		13%
Ex-FX Y/Y % Change	2%	2%	3%	5%	5%	3%	4.1%	2%	2%	3%	3%	3%	7%	11%	9%	7%	8%	3%
Oncology																		
Sales																		
PICCs	\$321	\$349	\$87	\$90	\$93	\$97	\$367	\$92	\$99	\$99	\$107	\$397	\$102	\$107	\$108	\$116	\$433	\$463
Ports	\$239	\$252	\$67	\$66	\$60	\$65	\$257	\$67	\$69	\$62	\$66	\$264	\$69	\$71	\$64	\$68	\$272	\$283
All other	\$166	\$178	\$45	\$43	\$52	\$49	\$188	\$48	\$47	\$54	\$47	\$196	\$48	\$47	\$55	\$48	\$197	\$201
Total Sales	\$725	\$779	\$199	\$199	\$204	\$211	\$812	\$207	\$214	\$216	\$220	\$857	\$219	\$225	\$227	\$232	\$902	\$948
Y/Y % Change Reported																		
PICCs	8%	10%	4%	6%	4%	6%	10%	5%	10%	7%	11%	8%	11%	8%	9%	8%	10%	10%
Ports	6%	8%	8%	-1%	1%	1%	8%	1%	4%	4%	1%	3%	3%	3%	3%	4%	8%	8%
All other	3%	8%	11%	5%	2%	3%	6%	0%	8%	6%	-3%	4%	0%	1%	1%	1%	1%	2%
Y/Y % Change	7%	8%	7%	3%	3%	5%	4%	4%	8%	6%	5%	6%	6%	5%	5%	5%	5%	5%
Y/Y % Change Ex-FX																		
PICCs	8%	8%	4%	7%	5%	6%	6%	5%	10%	7%	11%	8%	11%	8%	9%	8%	9%	7%
Ports	6%	5%	8%	0%	2%	2%	3%	1%	4%	4%	1%	3%	3%	3%	3%	4%	3%	4%
All other	4%	4%	11%	5%	3%	3%	5%	0%	8%	6%	-3%	3%	1%	1%	1%	1%	1%	2%
Ex-FX Y/Y % Change	6%	6%	7%	4%	4%	5%	5%	4%	8%	6%	5%	6%	6%	5%	5%	5%	5%	5%

Source: Deutsche Bank, Company reports



Figure 282 (cont'd): C.R. Bard's Earnings Model (\$ in millions, except per share data)

<i>Product sales are ests.</i>	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Surgical Specialties																		
Sales																		
Total Sales	\$435	\$450	\$115	\$111	\$108	\$121	\$455	\$120	\$120	\$118	\$141	\$499	\$135	\$133	\$131	\$149	\$547	\$576
YY % Change Reported																		
YY % Change	12%	4%	0%	0%	0%	4%	1%	5%	8%	10%	16%	10%	12%	10%	11%	6%	10%	5%
YY % Change Ex-FX																		
Ex-FX YY % Change	12%	3%	0%	2%	2%	4%	2%	5%	8%	9%	16%	10%	13%	10%	11%	6%	10%	5%
Other																		
Sales	\$87	\$90	\$22	\$22	\$21	\$23	\$88	\$21	\$22	\$21	\$23	\$87	\$25	\$25	\$24	\$25	\$99	\$99
YY % Change Reported	0%	3%	4%	-6%	-7%	1%	-2%	-5%	0%	0%	1%	-1%	17%	15%	15%	8%	14%	0%
YY % Change Ex-FX	0%	2%	5%	-6%	-6%	0%	-2%	-6%	0%	1%	1%	-1%	17%	15%	15%	8%	14%	0%
FX impact	0%	1%	-1%	0%	-1%	1%	0%	1%	0%	-1%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Deutsche Bank, Company reports



Figure 282 (cont'd): C.R. Bard's Earnings Model (\$ in millions, except per share data)

Product sales are ests.	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Total Sales Summary																		
Sales																		
Vascular	\$756	\$842	\$209	\$221	\$203	\$212	\$845	\$203	\$212	\$210	\$205	\$830	\$182	\$187	\$188	\$195	\$752	\$793
Urology	\$718	\$735	\$185	\$189	\$188	\$196	\$758	\$189	\$192	\$194	\$202	\$777	\$201	\$212	\$210	\$217	\$841	\$863
Oncology	\$725	\$779	\$199	\$199	\$204	\$211	\$812	\$207	\$214	\$216	\$220	\$857	\$219	\$225	\$227	\$232	\$902	\$948
Surgical Specialties	\$435	\$450	\$115	\$111	\$108	\$121	\$455	\$120	\$120	\$118	\$141	\$499	\$135	\$133	\$131	\$149	\$547	\$576
Other	\$87	\$90	\$22	\$22	\$21	\$23	\$88	\$21	\$22	\$21	\$23	\$87	\$25	\$25	\$24	\$25	\$99	\$99
Royalty								\$0	\$0	\$0	\$0	\$0	\$38	\$35	\$34	\$31	\$138	\$138
Product Sales	\$2,720	\$2,896	\$730	\$743	\$723	\$763	\$2,958	\$740	\$760	\$758	\$791	\$3,049	\$762	\$782	\$780	\$818	\$3,141	\$3,279
Total Revenues			\$730	\$743	\$723	\$763	\$2,958	\$740	\$760	\$758	\$791	\$3,049	\$799	\$817	\$814	\$849	\$3,278	\$3,416
Y/Y % Change Reported																		
Vascular	11%	11%	6%	3%	-3%	-4%	0%	-3%	-4%	4%	-3%	-2%	-11%	-12%	-11%	-5%	-9%	6%
Urology	3%	2%	3%	3%	3%	3%	3%	2%	2%	3%	3%	2%	7%	11%	9%	7%	8%	3%
Oncology	7%	8%	7%	3%	3%	5%	4%	4%	8%	6%	5%	6%	6%	5%	5%	5%	5%	5%
Surgical Specialties	12%	4%	0%	0%	0%	4%	1%	5%	8%	10%	16%	10%	12%	10%	11%	6%	10%	5%
Other	0%	3%	4%	-6%	-7%	1%	-2%	-5%	0%	0%	1%	-1%	17%	15%	15%	8%	14%	0%
Y/Y% Change Product Sales								1.4%	2%	5%	4%	3%	3%	3%	3%	3%	3.0%	4%
Y/Y % Change Revenues	7%	6%	4%	2%	1%	1%	2%	1%	2%	5%	4%	3%	8%	7%	7%	7%	7.5%	4%
Y/Y % Change Ex-FX																		
Vascular	11%	10%	6%	6%	1%	-2%	3%	-3%	-4%	2%	-4%	-2%	-12%	-13%	-11%	-6%	-10%	6%
Urology	2%	2%	3%	5%	5%	3%	4%	2%	2%	3%	3%	3%	7%	11%	9%	7%	8%	3%
Oncology	6%	6%	7%	4%	4%	5%	5%	4%	8%	6%	5%	6%	6%	5%	5%	5%	5%	5%
Surgical Specialties	12%	3%	0%	2%	2%	4%	2%	5%	8%	9%	16%	10%	13%	10%	11%	6%	10%	5%
Other	0%	2%	5%	-6%	-6%	0%	-2%	-6%	0%	1%	1%	-1%	17%	15%	15%	8%	14%	0%
Ex-FX Y/Y % Chg Product	7%	5%	4%	4%	3%	2%	3%	1%	3%	4%	4%	3%	2.6%	2.6%	3%	3%	2.8%	4%
Ex-FX Y/Y % Chg Revenues								1%	3%	4%	4%	3%	7.7%	7.2%	7.3%	7.0%	7.3%	4%
FX Impact																		
Vascular	-1%	2%	0%	-3%	-4%	-2%	-2%	0%	0%	2%	1%	1%	2%	1%	0%	1%	1%	0%
Urology	0%	1%	0%	-2%	-2%	0%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Oncology	1%	1%	0%	-1%	-1%	0%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Surgical Specialties	0%	1%	0%	-2%	-2%	0%	-1%	0%	0%	1%	0%	0%	-1%	0%	0%	0%	0%	0%
Other	0%	1%	-1%	0%	-1%	1%	0%	1%	0%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
FX impact Change Product	0%	1%	0%	-2%	-2%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Deutsche Bank, Company reports



Figure 282 (cont'd): C.R. Bard's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Adjusted Income Statement																		
Total Revenues	\$2,720	\$2,896	\$730	\$743	\$723	\$763	\$2,958	\$740	\$760	\$758	\$791	\$3,050	\$799	\$817	\$814	\$849	\$3,278	\$3,416
COGS	\$1,017	\$1,098	\$279	\$286	\$273	\$288	\$1,125	\$293	\$296	\$292	\$310	\$1,191	\$309	\$315	\$310	\$324	\$1,258	\$1,292
Gross Profits	\$1,704	\$1,798	\$451	\$457	\$450	\$475	\$1,833	\$447	\$464	\$466	\$481	\$1,859	\$490	\$502	\$503	\$525	\$2,020	\$2,125
Gross Margin			61.7%	61.5%	62.3%	62.3%	62.0%	60.4%	61.1%	61.5%	60.8%	61.0%	61.4%	61.4%	61.9%	61.8%	61.6%	62.2%
GM ex-royalty													59.4%	59.7%	60.2%	60.4%	59.9%	60.6%
SG&A Expense	\$750	\$788	\$202	\$205	\$196	\$212	\$815	\$216	\$226	\$221	\$252	\$914	\$237	\$241	\$233	\$237	\$947	\$964
% of Revenues	27.6%	27.2%	27.7%	27.6%	27.0%	27.8%	27.6%	29.2%	29.7%	29.1%	31.8%	30.0%	29.6%	29.5%	28.6%	27.9%	28.9%	28.2%
% of Product Sales													31.1%	30.8%	29.8%	29.0%	30.2%	29.4%
R&D expenses	\$183	\$182	\$48	\$50	\$50	\$51	\$198	\$59	\$65	\$66	\$70	\$261	\$64	\$66	\$64	\$67	\$261	\$267
% of Revenues	6.7%	6.3%	6.5%	6.7%	6.9%	6.7%	6.7%	8.0%	8.6%	8.7%	8.9%	8.5%	8.0%	8.1%	7.9%	7.9%	8.0%	7.8%
% of Product Sales													8.7%	8.5%	8.2%	8.2%	8.4%	8.1%
Operating profit	\$770	\$829	\$201	\$202	\$205	\$212	\$820	\$172	\$173	\$180	\$159	\$684	\$190	\$195	\$206	\$221	\$812	\$894
Op Income Margin	28.3%	28.6%	27.5%	27.2%	28.4%	27.8%	27.7%	23.2%	22.8%	23.7%	20.1%	22.4%	23.7%	23.8%	25.4%	26.0%	24.8%	26.2%
Interest expense	\$13	\$36	\$10	\$10	\$10	\$11	\$40	\$11	\$11	\$11	\$11	\$45	\$11	\$12	\$12	\$12	\$48	\$49
Other (Income) exp.	(\$1)	\$2	(\$1)	(\$1)	(\$1)	\$2	(\$1)	\$1	\$2	\$3	(\$2)	\$4	(\$1)	(\$3)	(\$1)	\$0	(\$4)	(\$1)
Subtotal	\$11	\$38	\$8	\$8	\$9	\$13	\$38	\$12	\$13	\$14	\$9	\$49	\$10	\$9	\$12	\$12	\$44	\$48
Pretax income	\$759	\$791	\$192	\$194	\$196	\$199	\$781	\$160	\$160	\$166	\$150	\$635	\$180	\$185	\$195	\$209	\$768	\$846
Pretax Margin	27.9%	27.3%	26.4%	26.1%	27.1%	26.1%	26.4%	21.6%	21.1%	21.9%	18.9%	20.8%	22.5%	22.7%	23.9%	24.6%	23.4%	24.8%
Taxes paid	\$223	\$222	\$53	\$53	\$55	\$56	\$216	\$39	\$43	\$44	\$35	\$160	\$45	\$45	\$48	\$48	\$186	\$200
Tax rate	29.4%	28.1%	27.5%	27.5%	27.8%	27.8%	27.7%	24.5%	26.8%	26.2%	23.3%	25.2%	24.9%	24.5%	24.5%	23.0%	24.2%	23.6%
Noncontrolling int	\$6	\$10	\$3	\$3	\$3	\$3	\$10	\$2	\$2	\$2	\$2	\$9	\$3	\$3	\$3	\$3	\$10	\$10
Adj Net Income	\$530	\$558.5	\$137	\$138	\$139	\$141.4	\$555	\$119	\$115	\$120	\$113	\$466	\$132.4	\$137	\$144	\$158	\$572	\$637
Net Income Margin	19.5%	19.3%	18.7%	18.6%	19.2%	18.5%	18.8%	16.0%	15.1%	15.9%	14.2%	15.3%	16.6%	16.8%	17.8%	18.6%	17.5%	18.6%
Diluted Avg Shares	94.7	87.3	85.1	85.1	84.6	83.1	84.5	82.5	81.1	80.0	79.2	80.7	78.5	77.9	77.7	77.8	78.0	77.7
Adjusted EPS	\$5.60	\$6.40	\$1.61	\$1.62	\$1.64	\$1.70	\$6.57	\$1.44	\$1.42	\$1.50	\$1.42	\$5.78	\$1.69	\$1.76	\$1.86	\$2.03	\$7.34	\$8.19
Adj. "Cash" EPS								\$1.61	\$1.59	\$1.68	\$1.63	\$6.51	\$1.91	\$1.99	\$2.09	\$2.26	\$8.25	\$9.10
Year-over-Year Percent Change																		
Revenues	7.3%	6.5%	4.2%	2.4%	0.5%	1.4%	2.1%	1.4%	2.3%	4.9%	3.8%	3.1%	8.0%	7.5%	7.3%	7.3%	7.5%	4.2%
Gross Profit	8.0%	5.6%	3.6%	1.6%	1.3%	1.1%	1.9%	-0.8%	1.6%	3.6%	1.3%	1.4%	9.7%	8.1%	7.9%	9.1%	8.7%	5.2%
SG&A	10.3%	5.0%	4.2%	4.7%	4.4%	0.9%	3.5%	6.9%	9.8%	12.8%	18.7%	12.1%	9.5%	6.8%	5.5%	-5.9%	3.6%	1.7%
R&D	11.5%	-0.5%	6.2%	6.0%	7.3%	16.5%	8.9%	23.2%	31.2%	32.7%	38.6%	31.5%	8.5%	1.3%	-3.0%	-5.0%	0.1%	2.2%
Operating Income	5.0%	7.6%	2.4%	-2.2%	-2.8%	-1.7%	-1.1%	-14.2%	-14.2%	-12.3%	-25.1%	-16.5%	10.3%	12.2%	14.9%	39.1%	18.7%	10.2%
Pretax Income	4.8%	4.2%	3.0%	-2.2%	-2.9%	-2.4%	-1.2%	-16.9%	-17.3%	-15.4%	-25.0%	-18.7%	12.4%	15.7%	17.4%	39.6%	20.9%	10.1%
Net Income	5.1%	5.4%	4.3%	-0.7%	-2.4%	-3.1%	-0.6%	-13.4%	-16.6%	-13.5%	-20.3%	-16.0%	11.7%	19.5%	20.2%	40.4%	22.7%	11.2%
Diluted shares	-4.4%	-7.8%	-2.2%	-4.0%	-3.6%	-3.4%	-3.2%	-3.1%	-4.7%	-5.4%	-4.7%	-4.5%	-4.8%	-4.0%	-2.9%	-1.8%	-3.4%	-0.3%
Diluted EPS	9.9%	14.3%	6.7%	3.4%	1.3%	0.3%	2.7%	-10.6%	-12.5%	-8.5%	-16.4%	-12.0%	17.4%	24.4%	23.7%	42.9%	27.1%	11.6%
"Cash" EPS													18.8%	25.2%	24.3%	38.4%	26.7%	10.3%

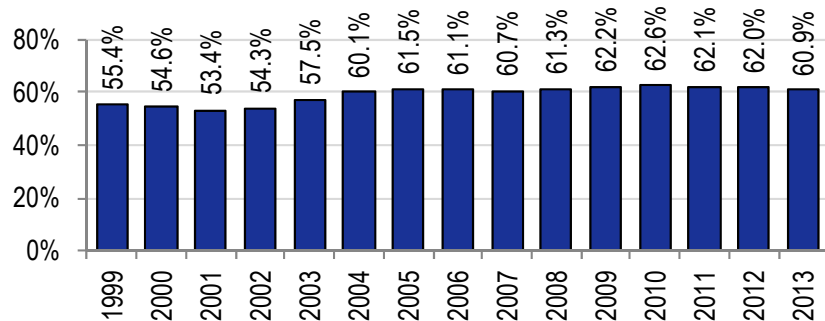
Source: Deutsche Bank, Company reports



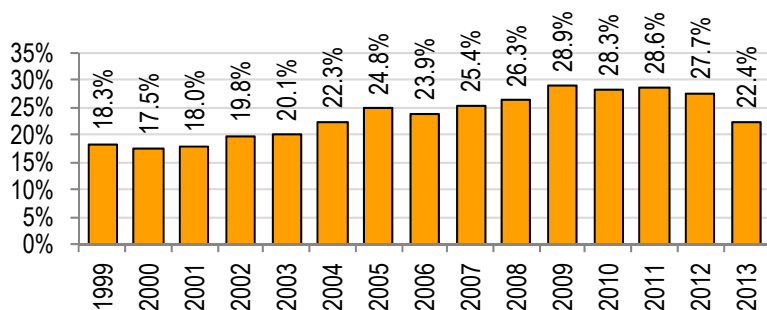
C.R. Bard Historical Margin Trends

Figure 283: Historical Margin Trends

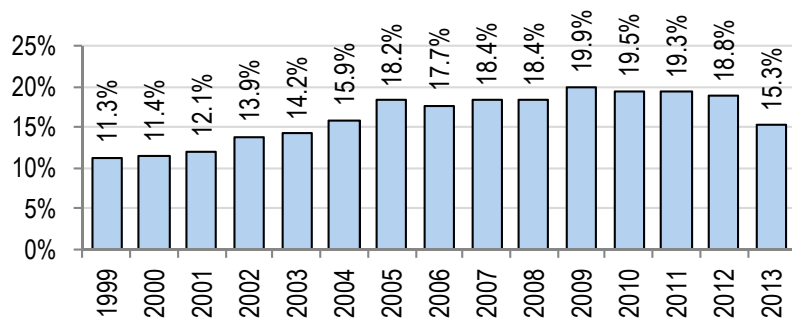
Gross margins



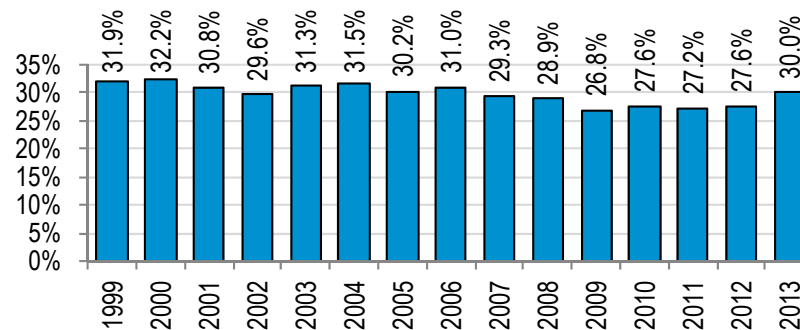
Operating Margin



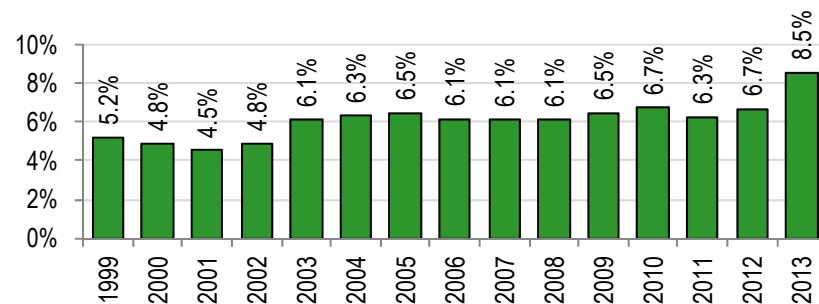
Net Margin



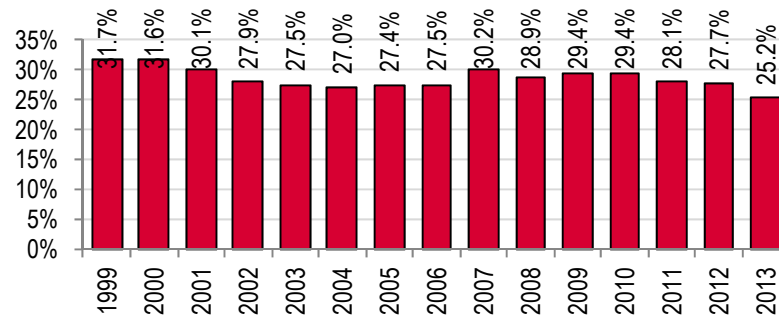
SG&A as % of sales



R&D as % of sales



Tax Rate

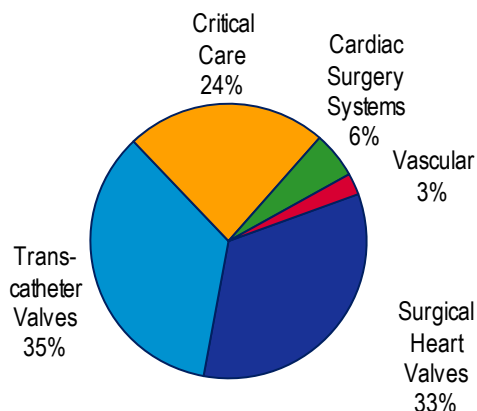


Source: Deutsche Bank, Company reports



Edwards Lifesciences (EW-Hold)

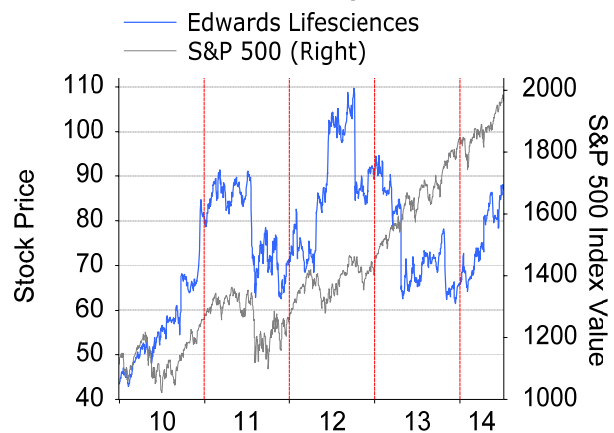
Figure 284: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 286: Recent stock price performance

Edwards Lifesciences Corporation vs S&P 500



Source: Deutsche Bank, Thomson Reuters

Figure 285: Rating and Valuation Summary

Mkt cap (\$M):	\$9,272	DB Rating:	Hold
Price 07/09/14:	\$87.89	DB Target Price:	\$81.00
52 Wk Range: \$60.62-\$88.20		<i>implied % chg:</i>	-8%
2013 Price Perf: -27.1%		Dividend Yield:	0.0%
YTD 2014 Price Perf: 33.7%		Target PE (C15E):	21.9x

FY EPS Projections				PE Valuation	
	DB	TR Cons		CY	Abs PE
2013A	\$3.11		NTM	26.3x	
2014E	\$3.16	\$3.17	2014E	27.8x	
2015E	\$3.69	\$3.63	2015E	23.8x	

EPS estimates include intangible amort
 include litigation expenses

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

While the patent litigation settlement is a positive insofar as it provides Edwards with an upfront payment and ongoing royalty income, it also cements Medtronic in as a formidable competitor in the transcatheter valve market. We expect Medtronic to gain share on Edwards in the U.S. While we believe the TAVR market will continue to expand globally, we believe the near-term US market growth rate will be restrained by Medicare reimbursement. Given the stock's valuation, we rate EW a Hold.

Upcoming Potential Catalysts

- July 29: EW earnings results
- August 19: MDT earnings results (read-thrus for transcatheter valves)
- September 13-17: Transcatheter Cardiovascular Therapeutics (TCT), Washington, DC

Valuation and Risks

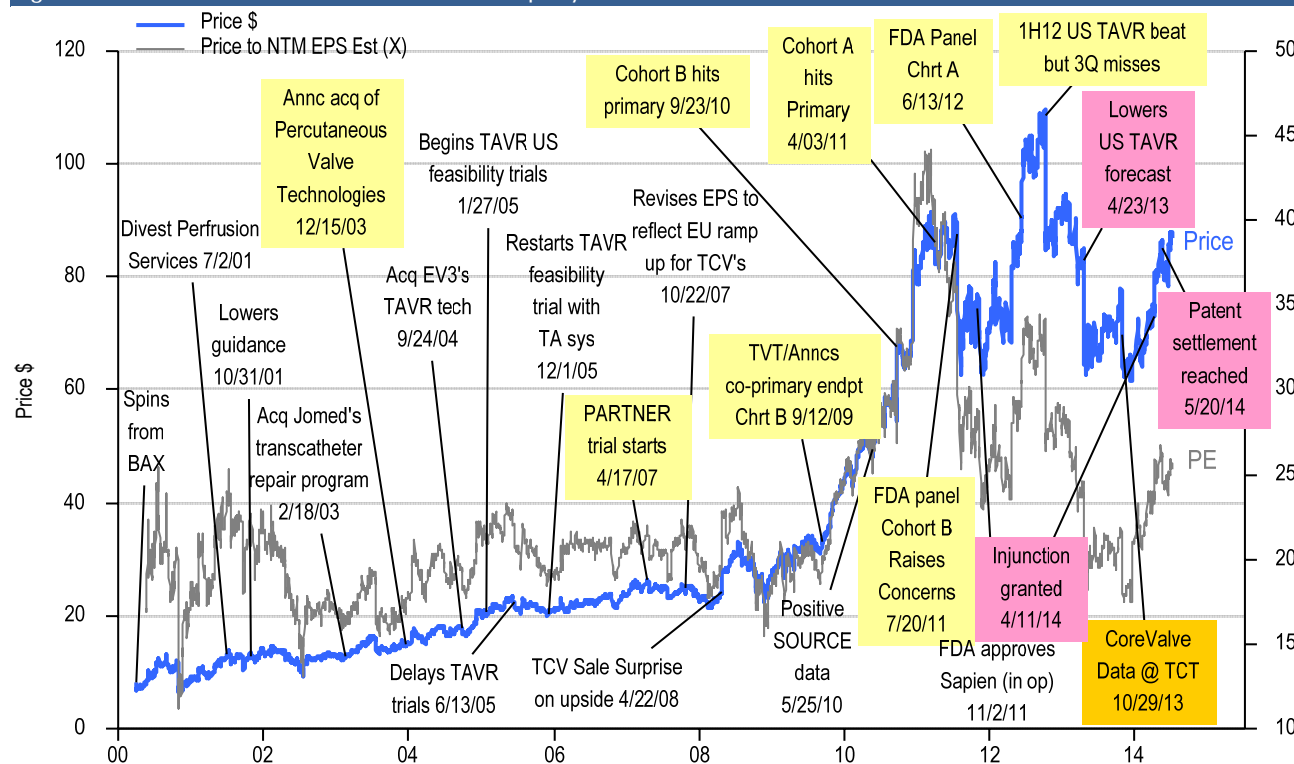
Our price target applies a PE valuation of 22x '15E EPS. We believe this is justified given our expectations for mid-teens EPS growth (albeit not linear) and the historical MedTech PEG (~1.4x).
 Upside risks: Medicare changes, IP litigation, mitral valves, competitor's delays. Downside risks: increased competition, inability to expand margins, pipeline delays, product failure issues.



Historical Price Performance

EW shares trade on the performance of the transcatheter valve program in Europe, updates on the U.S. trial, and clinical trial results, though more recently, news on TAVR patent litigation has also driven the stock.

Figure 287: Stock Price Performance and Company News Events



Performance Commentary

The performance of EW shares has increasingly turned on milestones related to the transcatheter heart valve program. EW initiated US trial enrollment in Apr 2007 & commercialized the product in Europe in late 2007. Sales in Europe came in consistently better than expected. One major inflection point was the announcement in Sept 2009 that the Cohort B group had a co-primary endpoint. From this point on, the stock consistently traded higher. Positive European registry data in May 2010 & achievement of the primary endpoints in the PARTNER Cohort B trial continued to push the stock higher. In July 2011, the stock pulled back due to concerns around the FDA Advisory Panel, concerns on the outstanding Medicare NCD & the delay in the Cohort A FDA panel. The stock reacted positively in 1H12 to better US sales, an easing of concerns around the NCD, and a positive panel on June 13 for the Cohort A indication. However, the stock sharply declined in Oct 2012 when the Co preannounced disappointing US TAVR sales. The stock recovered somewhat with the analyst meeting in Dec 2012 but fell sharply following disappointing results in Feb & Apr 2013, particularly the lower TAVR sales guidance in April. The stock declined in Oct 2013 following the release of MDT's CoreValve data & news that approval would come earlier than expected. In 2014, the stock increased on suspected favorable patent litigation, but has since pulled back upon reaching a settlement agreement with MDT.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
EW	55.7%	-7.8%	18.1%	37.2%	0.8%	13.0%	-2.2%	19.5%	58.1%	86.2%	-12.5%	27.5%	-27.1%	33.7%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Edwards Lifesciences Product Portfolio Overview

Figure 288: Product overview

Product	% sales	Description	DB Commentary	
Surgical Heart Valves	33%	In 2013, we estimate Edwards' surgical valve business generated \$689 million in sales. The foundation of the surgical heart valve business is the Carpentier-Edwards PERIMOUNT pericardial valves for the aortic and mitral positions, including the PERIMOUNT Magna Ease. The most recent new product introduction is the INTUITY valve, which is a minimally invasive heart valve system. Edwards also sells a variety of surgical repair products including annuloplasty rings.	Competitors include Medtronic, St. Jude Medical, and Sorin. St. Jude launched its Trifecta pericardial heart valve in 2013 in Europe and we would expect the company to gain some incremental tissue share.	
Transcatheter Valves	35%	In 2013, sales totaled \$722 million. Edwards transcatheter valve business includes the SAPIEN family of transcatheter aortic valves. We note, transcatheter valves are an option for those individuals deemed too sick to undergo a surgical procedure.	Competitors include Medtronic, St. Jude Medical, Boston Scientific, Direct Flow Medical, JenaValve, and Symetis.	
Critical Care Business	24%	In 2013, we estimate sales totaled \$484 million. The Critical Care business includes hemodynamic monitoring technology including Swan-Ganz catheters that are used during and after open-heart and other major procedures, the FloTrac system (continuous cardiac output monitoring system), PreSep (venous oximetry catheter), PediaSat (oximetry catheter designed for children), and ClearSight.	Edwards competes primarily with ICU Medical Inc. and a variety of other companies in specific product categories including PULSION Medical Systems AG, and LiDCO Group PLC.	
Cardiac Systems	Surgery	6%	In 2013, we estimate sales totaled \$112 million. Products sold include those that complement the surgical heart valve business such as cannulae, intra-aortic filtration systems, and instruments to perform minimally invasive heart surgeries.	Competitors include Medtronic and St. Jude Medical.
Vascular		3%	In 2013, we estimate sales totaled \$52 million. Vascular business includes the Fogarty line of embolectomy catheters, which are used to remove blood clots from peripheral blood vessels.	Competitors include Covidien, Bard, and J&J, among others.

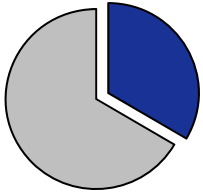
Source: Deutsche Bank, Company reports



Surgical Heart Valves (DB estimated post 2012)

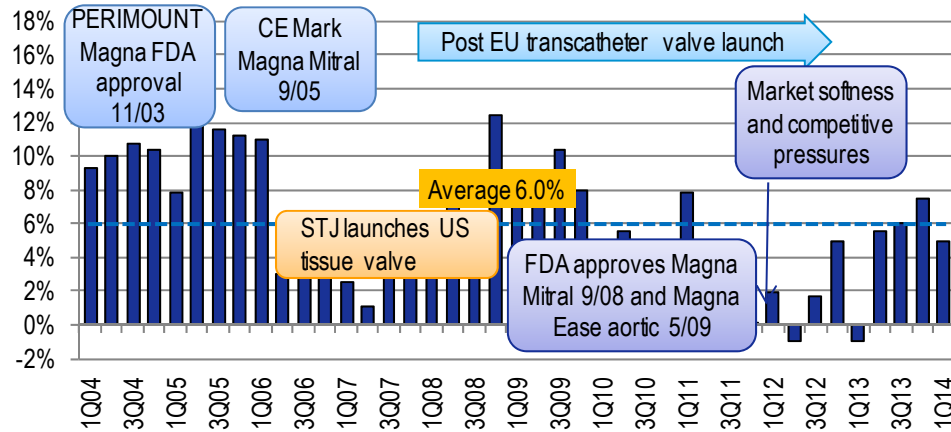
Figure 289: Sales mix

Surgical Heart valves
33% of total sales
in 2013



Source: Deutsche Bank, Company reports

Figure 290: Year-over-Year Change in Sales, Constant Currency (estimated)



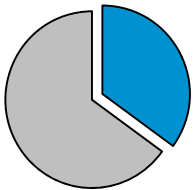
Source: Deutsche Bank, Company reports

The foundation of the surgical heart valve business is the Carpentier-Edwards PERIMOUNT pericardial valves for the aortic and mitral positions, including the PERIMOUNT Magna Ease. The most recent new product introduction is the INTUITY valve, which is a minimally invasive heart valve system. Edwards also sells a variety of surgical repair products including annuloplasty rings.

Transcatheter heart valves (DB estimated pre 2012)

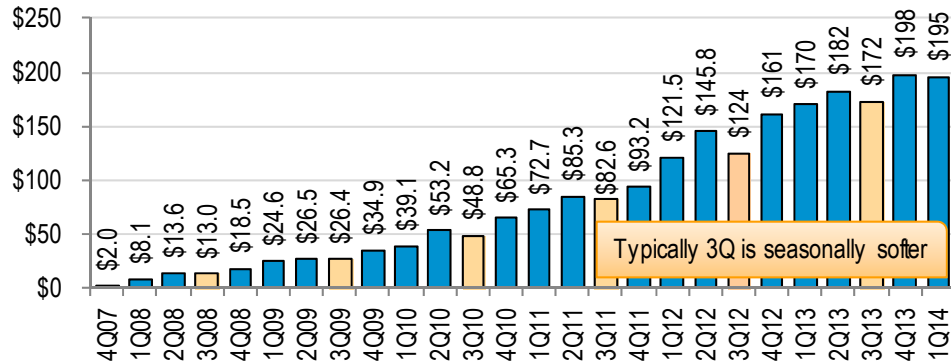
Figure 291: Sales mix

Transcatheter valves
35% of total sales
in 2013



Source: Deutsche Bank, Company reports

Figure 292: Transcatheter valve sales



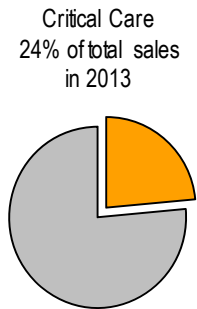
Source: Deutsche Bank, Company reports

Transcatheter valve sales had traditionally been derived from Europe though US sales are rapidly becoming a substantial part of the base. Medtronic has recently gotten its US transcatheter valve approved in the US and we anticipate MDT to take some share.



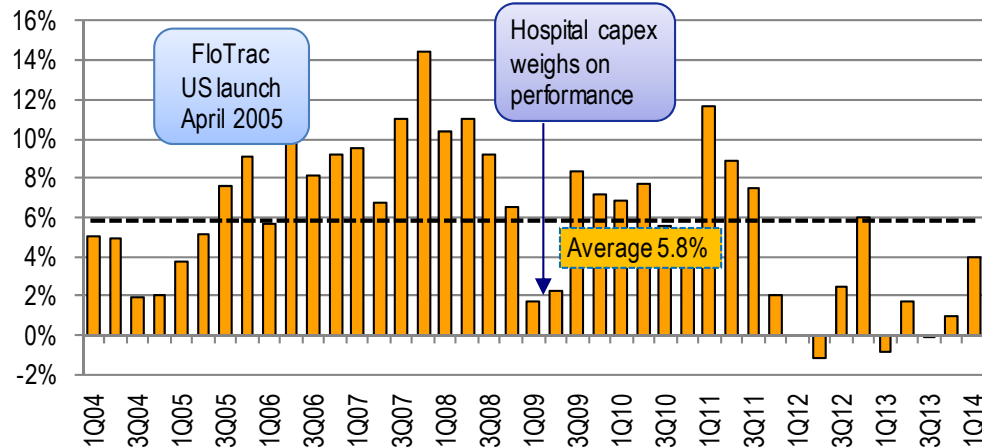
Critical Care (DB estimated post 2012)

Figure 293: Sales mix



Source: Deutsche Bank, Company reports

Figure 294: Year-over-Year Change in Sales, Constant Currency (estimated)



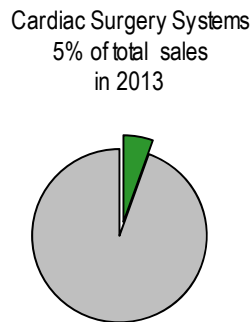
Source: Deutsche Bank, Company reports

The Critical Care business includes hemodynamic monitoring technology including Swan-Ganz catheters that are used during and after open-heart and other major procedures, the FloTrac system (continuous cardiac output monitoring system), PreSep (venous oximetry catheter), PediaSat (oximetry catheter designed for children), and ClearSight.

Edwards' Critical Care business, along with its partner Dexcom, is developing an automated, real-time glucose monitoring technology for use in the intensive care hospital setting.

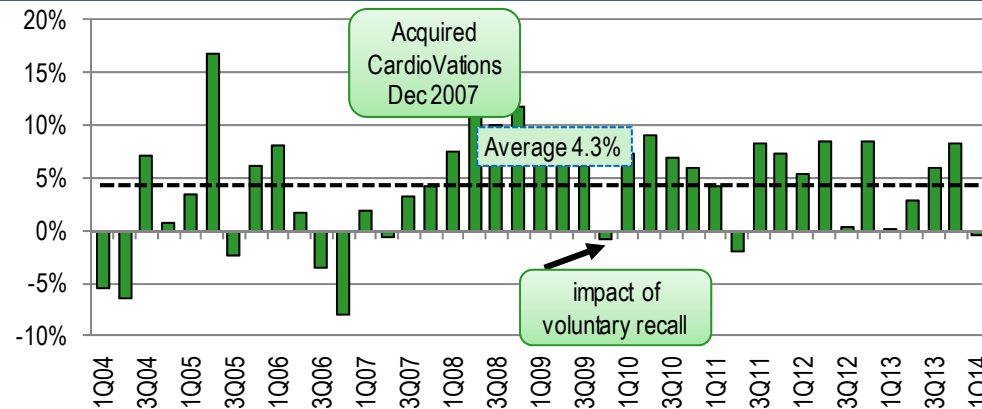
Cardiac Surgery Systems (DB estimated post 2012)

Figure 295: Sales mix



Source: Deutsche Bank, Company reports

Figure 296: Year-over-Year Change in Sales, Constant Currency (estimated)



Source: Deutsche Bank, Company reports

Products sold include those that complement the surgical heart valve business such as cannulae, intra-aortic filtration systems, and instruments to perform minimally invasive heart surgeries. Edwards expanded its cardiac surgery systems business with the acquisition of J&J's CardioVations line of products in December 2007.



Vascular (DB estimated post 2012)

Figure 297: Sales mix

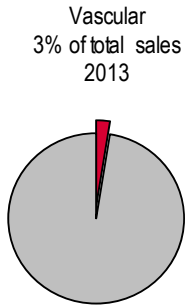
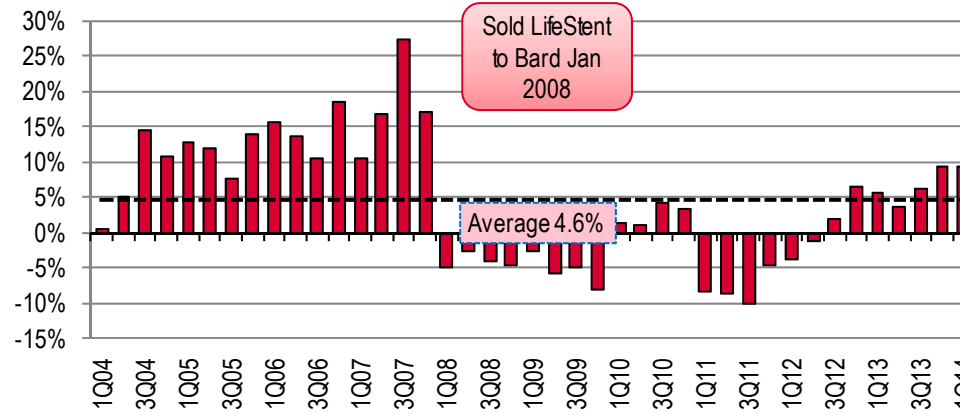


Figure 298: Year-over-Year Change in Sales, Constant Currency (estimated)



Edwards' vascular business today includes its Fogarty line of embolectomy catheters, which are used to remove blood clots from peripheral blood vessels. Edwards is running this business for cash and returns. It is not a significant contributor to sales growth.

Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Pretax Profits by Geographic Segments

Figure 299: Sales mix, 2013

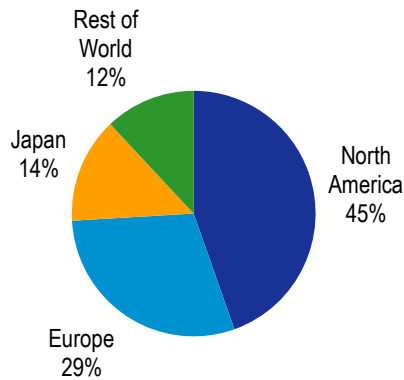
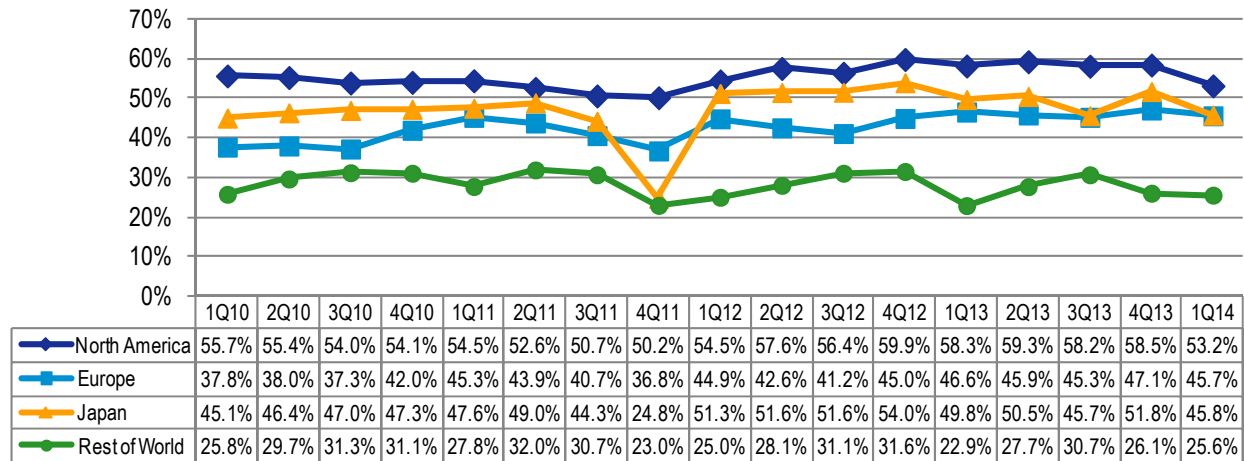


Figure 300: Pretax Margins by Geography



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports



Edwards Lifesciences 1Q14 Results

Our Take on the Quarter

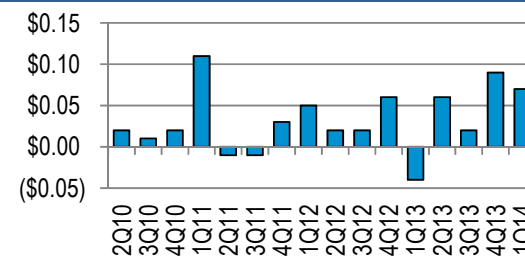
Edwards reported sales of \$522.4 million on a GAAP basis, up 5.2% on a reported basis. Excluding foreign exchange and the impact of THV sales reserve, underlying sales were up approximately 7.8%. The adjusted sales figure was just above both TR at \$525M and DBe at \$516M. Adjusted EPS of \$0.76 came in ahead of TR \$0.69, DBe \$0.67, and EW's guidance of \$0.61-\$0.71

Figure 301: Quarter Variance

(\$ in mil except per share)	Actual	TR Consensus	DB Estimate
Sales	\$522M	\$525M	\$516M
EPS	\$0.76	\$0.69	\$0.67

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 302: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Strong OUS performance in the quarter (+13.9%) with Europe +12.4%, Japan +11.7%, and RoW +20.8%.
- Potential for success in patent litigation provides upside to current guidance ranges.

Mixed/Negatives

- Somewhat flat sales performance in the US (+0.7%).
- Delay of Sapien XT FDA approval; management will update its guidance once FDA approval is received.

Quick P&L Recap

- Total sales** of \$522.4M were +5.2% on a reported basis. After adjusting for a \$6.1M transcatheter valve sales reserve adjustment, sales were \$529M, up 7.8% on an underlying basis (which also adjusts for FX).
 - Surgical HV Therapy** sales of \$202.6M were up 2.3% on a reported basis and up 4.3% on an underlying basis. Results were driven by strong unit growth.
 - Transcatheter heart valves** were \$189.2M, which was up 11.5% on a reported basis but up 14.0% on an underlying basis. The underlying basis calculation adjusts for a \$6.1M sales return reserve adjustment as well as the impact of FX.
 - Critical care** sales of \$130.6M were up 1.2% on a reported basis but up 4.6% on an underlying basis.
- We estimate **gross margins** of 74.2% of sales. Margins were driven by the sales reserve adjustment, higher manufacturing costs, and weaker currencies.
- SG&A expense** was 37.3% of sales (when adjusted for the sales reserve adjustment) flat y/y. The increase in SG&A's dollar value was primarily due to Japan and US transcatheter valve expenses.
- R&D expense** was \$86M, 16.2% of sales (after adjusting for the sales reserve adjustment) and up 10 bps y/y. The increase in R&D margin was driven by continued investments in heart valve clinical studies and transcatheter R&D projects.
- Adj tax rate** of 22.5% was 10 bps higher y/y and in line with guidance.
- Share count** of 108.5M was down 6.9% y/y. EW repurchased 4.4M shares for approximately \$300M.
- Adjusted EPS** of \$0.76 were up 2.7% y/y. If adjusting for the change in IP accounting, adjusted EPS would have been \$0.04 lower.

Figure 303: Key Product Sales Trends

	Actual (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
Surgical Valves	\$203	2.3%	4.3%
Surgical HV	\$176	3.2%	5.0%
Cardiac Surg Sys	\$26	-3.3%	-0.4%
Transcatheter Valve:	\$195	15.1%	14.0%
US TCV sales	\$78	-6.0%	
OUS TCV sales	\$117	35.3%	32.8%
Critical Care	\$131	1.3%	4.6%
Critical Care	\$117	0.9%	4.0%
Vascular	\$14	5.4%	9.3%
Total Sales	\$529	6.4%	7.8%

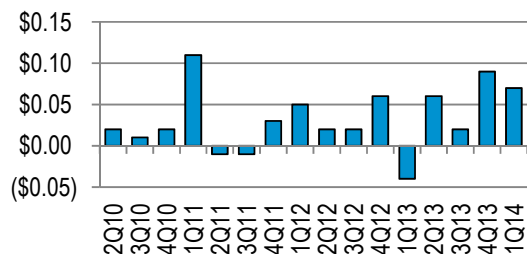
* Note sales growth rates are adjusted for the TAVR sales reversal

Source: Deutsche Bank, Company reports



Edwards 2Q14 Results Preview

Figure 304: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 307: DB versus Thomson Reuters Estimates

Revenues					
2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$497	a \$529	\$549	\$546	
2Q	\$517	e \$543	\$545	\$571	
3Q	\$496	e \$511	\$527	\$548	
4Q	\$550	e \$557	\$572	\$589	
FY	\$2,060	e \$2,140	\$2,169	\$2,281	

Guidance (04/24/14):

2Q14: \$525-\$565 million

2014: \$2.05-\$2.25 billion

Earnings Per Share

2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$0.71	a \$0.71	\$0.88	\$0.84	
2Q	\$0.81	e \$0.74	\$0.77	\$0.95	
3Q	\$0.68	e \$0.77	\$0.73	\$0.86	
4Q	\$0.91	e \$0.95	\$0.89	\$1.00	
FY	\$3.11	e \$3.16	\$3.17	\$3.63	

Guidance (04/24/14):

2Q14: \$0.71-\$0.81

2014: Wide range around \$3.10

Source: Deutsche Bank, Thomson Reuters

Figure 305: Earnings Release and Conference Call Information

Earnings Release Date: Tuesday, July 29, 2014 after market close

Conf Call Date & Info: Tuesday, July 29, 2014 at 5:00pm
<http://ir.edwards.com/>

Source: Company reports, Thomson Reuters

Figure 306: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
Surgical Valves	\$213	4.1%	4.7%
Surgical HV	\$184	4.4%	5.0%
Cardiac Surg Sys	\$29	1.9%	3.0%
Transcatheter Valve:	\$196	7.7%	6.8%
US TCV sales	\$76	-15.4%	
OUS TCV sales	\$120	30.3%	28.2%
Critical Care	\$135	3.0%	4.8%
Critical Care	\$122	3.2%	5.0%
Vascular	\$12	0.9%	3.0%
Total Sales	\$543	5.1%	5.5%

* Note sales growth rates are adjusted for the TAVR sales reversal

What to focus on:

- The impact of the reserve adjustment related to the SAPIEN 3 and SAPIEN XT launches.
- 2014 guidance update given the royalty from Medtronic
- US Sales Ramp and Reimbursement Dynamics
- US competitive Landscape (impressions on Medtronic's launch of CoreValve)
- EU Market competitive dynamics
- Japan SAPIEN update and market opportunity
- Transcatheter Valve Pipeline (Aortic and Mitral)
- Surgical heart valves and INTUITY program update

Source: Deutsche Bank



2014 Guidance

Edwards continues to expect total sales in the range of \$2,050 million to \$2,250 million, representing underlying growth in the range of 1%-10%. By segment:

- **Surgical Heart Valve Therapy** sales are expected in the range of \$810-\$850 million, representing underlying growth of 4%-7%. During its analyst day, Edwards commented that while there are headwinds like hospital economic pressures, undisciplined competitor pricing, and increasing TAVR activity, it nevertheless believed the tailwinds would provide for growth. Tailwinds include general demographics of aortic stenosis, the commercialization of the INTUITY Elite platform in Europe and annualizing a competitor's launch in Japan.
- **Transcatheter Heart Valve** sales are expected in the range of \$700-\$820 million, representing underlying growth of 0%-14%. Management outlined a number of assumptions reflecting these assumptions at its December 2013 analyst day:
 - US Competition (Medtronic's CoreValve) emerges in early 2014 for the extreme risk population (we note, Medtronic received approval January 2014) and in 3Q14 in the high-risk population.
 - SAPIEN XT receives US approval within a few months of CoreValve approval for extreme risk.
 - Accelerated consignment and inventory upgrade leads to inventory stocking reduces reported sales by \$20-\$30 million.
 - In Europe, sales impacted by two strategic competitor launches, the rollout of SAPIEN 3, and an aggressive inventory update.
 - In Japan, sales are expected in the range of \$40-\$50 million.
 - Pricing is assumed to be stable with modest volume discounts.
- **Critical Care** sales are expected \$535 million to \$575 million, representing underlying sales growth of 3%-6%.

Gross margins: Expect gross margins to be approximately 73% in 2014 with the 4Q around 74% (we estimate adjusted for the sales return, gross margins were 74.2% in the quarter). **SG&A expense:** Edwards continues to expect R&D to be 37%-38% of sales as it continues to spend in the face of THV competition. **R&D Expense:** Edwards continues to expect R&D to be approximately 16% in 2014 as it spends heavily to support its transcatheter valve product pipeline both in the aortic as well as the mitral space, as well as other structural heart initiatives. **Net interest expense:** Edward continues to expect net interest to be in the range of \$12-\$15 million.

Tax rate: Edwards continues to expect the effective tax rate to be in a range of 20%-22%, which includes an expected \$7 million benefit from R&D tax credit in the fourth quarter. **Diluted share count** is expected to be in the range of 107 to 109 million.

EPS: Adjusted EPS is now expected to be a range around \$3.10, up from a "wide range" around \$3.00 previously. The change in guidance reflects a \$0.10 benefit from an accounting change associated with IP litigation, in which Edwards will expense IP litigation-related expenses as incurred, rather than capitalizing the costs and amortizing them over the life of the patent.

Free cash flow is expected around \$325 million to \$425 million.

Since the company gave guidance in April, Edwards and Medtronic settled their patent litigation dispute. Edwards did not update its earnings guidance but did not that the company expected to earn approximately \$25-\$28 million in royalties in 2014 which was subject to an estimated 36% tax rate.

In our model we have included IP expense going forward in our EPS estimates as we also include the royalties.



Figure 308: Edwards Lifesciences' Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Surgical Heart Valve Therapy																		
Surgical Heart Valves	\$631.9	\$676.9	\$176.0	\$171.8	\$159.7	\$168.6	\$676.1	\$171.1	\$176.0	\$165.0	\$175.9	\$688.0	\$176.5	\$183.7	\$171.4	\$182.4	\$714.0	\$742.7
Cardiac Surgery Systems	\$100.2	\$107.5	\$27.6	\$28.7	\$26.0	\$29.1	\$111.4	\$27.0	\$28.3	\$26.8	\$31.1	\$113.2	\$26.1	\$28.9	\$27.6	\$32.1	\$114.6	\$118.1
Total	\$732.1	\$784.4	\$203.6	\$200.5	\$185.7	\$197.7	\$787.5	\$198.1	\$204.3	\$191.8	\$207.0	\$801.2	\$202.6	\$212.6	\$199.0	\$214.4	\$828.6	\$860.8
Y-o-Y % change reported																		
SHV reported	4.9%	7.1%	2.2%	-3.4%	-2.3%	3.2%	-0.1%	-2.8%	2.4%	3.3%	4.3%	1.8%	3.2%	4.4%	3.9%	3.7%	3.8%	4.0%
CSS reported	8.0%	7.3%	5.7%	5.1%	-3.3%	7.0%	3.6%	-2.1%	-1.3%	2.9%	7.0%	1.7%	-3.3%	1.9%	3.0%	3.0%	1.2%	3.0%
Total reported	5.3%	7.1%	2.7%	-2.2%	-2.5%	3.7%	0.4%	-2.7%	1.9%	3.3%	4.7%	1.7%	2.3%	4.1%	3.7%	3.6%	3.4%	3.9%
Y-o-Y % change underlying																		
SHV underlying (est)	4.7%	3.4%	1.9%	-1.0%	1.7%	5.0%	1.9%	-1.0%	5.5%	6.0%	7.5%	4.4%	5.0%	5.0%	4.5%	4.0%	4.6%	4.0%
CSS underlying	7.3%	4.3%	5.4%	8.4%	0.4%	8.4%	5.7%	0.1%	2.9%	6.0%	8.4%	4.5%	-0.4%	3.0%	3.0%	3.0%	2.2%	3.0%
Total underlying	5.3%	3.7%	2.4%	0.2%	1.5%	8.4%	2.4%	-0.9%	5.1%	6.0%	7.6%	4.4%	4.3%	4.7%	4.3%	3.8%	4.3%	3.9%
Disc/Other (\$) adj to current yr	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Disc/Other (\$) adj to prior yr	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FX impact (\$) SHV est	(\$0.5)	\$21.3	\$0.5	(\$4.3)	(\$6.6)	(\$2.8)	(\$13.2)	(\$3.2)	(\$5.0)	(\$4.0)	(\$5.0)	(\$17.2)	(\$3.0)	(\$1.0)	(\$1.0)	(\$0.5)	(\$5.5)	\$0.0
FX impact (\$) CSS est	\$0.6	\$2.8	\$0.1	(\$0.8)	(\$1.0)	(\$0.4)	(\$2.1)	(\$0.6)	(\$1.2)	(\$0.8)	(\$0.4)	(\$3.0)	(\$0.8)	(\$0.3)	\$0.0	\$0.0	(\$1.1)	\$0.0
Transcatheter Heart Valves																		
US Aortic sales (est)	\$10.6	\$34.8	\$41.0	\$61.4	\$55.3	\$80.7	\$238.4	\$83.0	\$90.0	\$86.0	\$93.0	\$352.0	\$78.0	\$76.2	\$77.4	\$81.0	\$312.6	\$311.5
OUS Aortic sales (est)	\$195.8	\$299.0	\$80.5	\$84.4	\$68.5	\$80.3	\$313.7	\$86.7	\$92.0	\$86.0	\$105.0	\$369.7	\$117.3	\$119.9	\$97.0	\$110.0	\$444.2	\$459.1
WW TAVR sales	\$206.4	\$333.8	\$121.5	\$145.8	\$123.8	\$161.0	\$552.1	\$169.7	\$182.1	\$172.0	\$198.0	\$721.7	\$195.3	\$196.1	\$174.4	\$191.0	\$756.8	\$770.5
Y-o-Y % change reported																		
US sales	51.4%	228.3%	1222.6%	802.9%	609.0%	371.9%	585.1%	102.4%	46.6%	55.5%	15.2%	47.7%	-6.0%	-15.4%	-10.0%	-12.9%	-11.2%	-0.4%
OUS sales	85.8%	52.7%	15.7%	7.5%	-8.4%	5.5%	4.9%	7.7%	9.0%	25.5%	30.8%	17.9%	35.3%	30.3%	12.8%	4.8%	20.1%	3.3%
Total TCV sales	83.6%	61.7%	67.1%	70.9%	49.9%	72.7%	65.4%	39.7%	24.9%	38.9%	23.0%	30.7%	15.1%	7.7%	1.4%	-3.5%	4.9%	1.8%
Y-o-Y % change underlying																		
OUS sales	86.3%	43.7%	17.5%	15.8%	4.8%	10.0%	11.1%	6.9%	9.4%	20.1%	27.9%	15.9%	32.8%	28.2%	11.5%	3.8%	18.5%	3.3%
Total TCV sales	90.6%	53.6%	69.7%	82.9%	65.3%	77.1%	74.1%	39.0%	25.2%	35.5%	21.6%	29.5%	14.0%	6.8%	0.8%	-4.0%	4.1%	1.8%
FX impact (\$) adj to prior yr	(\$0.3)	\$12.3	(\$1.1)	(\$5.6)	(\$7.7)	(\$2.3)	(\$16.7)	\$0.6	(\$0.3)	\$3.1	\$1.8	\$5.2	\$1.6	\$1.5	\$1.0	\$1.0	\$5.1	\$0.0

Source: Deutsche Bank, Company reports



Figure 308 (cont'd): Edwards Lifesciences' Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Critical Care																		
Critical Care WW Sales	\$454	\$508	\$122	\$123	\$126	\$138	\$508	\$116	\$118	\$119	\$131	\$484	\$117	\$122	\$125	\$138	\$502	\$532
Vascular WW Sales	\$54	\$52	\$13	\$13	\$13	\$14	\$52	\$13	\$12	\$13	\$14	\$52	\$14	\$12	\$13	\$14	\$53	\$55
Total	\$509	\$560	\$134	\$136	\$138	\$152	\$560	\$129	\$131	\$132	\$145	\$537	\$131	\$135	\$138	\$152	\$555	\$586
Y-o-Y % change reported																		
Critical care	0.4%	11.9%	0.8%	-3.5%	-0.9%	3.5%	0.0%	-4.6%	-3.9%	-5.3%	-5.1%	-4.7%	0.9%	3.2%	5.0%	5.0%	3.6%	6.0%
Vascular	-11.1%	-4.2%	-3.1%	-4.6%	-1.5%	5.3%	-1.0%	3.2%	-1.1%	0.0%	2.2%	1.1%	5.4%	0.9%	1.0%	1.2%	2.1%	2.5%
Total	-1.0%	10.2%	0.4%	-3.6%	-0.9%	3.7%	-0.1%	-3.9%	-3.6%	-4.8%	-4.4%	-4.2%	1.3%	3.0%	4.6%	4.6%	3.4%	5.7%
Y-o-Y % change underlying																		
Critical care	5.9%	7.3%	0.0%	-1.1%	2.5%	6.0%	1.9%	-0.8%	1.8%	-0.1%	1.0%	0.5%	4.0%	5.0%	5.0%	5.0%	4.8%	6.0%
Vascular	2.5%	-7.9%	-3.7%	-1.1%	2.0%	6.6%	1.0%	5.6%	3.7%	6.3%	9.4%	6.7%	9.3%	3.0%	3.0%	3.0%	4.6%	2.5%
Total	5.5%	5.7%	-0.4%	-1.0%	2.4%	6.2%	1.8%	-0.2%	1.9%	0.5%	1.8%	1.0%	4.6%	4.8%	4.8%	4.8%	4.8%	5.7%
Disc/Other (\$) adj to current yr	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Disc/Other (\$) adj to prior yr	(\$40.5)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FX impact (\$) critical care	\$8.7	\$19.4	\$1.1	(\$3.2)	(\$4.1)	(\$3.2)	(\$9.4)	(\$4.6)	(\$6.8)	(\$6.5)	(\$8.3)	(\$26.2)	(\$3.5)	(\$2.0)	\$0.0	\$0.0	(\$5.5)	\$0.0
FX impact (\$) vascular	\$0.1	\$2.2	\$0.1	(\$0.5)	(\$0.4)	(\$0.2)	(\$1.0)	(\$0.3)	(\$0.6)	(\$0.8)	(\$1.0)	(\$2.7)	(\$0.5)	(\$0.3)	(\$0.3)	(\$0.3)	(\$1.3)	\$0.0
TOTAL SALES																		
Total Sales	\$1,447	\$1,679	\$459	\$482	\$448	\$511	\$1,900	\$497	\$517	\$496	\$550	\$2,060	\$529	\$543	\$511	\$557	\$2,140	\$2,218
Year-over-year % change																		
Reported	9.5%	16.0%	13.5%	11.8%	8.5%	18.7%	13.2%	8.2%	7.3%	10.6%	7.8%	8.4%	6.4%	5.1%	3.2%	1.3%	3.9%	3.6%
Underlying	12.7%	11.5%	13.4%	15.6%	14.3%	21.2%	16.1%	10.1%	10.3%	12.9%	10.3%	11.0%	7.8%	5.5%	3.2%	1.3%	4.3%	3.6%
Disc/Other (\$) adj to current yr	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Disc/Other (\$) adj to prior yr	(\$40.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FX impact (\$) adj to prior yr	\$8.6	\$58.0	\$0.7	(\$14.4)	(\$19.8)	(\$8.9)	(\$42.4)	(\$8.1)	(\$13.9)	(\$9.0)	(\$12.9)	(\$43.9)	(\$6.2)	(\$2.1)	(\$0.3)	\$0.3	(\$8.3)	\$0.0

Source: Deutsche Bank, Company reports



Figure 308 (cont'd): Edwards Lifesciences' Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Adjusted Income Statement																		
Total Sales	\$1,447	\$1,679	\$459	\$482	\$448	\$511	\$1,900	\$497	\$517	\$496	\$550	\$2,060	\$529	\$543	\$511	\$557	\$2,140	\$2,218
Cost of good sold	\$408	\$490	\$127	\$121	\$111	\$125	\$483	\$121	\$124	\$128	\$142	\$515	\$136	\$144	\$136	\$148	\$565	\$573
Gross Profits	\$1,039	\$1,189	\$333	\$361.2	\$337	\$386	\$1,417	\$376	\$394	\$367	\$408	\$1,544	\$392	\$399	\$375	\$409	\$1,575	\$1,644
<i>Gross margin</i>	71.8%	70.8%	72.5%	74.9%	75.3%	75.6%	74.6%	75.6%	76.1%	74.1%	74.1%	75.0%	74.2%	73.4%	73.4%	73.4%	73.6%	74.1%
SG&A expenses	\$550	\$642	\$176	\$180	\$165	\$176	\$697	\$182	\$187	\$178	\$187	\$734	\$197	\$205	\$191	\$208	\$800	\$836
<i>% of sales</i>	38.0%	38.3%	38.4%	37.4%	36.9%	34.4%	36.7%	36.7%	36.1%	35.9%	34.0%	35.6%	37.3%	37.7%	37.3%	37.3%	37.4%	37.7%
R&D expenses	\$204	\$246	\$69	\$74	\$74	\$75	\$291	\$80	\$81	\$84	\$79	\$323	\$86	\$86	\$84	\$85	\$341	\$352
<i>% of sales</i>	14.1%	14.7%	14.9%	15.4%	16.5%	14.7%	15.3%	16.1%	15.6%	17.0%	14.3%	15.7%	16.2%	15.8%	16.5%	15.2%	15.9%	15.9%
Operating Income	\$284	\$300	\$88	\$107	\$98	\$135	\$428	\$113.50	\$127	\$106	\$142	\$488	\$109	\$109	\$100	\$117	\$434	\$456
<i>Operating margin</i>	19.6%	17.9%	19.1%	22.2%	21.9%	26.5%	22.5%	22.9%	24.5%	21.3%	25.8%	23.7%	20.6%	20.0%	19.6%	20.9%	20.3%	20.6%
Interest expense (inc)	\$2	(\$0)	\$0	(\$0)	(\$0)	\$0	(\$0)	(\$0)	\$0	\$1	\$4	\$5	\$4	\$4	\$2	\$1	\$10	\$4
IP litigation exp (inc-royalty)			\$2	\$3	\$4	\$6	\$14	\$6	\$6	\$4	\$7	\$22	\$6	\$2	(\$7)	(\$8)	(\$8)	(\$46)
Other (inc) expense	(\$8)	(\$5)	\$1	(\$1)	\$2	\$1	\$2	\$1	\$0	\$0	(\$0)	\$1	(\$0)	\$0	\$0	\$0	(\$0)	\$0
Subtotal other	(\$7)	(\$5)	\$3	\$2	\$5	\$6	\$16	\$7	\$6	\$6	\$10	\$29	\$9	\$6	(\$5)	(\$7)	\$2	(\$42)
Pretax income	\$291	\$305	\$85	\$105	\$93	\$129	\$412	\$107.0	\$121	\$100	\$132	\$459	\$100	\$103	\$106	\$123	\$432	\$498
Taxes	\$72	\$64	\$23	\$26	\$24	\$24	\$96	\$23.8	\$27	\$23	\$31	\$105	\$24	\$24	\$25	\$23	\$96	\$112
<i>Tax rate</i>	24.8%	21.0%	26.5%	24.3%	25.8%	18.5%	23.3%	22.2%	22.6%	23.0%	23.5%	22.9%	23.7%	23.3%	23.6%	18.5%	22.1%	22.6%
Net income	\$219	\$241	\$63	\$80	\$69	\$105	\$316	\$83	\$93	\$77	\$101	\$354	\$77	\$79	\$81	\$100	\$337	\$385
Net Income to Com	\$219	\$241	\$62.6	\$79.6	\$69	\$104.9	\$316	\$83.2	\$93	\$77	\$100.8	\$354	\$76.6	\$79	\$81	\$100	\$337	\$385
<i>Net margin</i>	15.1%	14.4%	13.6%	16.5%	15.4%	20.5%	16.7%	16.8%	18.0%	15.5%	18.3%	17.2%	14.5%	14.5%	15.8%	18.0%	15.7%	17.4%
Average Diluted Shares	119.2	119.4	118.0	118.4	119.0	117.8	118.3	116.5	114.7	112.9	111.0	113.8	108.5	106.0	105.5	105.4	106.4	104.4
Adjusted EPS	\$1.84	\$2.02	\$0.53	\$0.67	\$0.58	\$0.89	\$2.67	\$0.71	\$0.81	\$0.68	\$0.91	\$3.11	\$0.71	\$0.74	\$0.77	\$0.95	\$3.16	\$3.69
Other reconciling																		
IP litigation exp (inc)			\$2.2	\$3.0	\$3.5	\$5.7	\$14.4	\$5.5	\$5.5	\$4.3	\$6.8	\$22.1	\$5.5	\$8.0	\$2.0	\$2.0	\$17.5	\$6.0
Tax impact on IP litigation			\$0.9	\$1.1	\$1.4	\$2.1	\$5.5	\$2.0	\$2.1	\$1.6	\$2.6	\$8.3	\$2.0	\$2.9	\$0.7	\$0.7	\$6.3	\$2.2
Post Tax Impact			\$1.3	\$1.9	\$2.1	\$3.6	\$8.9	\$3.5	\$3.4	\$2.7	\$4.2	\$13.8	\$3.5	\$5.1	\$1.3	\$1.3	\$11.2	\$3.8
Per share			\$0.01	\$0.02	\$0.02	\$0.03	\$0.08	\$0.03	\$0.03	\$0.02	\$0.04	\$0.12	\$0.03	\$0.05	\$0.01	\$0.01	\$0.11	\$0.04
Year-over-Year % Change																		
Sales	9.8%	16.0%	13.5%	11.8%	8.5%	18.7%	13.2%	8.2%	7.3%	10.6%	7.8%	8.4%	6.4%	5.1%	3.2%	1.3%	3.9%	3.6%
Gross Profits	13.1%	14.5%	15.6%	19.1%	17.4%	24.2%	19.2%	12.9%	9.0%	9.0%	5.7%	9.0%	4.4%	1.4%	2.1%	0.3%	2.0%	4.4%
SG&A Expense	8.1%	16.8%	17.2%	10.4%	-0.1%	7.5%	8.6%	3.5%	3.6%	7.6%	6.4%	5.2%	8.1%	9.7%	7.2%	11.1%	9.1%	4.5%
R&D Expense	16.5%	20.5%	16.3%	14.0%	19.6%	23.4%	18.3%	16.3%	8.8%	14.0%	4.9%	10.9%	7.5%	6.4%	0.3%	7.9%	5.5%	3.3%
Operating Income	21.5%	5.6%	12.1%	42.1%	63.6%	56.2%	42.6%	29.1%	18.2%	7.7%	5.3%	13.9%	-3.9%	-14.2%	-4.9%	-18.0%	-10.9%	4.9%
Pretax Income	23.0%	4.9%	0.7%	36.8%	62.0%	49.3%	35.1%	25.6%	14.7%	7.0%	2.4%	11.4%	-6.2%	-14.6%	5.9%	-6.6%	-5.9%	15.1%
Net Income to Common	22.3%	10.1%	-2.0%	34.5%	54.8%	43.3%	31.2%	32.9%	17.2%	11.0%	-3.9%	12.0%	-7.9%	-15.4%	5.1%	-0.5%	-5.0%	14.5%
Diluted Shares	1.4%	0.2%	-2.1%	-1.3%	0.0%	-0.3%	-0.9%	-1.3%	-3.1%	-5.1%	-5.8%	-3.8%	-6.9%	-7.6%	-6.6%	-5.0%	-6.5%	-1.8%
Adjusted EPS	20.6%	9.9%	0.0%	36.3%	54.8%	43.7%	32.5%	34.6%	21.0%	17.0%	2.0%	16.4%	-1.1%	-8.5%	12.5%	4.8%	1.7%	16.6%

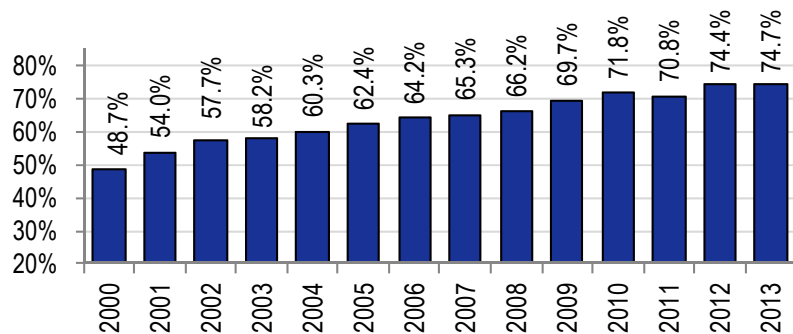
Source: Deutsche Bank, Company reports



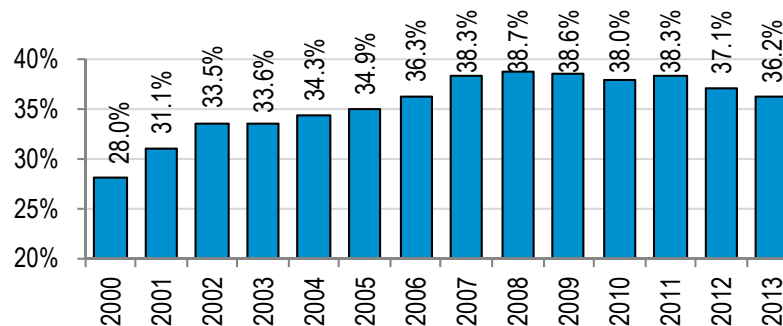
Edwards Lifesciences Historical Margin Trends

Figure 309: Historical Margin Trends

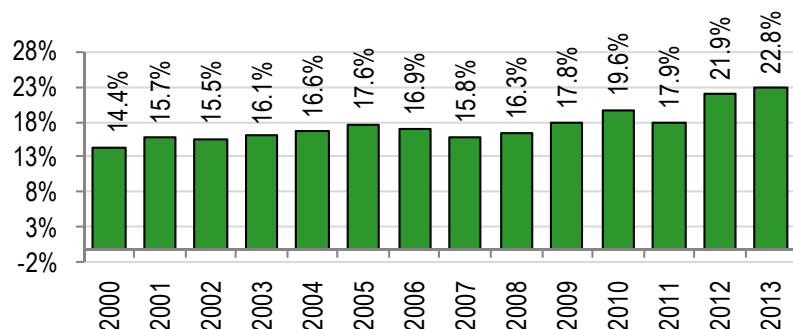
Gross margins



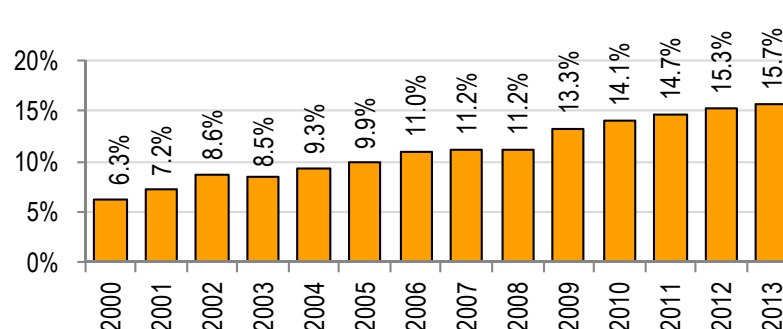
SG&A as % of sales



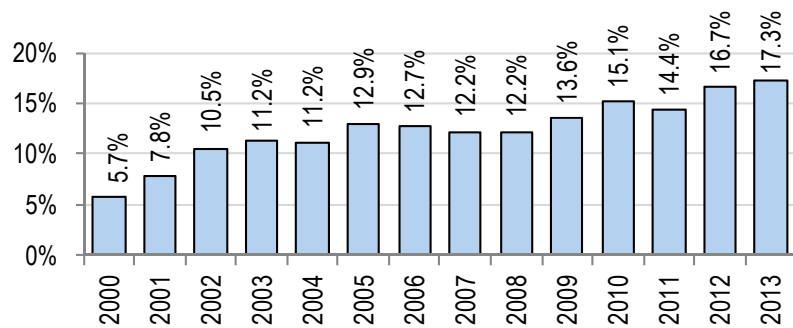
Operating Margin



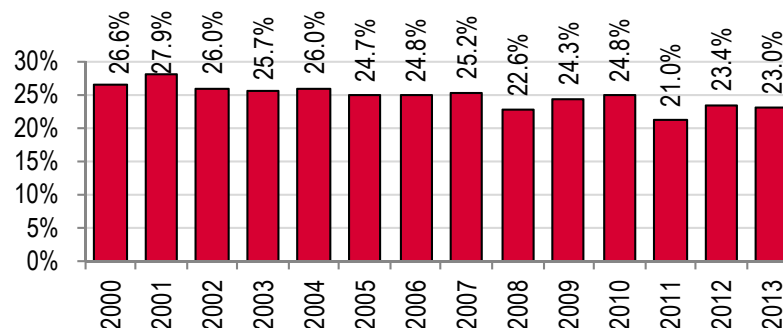
R&D as % of sales



Net Margin



Tax Rate

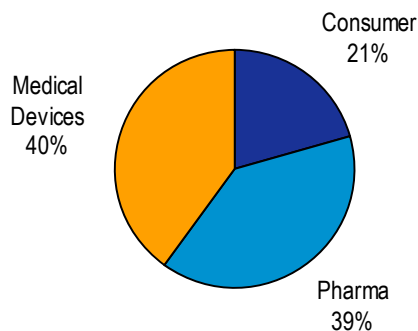


Source: Deutsche Bank, Company reports



Johnson and Johnson (JNJ-Hold)

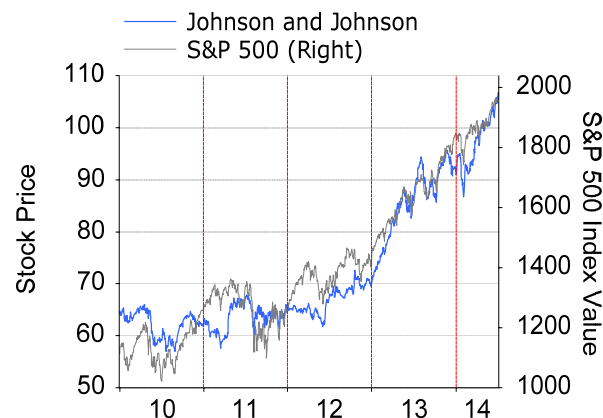
Figure 310: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 312: Recent stock price performance

Johnson and Johnson vs S&P 500



Source: Deutsche Bank, Thomson Reuters

Figure 311: Rating and Valuation Summary

Mkt cap (\$M):	\$299,997	DB Rating:	Hold	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$106.04	DB Target Price:	\$102.00	DB	TR Cons	CY	Abs PE	
52 Wk Range: \$85.50-\$106.74		implied % chg: -4%		2013A	\$5.52	NTM	17.7x	
2013 Price Perf: 30.7%		Dividend Yield: 2.9%		2014E	\$5.87	\$5.89	2014E	18.1x
YTD 2014 Price Perf: 15.8%		Target PE (C15E): 16.4x		2015E	\$6.23	\$6.34	2015E	17.0x

EPS estimates include intangible amort

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

We continue to believe that all three of J&J's divisions should see steady-to-improving trends. The pharmaceutical business has been driving growth for the past couple of years and we continue to see that as the case going forward. In the upcoming quarter we expect pharma sales to be strongly lifted with significant sales from Olysio (Hep C). Within Consumer, we believe the worst is likely behind for the McNeil OTC franchises. In Medical Device & Diagnostics, the integration of Synthes seemingly is going well and to the extent utilization trends slightly improve, it would be a plus. That all said, given the stocks relative valuation to its peers, we rate JNJ shares a Hold.

Upcoming Potential Catalysts

- **July 15:** J&J earnings release (J&J will have a Pharma review update on the call)
- **Ongoing:** Pharmaceuticals pipeline updates

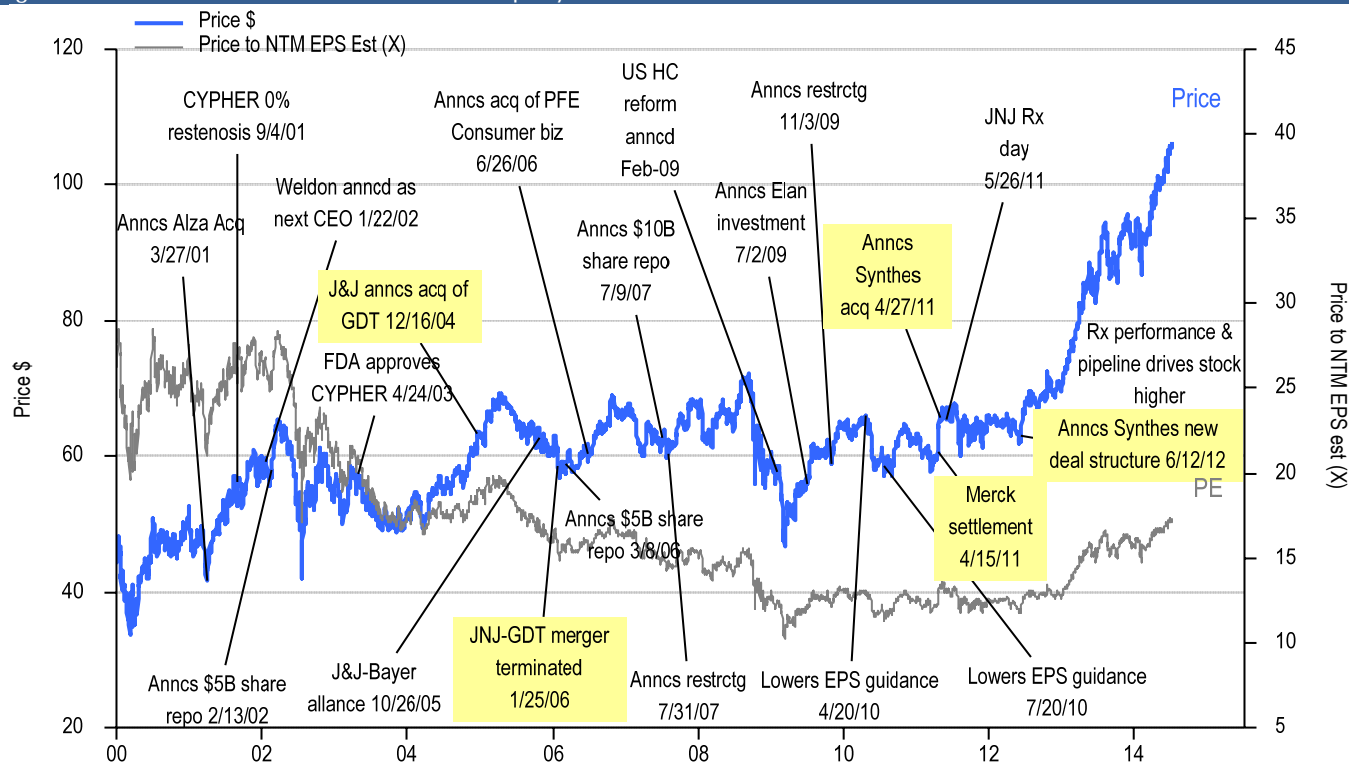
Valuation and Risks

We value J&J as a whole using a 16x PE multiple applied to our 2015 EPS estimate which is in line with a peer sum-of-the-parts basis. Downside risks include US dollar strength, Rx pipeline failures, Synthes M&A integration risks, delays with the recovery of the McNeil OTC business, and adverse IRS rulings related to Synthes. Upside risks include greater success within the pharmaceutical pipeline and a faster return of products/profitability in Consumer as well as improved utilization trends in MD&D.



Historical Price Performance

Figure 313: Stock Price Performance and Company News Events



Performance Commentary

JNJ shares typically trade on its earnings performance and EPS results, relative earnings performance (vs the S&P 500), acquisitions, and new product approvals (notably in pharmaceuticals). After revised financials from the Synthes acquisitions came in significantly more accretive than expected, JNJ shares traded significantly higher. Particular strength within the Pharma segment and an improving outlook in the Consumer segment also bolstered shares through 2013 and into 2014.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
JNJ	12.5%	-9.1%	-3.8%	22.8%	-5.2%	9.9%	1.0%	-10.3%	7.7%	-4.0%	6.0%	6.9%	30.7%	15.8%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%
S&P 500 Rx	-15.7%	-21.6%	6.4%	-9.5%	-5.9%	12.6%	1.7%	-21.2%	14.2%	-2.9%	13.4%	10.5%	31.1%	11.0%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Johnson and Johnson's Product Portfolio

Figure 314: Product overview

Product	% of Sales	Description
MEDICAL DEVICES AND DIAGNOSTICS		
Cardiovascular Care (formerly Cordis)	3%	In 2013, sales totaled \$2.1 billion. Cardiovascular business include coronary stents, diagnostic catheters, carotid stents, embolic protection devices, peripheral stents, vena cava filters, PTA balloons, vascular closure devices, cardiac ablation catheters, electrophysiology diagnostic catheter systems, and electrophysiology visualization and mapping systems.
Orthopedics (formerly DePuy)	13%	In 2013, sales totaled \$9.5 billion. Orthopedics franchise include hip, knee, shoulder replacements, and trauma products; spine products; orthopedic sports medicine products including MIS and arthroscopic products, soft tissue repair devices, and joint movement solutions; and its neurovascular/neurosurgery devices business.
Diabetes Care	3%	In 2013, sales totaled \$2.3 billion. The Diabetes Care business includes LifeScan and OneTouch brands of blood glucose meters and test strips; and Animas insulin pumps.
Surgical Care	9%	In 2013, sales totaled \$6.2 billion. General Surgery Includes endo-mechanical, hernia, sutures, and women's health businesses (formerly in Ethicon & Ethicon Endo-Surgery).
Infection Prevention	1%	In 2013, sales totaled \$912 million. Infection prevention Includes Advanced Sterilization Products (formerly under Ethicon Endo-Surgery).
Specialty Surgery	4%	In 2013, sales totaled \$2.6 billion. Specialty surgery Includes Acclarent, Biosurgery, Energy, Mentor, and SterilMed businesses (previously included in Ethicon & Ethicon Endo).
Diagnostics	3%	In 2013, sales totaled \$1.9 billion. Diagnostics business includes diagnostic systems and tests to clinical laboratories, hospitals, and blood centers for donor screening around the world. On June 30, 2014, J&J sold this business for ~\$4 billion to The Carlyle Group.
Vision Care	4%	In 2013, sales totaled \$2.9 billion. Sales are primarily derived from the well-known ACUVUE brand contact lenses.
PHARMACEUTICALS		
Immunology	13%	In 2013, sales totaled \$9.2 billion. Immunology segment comprises sales of Remicade, Simponi, Stelara and other immunology.
Infectious diseases	5%	In 2013, sales totaled \$3.5 billion. Infectious diseases consist of the revenue generated by Intelence, Prezista, Incivo, Edurant and other infectious diseases.
Neuroscience	9%	In 2013, sales totaled \$6.7 billion. Neuroscience includes sales of Concerta, Invega, Invega Sustenna, Risperdal Consta and other neuroscience.
Oncology	5%	In 2013, sales totaled \$3.8 billion. Oncology comprises sales of the following products: Doxil/Caelyx, Velcade, Zytiga and other oncology.
Other pharma sales	7%	In 2013, sales totaled \$4.9 billion. Other pharma sales include Aciphex/Pariet, Procrit/Eprex, Xarelto, INVOKANA and all other.

Source: Deutsche Bank, Company reports



Figure 314: Product overview

Product	% of Sales	Description
CONSUMER		
Skin Care	5%	In 2013, sales totaled \$3.7 billion. Skin Care business includes brands such as Neutrogena, Aveeno, Roc, Clean & Clear, Rogaine, and Lubriderm brands.
Baby Care	3%	In 2013, sales totaled \$2.3 billion. Baby Care business includes the company's iconic Johnson's brand including products such as Johnson's Baby and Johnson's No More Tears.
Oral Care	2%	In 2013, sales totaled \$1.6 billion. Oral Care business includes Listerine mouthwash brand, the Rembrandt brand of oral care products which includes toothpastes, whitening strips, and mouth rinses, and the line of Reach toothbrushes and floss.
Over-the-Counter (OTC) Medicines and Nutritionals	6%	In 2013, sales totaled \$4.0 billion. OTC and Nutritional franchise offers OTC medicines that are used to treat colds, coughs, allergies, pain, heartburn, and other conditions as well as artificial sugar, calcium supplements, and other nutritionals products.
Women's Health	2%	In 2013, sales totaled \$1.6 billion. Women's Health business includes sales of Stayfree and CareFree sanitary pads, O.B tampons, Monistat for treating yeast infections, and the K-Y line of products. J&J divested the US franchise in late 2013 and sold the K-Y brand to Reckitt Beckinser in early 2014.
Wound Care	2%	In 2013, sales totaled \$1.5 billion. Wound Care includes sales from the BAND-AID brand, Neosporin, Bengay, Purell, and other products used to treat cuts, rashes, and itching.

Source: Deutsche Bank, Company reports



Johnson and Johnson's Medical Devices and Diagnostics Business

Figure 315: Sales mix

Medical Devices and Diagnostics
 40% of total sales
 2013

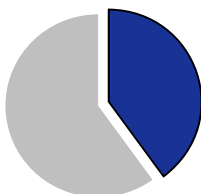
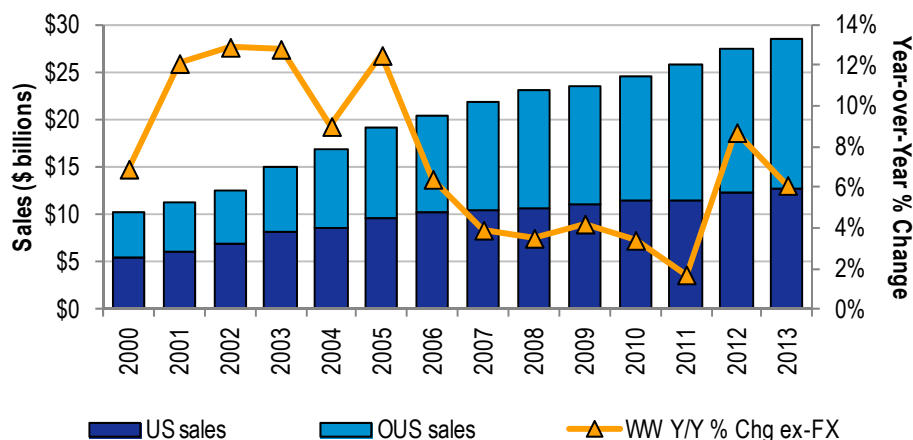


Figure 316: Year-over-Year Change in Sales, Constant Currency



In 2013, J&J's MD&D division recorded sales of \$28.5 billion representing 41% of J&J's total sales. Major franchises include Cardiovascular care (formerly Cordis), Orthopedics (formerly DePuy and now including Synthes), Diabetes Care, Surgical Care, Infection Prevention, Specialty Surgery, Diagnostics and Vision Care. These products are sold mainly to hospitals, retailers, and laboratories.

Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 317: Product Mix, 2013

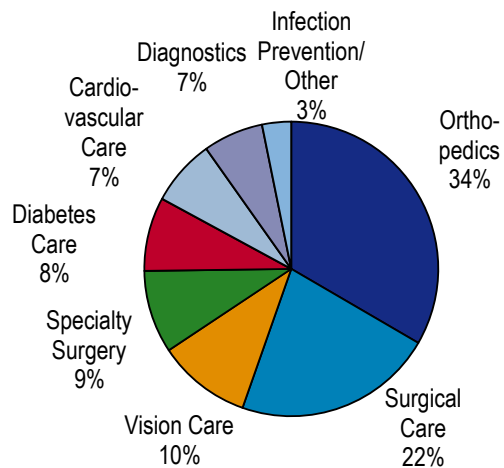


Figure 318: Geographic Mix, 2013

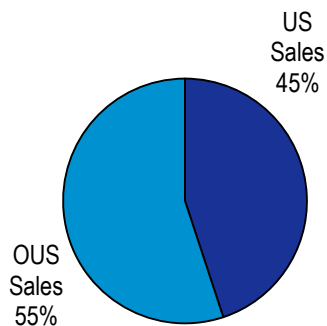
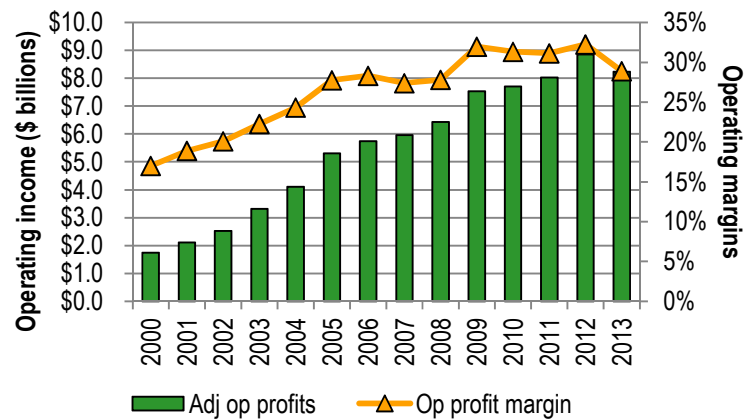


Figure 319: Operating Income and Margins



Source: Company reports

Source: Company reports

Source: Company reports



Johnson and Johnson's Pharmaceuticals Business

Figure 320: Sales mix

Pharmaceutical
39% of total sales
2013

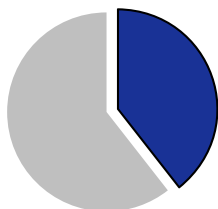
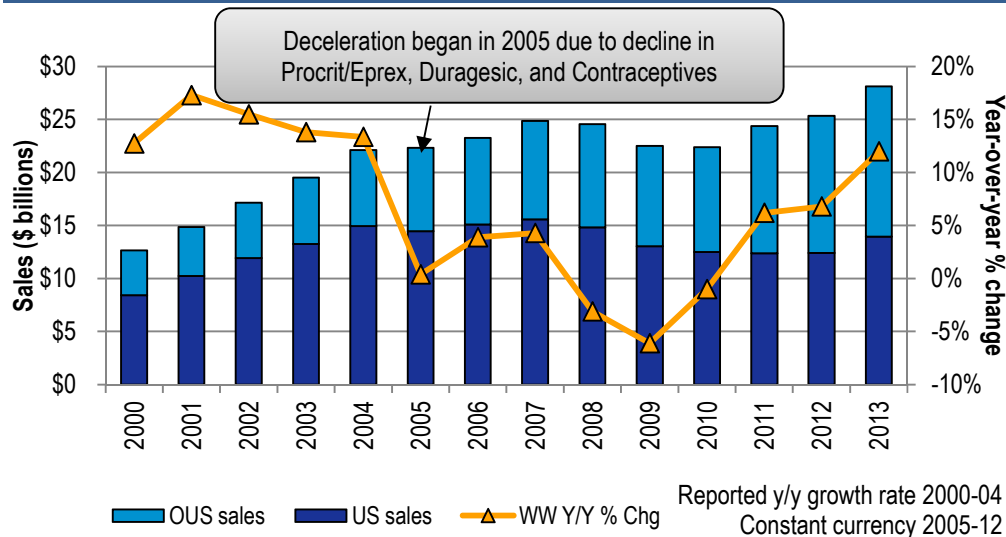


Figure 321: Year-over-Year Change in Sales, Constant Currency



In 2013, J&J's pharmaceuticals division sales totaled \$28.1 billion and accounted for 39% of total J&J sales. Major therapeutic areas and key products include:

- Immunology:** Remicade, Stelara, Simponi
- Infectious Disease:** Intence, Prezista, Olysio, Edurant and Incivo
- Neuroscience:** Invega Sustenna, Invega, Risperdal Consta, Concerta
- Oncology:** Zytiga, Velcade and Doxil/Caelyx
- Other:** Xarelto, Procrit/Epex, Invokana and Aciphex/Pariet

Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 322: Product Mix, 2013

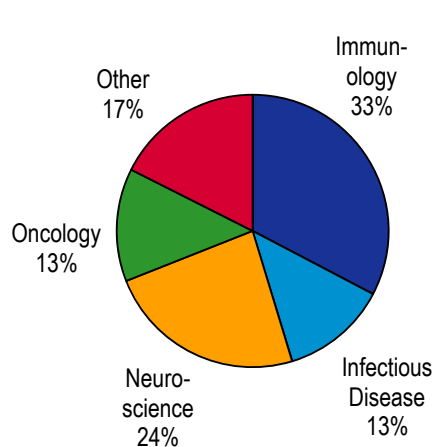


Figure 323: Geographic Mix, 2013

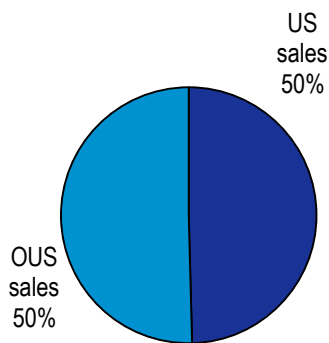
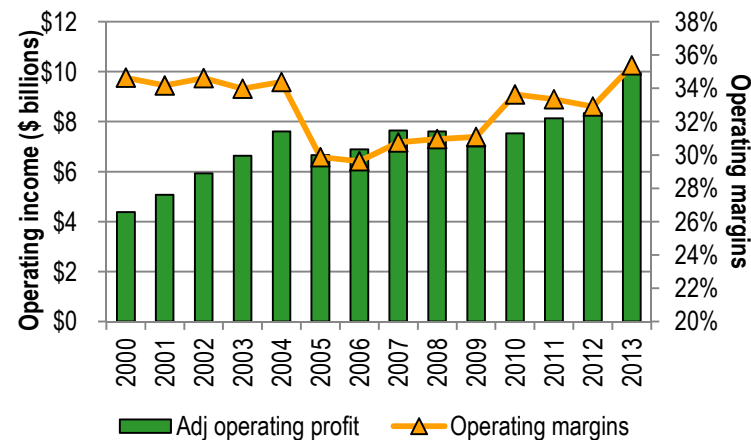


Figure 324: Operating Income and Margins



Source: Company reports

Source: Company reports

Source: Company reports



Johnson and Johnson's Consumer Business

Figure 325: Sales mix

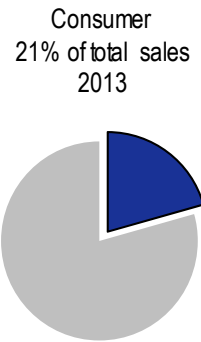
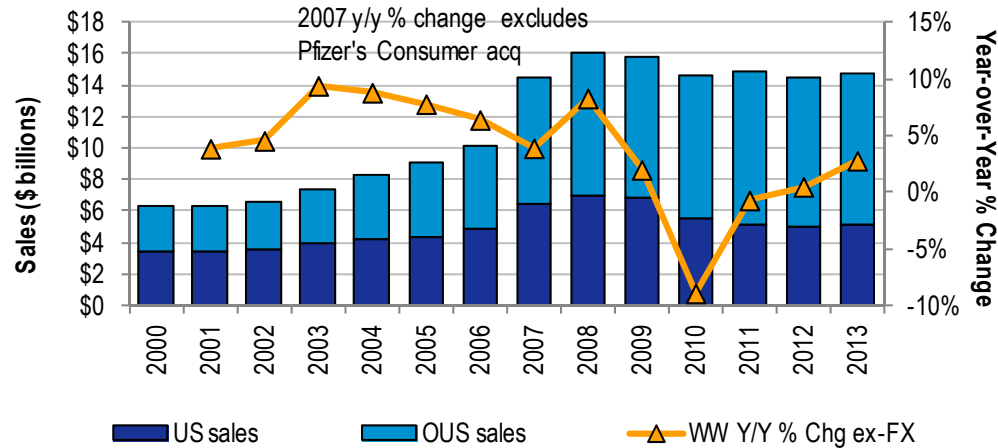


Figure 326: Year-over-Year Change in Sales, Constant Currency



In 2013, J&J's Consumer division recorded sales of \$14.7 billion and accounted for 21% of J&J's total sales. Major franchises include Over-the-Counter (OTC) medicines; Skin Care; Baby Care, Women's Health, Oral Care, and Wound Care.

Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Figure 327: Product Mix, 2013

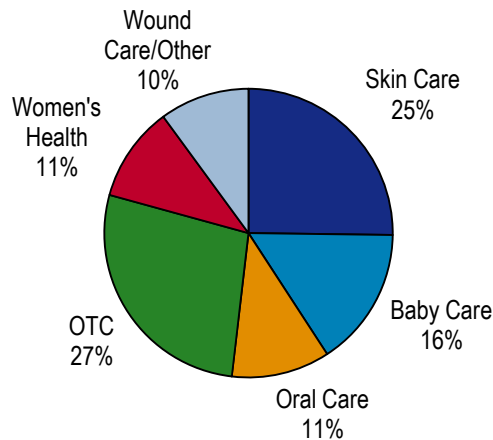


Figure 328: Geographic Mix, 2013

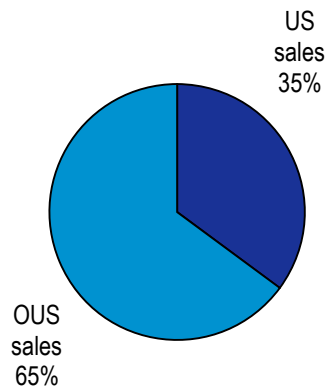
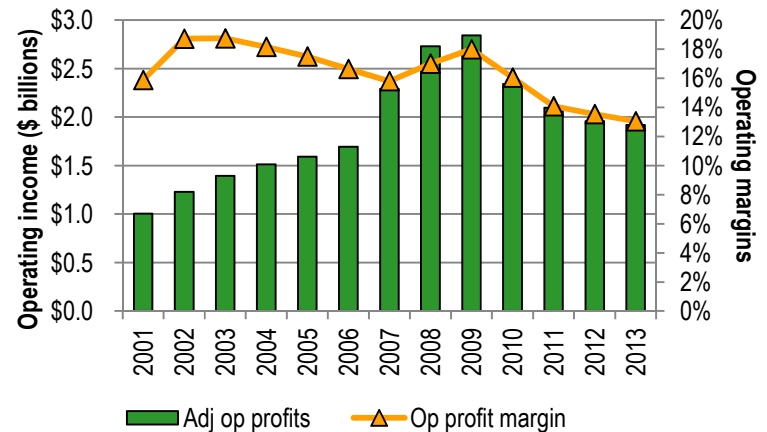


Figure 329: Operating Margins



Source: Company reports

Source: Company reports

Source: Company reports



Johnson & Johnson's 1Q14 Results

Our Take on the Quarter

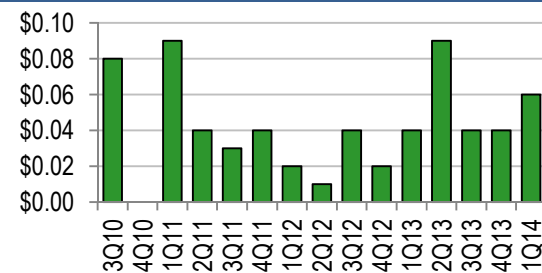
J&J's sales of \$18,115M came in ahead of Thomson Consensus of \$17,996M and DB of \$17,891M. Sales were up 5.3% on an operational basis as the strength in Pharma (up 12.2% ex-FX) was partially offset by MD&D (up 1.8%) and Consumer sales (down 0.6%). EPS of \$1.54 was well ahead of TR Cons. of \$1.48 and our estimate of \$1.46. Relative to our model, higher sales, gross margin, and lower SG&A more than offset a higher tax rate.

Figure 330: Quarter Variance

(\$ in mil except per share)	Actual	TR Consensus	DB Estimate
Sales	\$18,115M	\$17,996M	\$17,891M
EPS	\$1.54	\$1.48	\$1.46

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 331: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Sales of \$18,115M came in above the Street and our estimates, while EPS of \$1.54 was also better than the Street at \$1.48 and DB at \$1.46.
- Pharma sales were again strong, up 12.2% ex-FX, helping to drive a strong gross and operating margin performance in the quarter.
- J&J raised its full-year EPS guidance range to \$5.80-\$5.90 up from \$5.75-\$5.85.

Negatives

- Consumer sales were weaker, falling 0.6% WW ex-FX and down 2.9% in the US.
- US MD&D sales were down 1.6%, largely on weakness in Diabetes/Diagnostics.

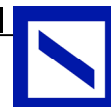
Quick P&L Recap

- Sales of \$18,115M were up 3.5% reported and 5.3% ex-FX. US sales of \$8,204M were up 2.2% while OUS sales were up 7.9% ex-FX.
 - Pharma sales of \$7,498M were up 10.8% reported and up 12.2% ex-FX. Excluding the impact of the managed Medicaid adjustment, sales were up over 15%.
 - MD&D sales of \$7,060M were flat reported and up 1.8% ex-FX. US sales -1.6% while OUS sales +4.6%.
 - Consumer sales of \$3,557M down 3.2% reported and down 0.6% ex-FX. Net of acquisitions/divestitures, sales were up about 1%.
- Gross margin of 69.9% was up 80bp y/y driven by mix benefit (higher pharma sales) and cost controls and partially offset (-30bp) by the Yen.
- SG&A expense of 28.6% of sales was down 120 bps y/y driven by the leverage of higher pharmaceutical sales and cost management.
- R&D expense of 10.1% of sales was down 10 bps y/y, which was consistent with our thinking.
- Interest expense was \$118M, up from \$104M in the prior year. Other income \$32M, compared to income of \$83M in the prior year.
- Tax rate of 20.4% was above the prior full-year guidance of 18.5%-19.0% due to the higher US sales and lack of R&D tax extension.
- EPS of \$1.54 was up 7.2% versus the prior year of \$1.44.

Figure 332: Key Product Sales Trends

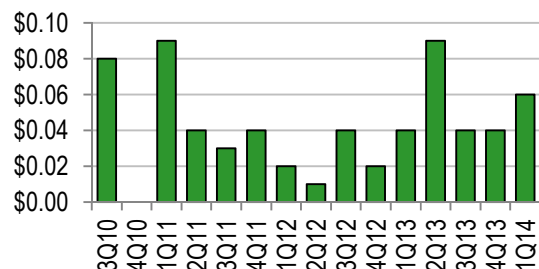
	Actual (\$ mil)	Y/Y % Δ	
		Rptd	Ex-FX
Consumer	\$3,557	-3.2%	-0.6%
Skin Care	\$914	1.3%	2.7%
Baby Care	\$545	-3.4%	1.7%
Oral Care	\$411	2.0%	4.7%
OTC/ Nutritionals	\$1,011	-3.1%	-1.2%
Women's Health	\$327	-18.5%	-13.4%
Wound Care/Other	\$349	-3.6%	-2.6%
MD&D	\$7,060	0.0%	1.8%
Cardiovascular	\$541	5.5%	7.2%
Orthopedics	\$2,421	1.5%	2.7%
Diabetes care	\$512	-14.7%	-13.7%
Surgical Care	\$1,508	0.0%	1.9%
Infection Prevention	\$220	3.8%	5.7%
Specialty Surgery	\$654	4.3%	3.6%
Diagnostics	\$443	-7.1%	-5.4%
Vision Care	\$761	2.8%	6.8%
Pharma	\$7,498	10.8%	12.2%
Aciphex/Pariet	\$35	-77.1%	-77.1%
Concerta	\$150	-41.4%	-39.3%
Prezista	\$445	21.3%	21.2%
Procrit/Eporex	\$310	-18.0%	-17.3%
Remicade	\$1,610	0.6%	2.1%
Simponi	\$259	9.3%	11.6%
Stelara	\$456	31.8%	32.1%
Risperdal Consta	\$310	-7.5%	-6.2%
Invega	\$373	31.3%	32.0%
Velcade	\$408	15.6%	18.6%
Total sales	\$18,115	4.5%	6.3%

Source: Deutsche Bank, Company reports



Johnson & Johnson's 2Q14 Results Preview

Figure 333: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 336: DB versus Thomson Reuters Estimates

Revenues (\$ in millions)					
2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q \$17,505	\$18,115		\$18,351	\$18,793	
2Q \$17,877	\$19,305	\$18,861	\$18,866	\$19,350	
3Q \$17,575	\$18,426	\$18,641	\$18,901	\$19,286	
4Q \$18,355	\$19,109	\$19,445	\$20,355	\$20,383	
FY \$71,312	\$74,955	\$74,962	\$76,473	\$77,975	

Guidance (04/15/14):

2014: Operational sales growth of 5%-6% (\$74.9B-\$75.7B);
Reported sales growth of 4.5%-5.5% (\$74.5B-\$75.7B).

Earnings Per Share

2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q \$1.44	\$1.54		\$1.65	\$1.60	
2Q \$1.48	\$1.58	\$1.54	\$1.59	\$1.61	
3Q \$1.36	\$1.44	\$1.46	\$1.55	\$1.57	
4Q \$1.24	\$1.31	\$1.36	\$1.45	\$1.53	
FY \$5.52	\$5.87	\$5.89	\$6.23	\$6.34	

Guidance (04/15/14):

2014: \$5.74-\$5.84 (operational); \$5.80-\$5.90 (reported).

Source: Deutsche Bank, Thomson Reuters

Figure 334: Earnings Release and Conference Call Information

Earnings Release Date: Tuesday July 15, 2014 before market open

Tuesday, July 15, 2014 at 8:30am

Conf Call Date & Info:

Dial In: +1 855 269 0554, Code: 59095750

www.investor.jnj.com

Source: Company reports, Thomson Reuters

Figure 335: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Δ		DB Est. (\$ mil)	Y/Y % Δ		
		Rptd	Ex-FX		Rptd	Ex-FX	
Consumer	\$3,685	0.7%	1.5%	Pharma	\$8,376	19.2%	19.5%
Skin Care	\$933	2.7%	3.0%	Remicade	\$1,761	5.3%	5.5%
Baby Care	\$592	1.0%	2.6%	Stelara	\$452	21.9%	21.9%
Oral Care	\$417	2.7%	3.6%	Simponi	\$202	15.5%	17.0%
OTC/ Nutritional	\$977	4.9%	4.6%	Prezista	\$486	11.8%	11.8%
Women's Health	\$349	-15.1%	-11.9%	Olysio	\$945	NA	NA
Wound Care/Other	\$418	0.5%	1.1%	Invega Sustenna	\$366	26.2%	26.4%
MD&D	\$7,244	0.7%	1.5%	Risperdal Consta	\$311	-7.4%	-7.0%
Cardiovascular	\$548	3.6%	4.2%	Velcade	\$411	8.5%	9.0%
Orthopedics	\$2,451	2.8%	3.0%	Zytiga	\$531	34.5%	32.8%
Diabetes care	\$529	-10.2%	-9.9%	Xarelto	\$340	80.0%	80.0%
Surgical Care	\$1,613	1.5%	2.5%	Procrit/Eporex	\$323	-3.5%	-3.9%
Infection Prevention	\$240	2.5%	4.0%	Total sales	\$19,305	4.5%	6.3%
Specialty Surgery	\$681	3.7%	4.2%				
Diagnostics	\$470	-2.7%	-1.7%				
Vision Care	\$713	-2.3%	0.9%				

What to focus on:

- 2014 Guidance update
- Olysio and new drug performance
- Redeployment of Diagnostic proceeds
- M&A and Divestiture Activity
- Commentary on healthcare utilization trends
- Pharmaceutical pipeline; development, target therapies, and launches
- Medical devices and diagnostics pipeline
- Consumer segment performance

Source: Deutsche Bank



Figure 337: J&J's Pharma Pipeline (as of May 2014)

	Product Name	Indication Sought	US Development Stage	EU Development Stage
Cardiovascular and Metabolism	XARELTO (rivaroxaban)	Acute Coronary Syndrome (2)	FDA Third Complete Response 2/14	
		Stent Thrombosis for Acute Coronary Syndrome (2)	FDA Second Complete Response 2/14	
		Chronic Heart Failure	In Phase III	
	INVOKANA (canagliflozin)/VOKANAMET	Fixed Dose Combination with Metformin (IR) (2)	FDA Complete Response 12/13 -	Approved 4/25
	INVOKANA (canagliflozin)	Fixed Dose Combination with Metformin (XR) (2)	Phase III	
Diabetic nephropathy		Phase III	Phase III	
Immunology	STELARA (ustekinumab)	Crohn's Disease	Phase III	Phase III
	SIMPONI (golimumab)	Rheumatoid Arthritis (IV)	Approved 7/13	Resubmitted 6/13
	sirukumab	Rheumatoid Arthritis	Phase III	Phase III
Infectious Diseases and Vaccines	SIRTURO (bedaquiline)	Multi-drug resistant tuberculosis (2)	Approved 12/12	Approved 3/14
	PREZISTA (darunavir) and cobicistat (GS-9350)	Fixed Dose Combination HIV tablet for treatment naïve patients and treatment experienced patients	Filed 3/14	Filed 10/13
	OLYSIO (simeprevir)	Chronic hepatitis C virus (HCV) infection for treatment naïve patients (2)	Approved 11/13	Approved 5/16
Chronic hepatitis C virus (HCV) infection for treatment experienced patients, relapsers, and non-responders (2)		Approved 11/13	Approved 5/16	
Neuroscience	INVEGA (paliperidone ER OROS)	Pediatric indication - adolescent schizophrenia	Approved 4/11	Filed 3/13
	INVEGA SUSTENNA/XEPLION (paliperidone palmitate IM long acting injectable)	Schizophrenia - 3 month injectable (2)	Phase III	Phase III
	INVEGA SUSTENNA/XEPLION (paliperidone palmitate)	Schizoaffective (2)	Phase III	

Source: Deutsche Bank, company reports, clinical trials.gov



Figure 337 (continued): J&J's Pharma Pipeline (as of May 2014)

	Product Name	Indication Sought	US Development Stage	EU Development Stage
Oncology	IMBRUVICA (ibrutinib)	Relapsed/refractory patients with Chronic Lymphocytic Leukemia (single agent) (randomized study PCYC-1112) (2)	Filed 4/14	Phase III
		Relapsed/refractory patients with Chronic Lymphocytic Leukemia (single agent) (single arm phase II study PCYC-1102) (2)	Approved 02/14	Filed 10/13
		Relapsed/refractory patients with Chronic Lymphocytic Leukemia (in combination with Bendamustine and Rituximab) (randomized study CLL-3001) (2)	Phase III	Phase III
		Treatment naïve patients with Chronic Lymphocytic Leukemia (single agent) (randomized study PCYC-1115) (2)	Phase III	Phase III
		Relapsed/refractory patients with Mantle Cell Lymphoma (single agent) (randomized study MCL-3001) (2)	Phase III	Phase III
		Treatment naïve patients with Mantle Cell Lymphoma in combination with Bendamustine and Rituximab (randomized study MCL-3002) (randomized study MCL-3002) (2)	Phase III	Phase III
		Relapsed/refractory patients with Mantle Cell Lymphoma (single agent) (single arm phase II study PCYC-1104) (2)	Approved 11/13	Filed 10/13
		Newly Diagnosed Non-Germinal Center B-Cell Subtype of Diffuse Large B-Cell Lymphoma in combination with R-CHOP (randomized study DBL3001)	Phase III	Phase III
	ARN-509	Prostate cancer non-metastatic castration resistant	Phase III	Phase III
	Siltuximab	Multicentric Castleman's Disease	Approved 04/14	Positive CHMP Opinion 3/14
Velcade (bortezomib)	Mantle Cell Lymphoma 1st line (2)		Phase III	
YONDELIS (trabectedin)	Soft Tissue Sarcoma (2)	Phase III		
	Relapsed Ovarian cancer	Phase III		
ZYTIGA (abiraterone acetate)	Prostate cancer Newly Diagnosed hormone-naïve metastatic		Phase III	

(2) Ilvokana licensed from Mitsubishi Tanabe Pharma Corporation; Prezista/cobicistat developed in collaboration with Gilead Sciences; Velcade developed in collaboration with Millennium: The Takeda Oncology Company; Yondelis developed in collaboration with PharmaMar S.A.; Xarelto co-developed with Bayer HealthCare; Invega Sustenna developed in collaboration with Alkermes, Inc.; Olysio developed in collaboration with Medivir AB; Imbruvica developed in collaboration with Pharmacyclics, Inc.; and Sirukumab developed in collaboration with GlaxoSmithKline.

Source: Deutsche Bank, company reports, clinical trials.gov



2014 Guidance Update

For 2014, J&J now expects constant currency sales growth of 5%-6% ex-FX versus prior guidance of 3.7%-4.7% and growth of 4.9% in 2013 after adjusting for Synthes as well as the pharmaceutical rebate adjustments.

Guidance does reflect the divestiture of its North American women's sanitary line to Energizer on October 23, 2013. The annual sales of this business line are around \$250 million thus the impact of the sale on 2014 is approximately 30bp. Guidance does not reflect the mid-year divestiture of the Ortho Clinical Diagnostics business, though management expects any impact from the sale to be absorbed within the company's guidance range based on underlying company strength and does not consider repurchases from the proceeds of the sale. The OCD business had been contributing about \$0.10-\$0.15 to earnings per share on an annual basis. Guidance assumes no competition from biosimilars for Procrit or generic competition for INVEGA SUSTENNA or RISPERDAL CONSTA.

Using current exchange rates, J&J expects FX to be a 50bp drag on growth, thus reported sales growth is expected to be 4.5%-5.5% (or \$74.5-\$75.3B) vs pre-earnings Consensus of \$74.2 billion. Of the roughly \$1 billion increase in sales guidance, the majority of the increase stems from the success of the OLYSIO launch, which is tracking well above management's expectations.

Below the sales line, J&J made several guidance comments:

- Gross margins are expected to be negatively impacted by 60bps due to the devaluation of the Japanese Yen (an \$0.11 EPS impact). The impact is expected to ramp from 1Q14 levels
- Pricing is still expected to be a 50bps negative impact on pre-tax margins.
- 2014 Pre-tax operating margins are now expected to expand more strongly than previously thought, though 2014 levels are expected to be below those seen in 1Q14.
- J&J still expects net interest expense of \$400M-\$500M due to increased interest expense from 4Q13 debt offering.
- The full-year tax rate is now expected to be 19%-20% versus prior guidance of 18.5%-19%, which still assumes the extension of the US R&D tax credit. Should the tax credit not be approved, the impact would be about 50 bps on the overall rate.
- Net other income is still expected to be a net gain of approximately \$600M-\$700M. We note this line item includes various components including royalty income, certain gains and losses from litigation, investments by development, and certain asset sale gains and write-offs.

On an operational basis, management expects EPS of \$5.74-\$5.84 versus \$5.70-\$5.80 previously. FX is expected to be a positive \$0.06 versus \$0.05 previously. Thus, adjusted reported EPS is expected to be \$5.80-\$5.90 versus \$5.75-\$5.85 prior.



Figure 338: Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Pharmaceuticals																	
Immunology Segment																	
US sales	\$5,751	\$1,453	\$1,471	\$1,600	\$1,448	\$5,972	\$1,639	\$1,578	\$1,648	\$1,726	\$6,591	\$1,547	\$1,704	\$1,801	\$1,885	\$6,937	\$7,542
OUS sales	\$1,047	\$442	\$448	\$484	\$528	\$1,902	\$565	\$663	\$695	\$676	\$2,599	\$796	\$733	\$772	\$751	\$3,051	\$3,321
WW sales	\$6,798	\$1,895	\$1,919	\$2,084	\$1,976	\$7,874	\$2,204	\$2,241	\$2,343	\$2,402	\$9,190	\$2,343	\$2,437	\$2,573	\$2,636	\$9,988	\$10,863
Year-over-year % change																	
US sales		1.2%	-3.5%	15.1%	3.4%	3.8%	12.8%	7.3%	3.0%	19.2%	10.4%	-5.6%	8.0%	9.3%	9.2%	5.2%	8.7%
OUS sales		206.9%	242.0%	28.4%	33.7%	81.7%	27.8%	48.0%	43.6%	28.0%	36.6%	40.9%	10.5%	11.0%	11.1%	17.4%	8.8%
WW sales		19.9%	16.0%	17.9%	10.0%	15.8%	16.3%	16.8%	12.4%	21.6%	16.7%	6.3%	8.7%	9.8%	9.7%	8.7%	8.8%
Infectious Diseases																	
US sales	\$1,401	\$242	\$237	\$259	\$236	\$974	\$238	\$259	\$278	\$302	\$1,077	\$561	\$1,098	\$647	\$416	\$2,722	\$1,471
OUS sales	\$1,788	\$513	\$551	\$536	\$620	\$2,220	\$577	\$711	\$543	\$642	\$2,473	\$639	\$777	\$799	\$808	\$3,023	\$3,012
WW sales	\$3,189	\$755	\$788	\$795	\$856	\$3,194	\$815	\$970	\$821	\$944	\$3,550	\$1,200	\$1,875	\$916	\$973	\$5,745	\$4,483
Year-over-year % change																	
US sales		-61.2%	-32.5%	19.9%	12.4%	-30.5%	-1.7%	9.3%	7.3%	28.0%	10.6%	135.7%	324.1%	132.6%	37.7%	152.7%	-45.9%
OUS sales		67.1%	15.5%	7.6%	22.5%	24.2%	12.5%	29.0%	1.3%	3.5%	11.4%	10.7%	9.3%	47.1%	25.8%	22.2%	-0.4%
WW sales		-18.9%	-4.8%	11.3%	19.6%	0.2%	7.9%	23.1%	3.3%	10.3%	11.1%	47.2%	93.3%	11.5%	3.1%	61.8%	-22.0%
Neuroscience																	
US sales	\$2,617	\$674	\$658	\$678	\$601	\$2,611	\$746	\$626	\$601	\$611	\$2,584	\$601	\$598	\$600	\$611	\$2,409	\$2,382
OUS sales	\$4,331	\$973	\$1,056	\$990	\$1,088	\$4,107	\$998	\$1,054	\$991	\$1,040	\$4,083	\$1,037	\$995	\$951	\$1,004	\$3,987	\$3,960
WW sales	\$6,948	\$1,647	\$1,714	\$1,668	\$1,689	\$6,718	\$1,744	\$1,680	\$1,592	\$1,651	\$6,667	\$1,638	\$1,593	\$1,551	\$1,614	\$6,397	\$6,341
Year-over-year % change																	
US sales		-2.0%	-3.8%	6.9%	-1.6%	-0.2%	10.7%	-4.9%	-11.4%	1.7%	-1.0%	-19.4%	-4.4%	-0.2%	-0.1%	-6.8%	-1.2%
OUS sales		-7.9%	-3.6%	-5.7%	-3.5%	-5.2%	2.6%	-0.2%	0.1%	-4.4%	-0.6%	3.9%	-5.6%	-4.0%	-3.5%	-2.4%	-0.7%
WW sales		-5.6%	-3.7%	-1.0%	-2.9%	-3.3%	5.9%	-2.0%	-4.6%	-2.2%	-0.8%	-6.1%	-5.2%	-2.6%	-2.2%	-4.1%	-0.9%

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Oncology																		
US sales	\$331	\$107	\$119	\$145	\$135	\$506	\$199	\$206	\$227	\$216	\$848	\$240	\$269	\$328	\$345	\$1,191	\$1,625	
OUS sales	\$1,717	\$489	\$467	\$483	\$684	\$2,123	\$595	\$679	\$754	\$897	\$2,925	\$782	\$844	\$892	\$992	\$3,511	\$3,943	
WW sales	\$2,048	\$596	\$586	\$628	\$819	\$2,629	\$794	\$885	\$981	\$1,113	\$3,773	\$1,022	\$1,098	\$1,190	\$1,300	\$4,610	\$5,439	
Year-over-year % change																		
US sales		67.2%	28.0%	83.5%	42.1%	52.9%	86.0%	73.1%	56.6%	60.0%	67.6%	20.6%	30.7%	44.4%	59.6%	40.4%	36.5%	
OUS sales		30.4%	1.7%	16.4%	46.2%	23.6%	21.7%	45.4%	56.1%	31.1%	37.8%	31.4%	24.3%	18.3%	10.6%	20.0%	12.3%	
WW sales		35.8%	6.2%	27.1%	45.5%	28.4%	33.2%	51.0%	56.2%	35.9%	43.5%	28.7%	24.1%	21.3%	16.8%	22.2%	18.0%	
Other Pharma Products																		
US sales	\$2,286	\$550	\$609	\$606	\$593	\$2,358	\$649	\$708	\$795	\$696	\$2,848	\$791	\$860	\$896	\$918	\$3,466	\$3,959	
OUS sales	\$3,099	\$690	\$675	\$621	\$592	\$2,578	\$562	\$541	\$504	\$490	\$2,097	\$504	\$496	\$475	\$459	\$1,934	\$1,847	
WW sales	\$5,385	\$1,240	\$1,284	\$1,227	\$1,185	\$4,936	\$1,211	\$1,249	\$1,299	\$1,186	\$4,945	\$1,295	\$1,357	\$1,371	\$1,377	\$5,400	\$5,805	
Year-over-year % change																		
US sales		-5.0%	3.7%	10.2%	4.0%	3.1%	18.0%	16.3%	31.2%	17.4%	20.8%	21.9%	21.5%	12.7%	31.9%	21.7%	14.2%	
OUS sales		-12.1%	-18.8%	-19.7%	-16.6%	-16.8%	-18.6%	-19.9%	-18.8%	-17.2%	-18.7%	-10.3%	-8.2%	-5.8%	-6.4%	-7.8%	-4.5%	
WW sales		-9.1%	-9.4%	-7.3%	-7.4%	-8.3%	-2.3%	-2.7%	5.9%	0.1%	0.2%	6.9%	8.6%	5.6%	16.1%	9.2%	7.5%	
OUS ex-FX		-10.0%	-11.8%	-12.8%	-15.5%	-12.4%	-17.5%	-19.9%	-18.8%	-16.4%	-18.2%	-8.7%						
WW ex-FX		-7.9%	-5.3%	-3.3%	-6.8%	-5.8%	-1.7%	-2.7%	5.9%	0.5%	0.5%	7.6%						
Total J&J Pharmaceutical Sales																		
US sales	\$12,386	\$3,026	\$3,094	\$3,288	\$3,013	\$12,421	\$3,471	\$3,377	\$3,549	\$3,551	\$13,948	\$3,740	\$4,530	\$4,271	\$4,174	\$16,715	\$16,979	
OUS sales	\$11,982	\$3,107	\$3,197	\$3,114	\$3,512	\$12,930	\$3,297	\$3,648	\$3,487	\$3,745	\$14,177	\$3,758	\$3,845	\$3,889	\$4,014	\$15,506	\$16,083	
WW sales	\$24,368	\$6,133	\$6,291	\$6,402	\$6,525	\$25,351	\$6,768	\$7,025	\$7,036	\$7,296	\$28,125	\$7,498	\$8,376	\$8,160	\$8,187	\$32,221	\$33,062	
Year-over-year % change																		
US sales	-1.1%	-10.8%	-4.5%	14.6%	4.4%	0.3%	14.7%	9.1%	7.9%	17.9%	12.3%	7.7%	34.2%	20.3%	17.5%	19.8%	1.6%	
OUS sales	21.3%	16.5%	6.8%	0.0%	9.5%	7.9%	6.1%	14.1%	12.0%	6.6%	9.6%	14.0%	5.4%	11.5%	7.2%	9.4%	3.7%	
WW sales	8.8%	1.2%	0.9%	7.0%	7.1%	4.0%	10.4%	11.7%	9.9%	11.8%	10.9%	10.8%	19.2%	16.0%	12.2%	14.6%	2.6%	
OUS ex-FX	15.5%	19.6%	15.5%	8.2%	12.1%	13.6%	8.1%	16.5%	14.0%	9.0%	11.8%	16.9%	5.8%	11.5%	7.2%	10.2%	3.7%	
WW ex-FX	6.2%	2.6%	5.1%	11.3%	8.5%	6.8%	11.4%	12.9%	10.9%	13.1%	12.0%	12.2%	19.5%	15.9%	12.2%	15.0%	2.6%	

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Medical Devices & Diagnostics																	
Cardiovascular																	
US sales	\$841	\$176	\$195	\$195	\$186	\$752	\$198	\$204	\$196	\$210	\$808	\$205	\$210	\$202	\$215	\$832	\$864
OUS sales	\$1,447	\$306	\$309	\$298	\$320	\$1,233	\$315	\$325	\$305	\$324	\$1,269	\$336	\$338	\$320	\$342	\$1,336	\$1,413
WW sales	\$2,288	\$482	\$504	\$493	\$506	\$1,985	\$513	\$529	\$501	\$534	\$2,077	\$541	\$548	\$522	\$557	\$2,168	\$2,277
Year-over-year % change																	
US sales	-16.6%	-27.3%	-7.1%	-1.5%	-2.6%	-10.6%	12.5%	4.6%	0.5%	12.9%	7.4%	3.5%	3.0%	3.0%	2.5%	3.0%	3.8%
OUS sales	-6.3%	-22.1%	-18.0%	-9.1%	-8.3%	-14.8%	2.9%	5.2%	2.3%	1.3%	2.9%	6.7%	4.0%	5.0%	5.5%	5.3%	5.8%
WW sales	-10.3%	-24.1%	-14.1%	-6.3%	-6.3%	-13.2%	6.4%	5.0%	1.6%	5.5%	4.6%	5.5%	3.6%	4.2%	4.3%	4.4%	5.0%
OUS ex-FX	-11.4%	-21.2%	-13.1%	-3.3%	-6.6%	-11.5%	6.2%	9.6%	6.6%	5.7%	7.0%	9.4%	5.0%	5.0%	5.0%	6.1%	5.8%
WW ex-FX	-13.4%	-23.5%	-10.9%	-2.7%	-5.2%	-11.1%	8.5%	7.7%	4.2%	8.3%	7.2%	7.2%	4.2%	4.2%	4.0%	4.9%	5.0%
Orthopaedics																	
US sales	\$3,093	\$783	\$873	\$1,242	\$1,246	\$4,144	\$1,261	\$1,274	\$1,232	\$1,307	\$5,074	\$1,292	\$1,312	\$1,263	\$1,359	\$5,226	\$5,450
OUS sales	\$2,716	\$710	\$755	\$1,048	\$1,142	\$3,655	\$1,124	\$1,111	\$1,051	\$1,149	\$4,435	\$1,129	\$1,139	\$1,088	\$1,192	\$4,548	\$4,743
WW sales	\$5,809	\$1,493	\$1,628	\$2,290	\$2,388	\$7,799	\$2,385	\$2,385	\$2,283	\$2,456	\$9,509	\$2,421	\$2,451	\$2,351	\$2,551	\$9,774	\$10,193
Year-over-year % change																	
US sales	0.0%	-3.5%	-0.4%	2.5%	3.5%	-0.1%	0.0%	2.5%	-0.8%	4.9%	0.3%	2.5%	3.0%	2.5%	4.0%	3.0%	4.3%
OUS sales	0.0%	2.6%	-4.2%	-4.2%	1.0%	-1.0%	-1.0%	2.0%	0.3%	0.6%	-0.1%	0.4%	2.5%	3.5%	3.7%	2.5%	4.3%
WW sales	0.0%	-0.7%	-2.3%	-0.7%	3.5%	-0.5%	0.0%	0.3%	-0.3%	2.8%	0.3%	1.5%	2.8%	3.0%	3.9%	2.8%	4.3%
OUS ex-FX	5.0%	4.1%	2.6%	2.5%	3.5%	3.2%	-1.0%	3.5%	3.4%	3.5%	2.6%	2.9%	3.0%	3.0%	3.3%	3.0%	4.3%
WW ex-FX	1.2%	0.0%	0.9%	2.5%	3.5%	1.4%	0.0%	3.0%	1.1%	4.2%	1.4%	2.7%	3.0%	2.7%	3.6%	3.0%	4.3%
Diabetes care																	
US sales	\$1,312	\$352	\$337	\$328	\$295	\$1,312	\$283	\$259	\$237	\$219	\$998	\$192	\$194	\$201	\$204	\$791	\$774
OUS sales	\$1,340	\$318	\$336	\$301	\$349	\$1,304	\$317	\$330	\$320	\$344	\$1,311	\$320	\$335	\$320	\$353	\$1,328	\$1,378
WW sales	\$2,652	\$670	\$673	\$629	\$644	\$2,616	\$600	\$589	\$557	\$563	\$2,309	\$512	\$529	\$521	\$556	\$2,119	\$2,152
Year-over-year % change																	
US sales	4.2%	13.2%	1.2%	-3.0%	-10.6%	0.0%	-19.6%	-23.1%	-27.7%	-25.8%	-23.9%	-32.2%	-25.0%	-15.0%	-7.0%	-20.7%	-2.2%
OUS sales	10.7%	-2.5%	-3.4%	-7.7%	2.6%	-2.7%	-0.3%	-1.8%	6.3%	-1.4%	0.5%	0.9%	1.5%	0.0%	2.5%	1.3%	3.8%
WW sales	7.4%	5.2%	-1.2%	-5.3%	-3.9%	-1.4%	-10.4%	-12.5%	-11.4%	-12.6%	-11.7%	-14.7%	-10.2%	-6.4%	-1.2%	-8.2%	1.5%
OUS ex-FX	5.7%	0.2%	4.6%	0.8%	5.2%	2.8%	0.9%	-0.5%	6.5%	0.2%	1.6%	2.9%	2.0%	0.0%	2.0%	1.7%	3.8%
WW ex-FX	5.0%	6.6%	2.9%	-1.1%	-2.6%	1.4%	-9.8%	-11.8%	-11.3%	-11.9%	-11.2%	-13.7%	-9.9%	-6.4%	-1.5%	-8.0%	1.5%

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Surgical Care																	
US sales	\$2,465	\$593	\$602	\$602	\$618	\$2,415	\$531	\$577	\$587	\$599	\$2,294	\$539	\$591	\$602	\$614	\$2,346	\$2,435
<u>OUS sales</u>	\$4,172	\$1,032	\$1,038	\$949	\$1,049	\$4,068	\$977	\$1,011	\$947	\$1,040	\$3,975	\$969	\$1,021	\$971	\$1,076	\$4,037	\$4,191
WW sales	\$6,637	\$1,625	\$1,640	\$1,551	\$1,667	\$6,483	\$1,508	\$1,588	\$1,534	\$1,639	\$6,269	\$1,508	\$1,613	\$1,572	\$1,690	\$6,383	\$6,625
Year-over-year % change																	
US sales		-0.5%	-3.1%	-1.1%	-3.3%	-2.0%	-10.5%	-4.2%	-2.5%	-3.1%	-5.0%	1.5%	2.5%	2.5%	2.5%	2.3%	3.8%
<u>OUS sales</u>		<u>0.7%</u>	<u>-3.8%</u>	<u>-6.3%</u>	<u>-0.6%</u>	<u>-2.5%</u>	<u>-5.3%</u>	<u>-2.6%</u>	<u>-0.2%</u>	<u>-0.9%</u>	<u>-2.3%</u>	<u>-0.8%</u>	<u>1.0%</u>	<u>2.5%</u>	<u>3.5%</u>	<u>1.6%</u>	<u>3.8%</u>
WW sales		0.2%	-3.5%	-4.4%	-1.6%	-2.3%	-7.2%	-3.2%	-1.1%	-1.7%	-3.3%	0.0%	1.5%	2.5%	3.1%	1.8%	3.8%
<u>OUS ex-FX</u>		<u>2.6%</u>	<u>3.1%</u>	<u>0.9%</u>	<u>1.9%</u>	<u>2.1%</u>	<u>-2.4%</u>	<u>0.6%</u>	<u>3.9%</u>	<u>3.4%</u>	<u>1.3%</u>	<u>2.2%</u>	<u>2.5%</u>	<u>2.5%</u>	<u>2.5%</u>	<u>2.4%</u>	<u>3.8%</u>
WW ex-FX		1.4%	0.9%	0.1%	0.0%	0.6%	-5.4%	-1.2%	1.4%	1.0%	-1.0%	1.9%	2.5%	2.5%	2.5%	2.4%	3.8%
Infection Prevention																	
US sales	\$377	\$116	\$99	\$98	\$86	\$399	\$85	\$95	\$91	\$90	\$361	\$92	\$99	\$95	\$94	\$379	\$397
<u>OUS sales</u>	\$529	\$128	\$131	\$134	\$160	\$553	\$127	\$139	\$129	\$156	\$551	\$128	\$141	\$134	\$165	\$568	\$594
WW sales	\$906	\$244	\$230	\$232	\$246	\$952	\$212	\$234	\$220	\$246	\$912	\$220	\$240	\$229	\$258	\$947	\$991
Year-over-year % change																	
US sales		22.1%	1.0%	8.9%	-8.5%	5.8%	-26.7%	-4.0%	-7.1%	4.7%	-9.5%	8.2%	4.0%	4.0%	4.0%	5.0%	4.7%
<u>OUS sales</u>		<u>5.8%</u>	<u>-2.2%</u>	<u>3.1%</u>	<u>11.1%</u>	<u>4.5%</u>	<u>-0.8%</u>	<u>6.1%</u>	<u>-3.7%</u>	<u>-2.5%</u>	<u>-0.4%</u>	<u>0.8%</u>	<u>1.5%</u>	<u>4.0%</u>	<u>5.5%</u>	<u>3.1%</u>	<u>4.6%</u>
WW sales		13.0%	-0.9%	5.5%	3.4%	5.1%	-13.1%	1.7%	-5.2%	0.0%	-4.2%	3.8%	2.5%	4.0%	5.0%	3.8%	4.6%
<u>OUS ex-FX</u>		<u>6.5%</u>	<u>3.3%</u>	<u>9.0%</u>	<u>13.6%</u>	<u>8.2%</u>	<u>4.1%</u>	<u>12.3%</u>	<u>4.3%</u>	<u>5.2%</u>	<u>6.4%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.6%</u>
WW ex-FX		13.4%	2.3%	9.0%	4.9%	7.2%	-10.5%	5.5%	-0.5%	5.0%	-0.3%	5.7%	4.0%	4.0%	4.0%	4.4%	4.6%
Specialty Surgery																	
US sales	\$1,226	\$327	\$336	\$308	\$326	\$1,297	\$319	\$331	\$321	\$332	\$1,303	\$325	\$339	\$329	\$342	\$1,335	\$1,386
<u>OUS sales</u>	\$1,181	\$301	\$310	\$289	\$329	\$1,229	\$308	\$325	\$305	\$351	\$1,289	\$329	\$341	\$323	\$374	\$1,367	\$1,454
WW sales	\$2,407	\$628	\$646	\$597	\$655	\$2,526	\$627	\$656	\$626	\$683	\$2,592	\$654	\$681	\$652	\$716	\$2,703	\$2,839
Year-over-year % change																	
US sales		10.5%	8.0%	5.5%	-0.3%	5.8%	-2.4%	-1.5%	4.2%	1.8%	0.5%	1.9%	2.5%	2.5%	3.0%	2.5%	3.8%
<u>OUS sales</u>		<u>7.1%</u>	<u>0.3%</u>	<u>1.8%</u>	<u>7.2%</u>	<u>4.1%</u>	<u>2.3%</u>	<u>4.8%</u>	<u>5.5%</u>	<u>6.7%</u>	<u>4.9%</u>	<u>6.8%</u>	<u>5.0%</u>	<u>6.0%</u>	<u>6.5%</u>	<u>6.1%</u>	<u>6.3%</u>
WW sales		8.8%	4.2%	3.6%	3.3%	4.9%	-0.2%	1.5%	4.9%	4.3%	2.6%	4.3%	3.7%	4.2%	4.8%	4.3%	5.1%
<u>OUS ex-FX</u>		<u>9.3%</u>	<u>7.6%</u>	<u>9.1%</u>	<u>9.5%</u>	<u>8.9%</u>	<u>4.1%</u>	<u>7.5%</u>	<u>9.2%</u>	<u>10.7%</u>	<u>8.1%</u>	<u>5.3%</u>	<u>6.0%</u>	<u>6.0%</u>	<u>6.0%</u>	<u>5.8%</u>	<u>6.3%</u>
WW ex-FX		9.9%	7.8%	7.2%	4.4%	7.2%	1.0%	2.8%	6.7%	6.3%	4.2%	3.6%	4.2%	4.2%	4.5%	4.1%	5.1%

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011R	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Diagnostics																		
US sales	\$1,091	\$253	\$258	\$256	\$258	\$1,025	\$248	\$241	\$222	\$215	\$926	\$224	\$229			\$453	\$0	
<u>OUS sales</u>	<u>\$1,073</u>	<u>\$259</u>	<u>\$256</u>	<u>\$257</u>	<u>\$272</u>	<u>\$1,044</u>	<u>\$229</u>	<u>\$242</u>	<u>\$237</u>	<u>\$251</u>	<u>\$959</u>	<u>\$219</u>	<u>\$241</u>			<u>\$460</u>	<u>\$0</u>	
WW sales	\$2,164	\$512	\$514	\$513	\$530	\$2,069	\$477	\$483	\$459	\$466	\$1,885	\$443	\$470			\$913	\$0	
Year-over-year % change																		
US sales	0.0%	-4.5%	-8.2%	-3.4%	-7.9%	-6.0%	-2.0%	-6.6%	-13.3%	-16.7%	-9.7%	-9.7%	-5.0%			-51.1%		
<u>OUS sales</u>	<u>11.5%</u>	<u>1.2%</u>	<u>-4.8%</u>	<u>-6.2%</u>	<u>-0.7%</u>	<u>-2.7%</u>	<u>-11.6%</u>	<u>-5.5%</u>	<u>-7.8%</u>	<u>-7.7%</u>	<u>-8.1%</u>	<u>-4.4%</u>	<u>-0.5%</u>			<u>-52.1%</u>		
WW sales	5.4%	-1.7%	-6.5%	-4.8%	-4.3%	-4.4%	-6.8%	-6.0%	-10.5%	-12.1%	-8.9%	-7.1%	-2.7%			-51.6%		
<u>OUS ex-FX</u>	<u>5.9%</u>	<u>2.5%</u>	<u>0.8%</u>	<u>-0.5%</u>	<u>1.3%</u>	<u>1.0%</u>	<u>-7.9%</u>	<u>-1.5%</u>	<u>-2.8%</u>	<u>-2.5%</u>	<u>-3.6%</u>	<u>-0.9%</u>	<u>1.5%</u>			<u>0.2%</u>		
WW ex-FX	2.8%	-1.1%	-3.8%	-1.9%	-3.3%	-2.6%	-4.9%	-4.0%	-8.0%	-9.4%	-6.6%	-5.4%	-1.7%			-25.0%		
Vision Care																		
US sales	\$966	\$277	\$253	\$260	\$229	\$1,019	\$281	\$262	\$265	\$228	\$1,036	\$286	\$269	\$270	\$235	\$1,060	\$1,101	
<u>OUS sales</u>	<u>\$1,950</u>	<u>\$480</u>	<u>\$477</u>	<u>\$504</u>	<u>\$516</u>	<u>\$1,977</u>	<u>\$459</u>	<u>\$468</u>	<u>\$483</u>	<u>\$491</u>	<u>\$1,901</u>	<u>\$475</u>	<u>\$445</u>	<u>\$493</u>	<u>\$503</u>	<u>\$1,916</u>	<u>\$2,012</u>	
WW sales	\$2,916	\$757	\$730	\$764	\$745	\$2,996	\$740	\$730	\$748	\$719	\$2,937	\$761	\$713	\$763	\$738	\$2,975	\$3,113	
Year-over-year % change																		
US sales	3.4%	8.2%	3.3%	3.6%	7.0%	5.5%	1.4%	3.6%	1.9%	-0.4%	1.7%	1.8%	2.5%	2.0%	3.0%	2.3%	3.9%	
<u>OUS sales</u>	<u>11.7%</u>	<u>3.0%</u>	<u>-2.1%</u>	<u>0.6%</u>	<u>4.0%</u>	<u>1.4%</u>	<u>-4.4%</u>	<u>-1.9%</u>	<u>-4.2%</u>	<u>-4.8%</u>	<u>-3.8%</u>	<u>3.5%</u>	<u>-5.0%</u>	<u>2.0%</u>	<u>2.5%</u>	<u>0.8%</u>	<u>5.0%</u>	
WW sales	8.8%	4.8%	-0.3%	1.6%	4.9%	2.7%	-2.2%	0.0%	-2.1%	-3.5%	-2.0%	2.8%	-2.3%	2.0%	2.7%	1.3%	4.6%	
<u>OUS ex-FX</u>	<u>4.5%</u>	<u>2.6%</u>	<u>1.2%</u>	<u>4.8%</u>	<u>6.1%</u>	<u>3.7%</u>	<u>1.6%</u>	<u>6.4%</u>	<u>4.9%</u>	<u>4.0%</u>	<u>4.3%</u>	<u>10.0%</u>	<u>0.0%</u>	<u>4.0%</u>	<u>4.5%</u>	<u>4.6%</u>	<u>5.0%</u>	
WW ex-FX	4.1%	4.5%	1.9%	4.4%	6.4%	4.3%	1.6%	5.4%	3.9%	2.6%	3.3%	6.8%	0.9%	3.3%	4.0%	3.8%	4.6%	
Total Medical Devices & Diagnostics																		
US sales	\$11,371	\$2,877	\$2,953	\$3,289	\$3,244	\$12,363	\$3,206	\$3,243	\$3,151	\$3,200	\$12,800	\$3,155	\$3,244	\$2,962	\$3,063	\$12,423	\$12,406	
<u>OUS sales</u>	<u>\$14,408</u>	<u>\$3,534</u>	<u>\$3,612</u>	<u>\$3,780</u>	<u>\$4,137</u>	<u>\$15,063</u>	<u>\$3,856</u>	<u>\$3,951</u>	<u>\$3,777</u>	<u>\$4,106</u>	<u>\$15,690</u>	<u>\$3,905</u>	<u>\$4,001</u>	<u>\$3,649</u>	<u>\$4,005</u>	<u>\$15,559</u>	<u>\$15,784</u>	
WW sales	\$25,779	\$6,411	\$6,565	\$7,069	\$7,381	\$27,426	\$7,062	\$7,194	\$6,928	\$7,306	\$28,490	\$7,060	\$7,244	\$6,611	\$7,067	\$27,982	\$28,190	
Year-over-year % change																		
US sales	0.0%	0.2%	2.9%	18.3%	13.8%	8.7%	11.4%	9.8%	-4.2%	-1.4%	3.5%	-1.6%	0.0%	-6.0%	-4.3%	-2.9%	-0.1%	
<u>OUS sales</u>	<u>0.0%</u>	<u>-0.7%</u>	<u>-2.4%</u>	<u>7.9%</u>	<u>13.6%</u>	<u>4.5%</u>	<u>9.1%</u>	<u>9.4%</u>	<u>-0.1%</u>	<u>-0.7%</u>	<u>4.2%</u>	<u>1.3%</u>	<u>1.3%</u>	<u>-3.4%</u>	<u>-2.5%</u>	<u>-0.8%</u>	<u>1.4%</u>	
WW sales	0.0%	-0.3%	-0.1%	12.5%	13.7%	6.4%	10.2%	9.6%	-2.0%	-1.0%	3.9%	0.0%	0.7%	-4.6%	-3.3%	-1.8%	0.7%	
<u>OUS ex-FX</u>	<u>3.4%</u>	<u>0.7%</u>	<u>3.8%</u>	<u>14.4%</u>	<u>15.8%</u>	<u>8.6%</u>	<u>12.2%</u>	<u>13.7%</u>	<u>4.2%</u>	<u>3.7%</u>	<u>8.3%</u>	<u>4.6%</u>	<u>2.8%</u>	<u>3.0%</u>	<u>3.3%</u>	<u>3.3%</u>	<u>4.4%</u>	
WW ex-FX	1.7%	0.5%	3.4%	16.1%	14.9%	8.7%	11.9%	12.0%	0.3%	1.5%	6.1%	1.8%	1.5%	2.1%	2.9%	0.5%	4.0%	
Ex-Synthes						0.8%					0.1%							

Source: Deutsche Bank, Company reports

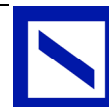


Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Consumer																		
Skin Care																		
US sales	\$1,654	\$453	\$471	\$390	\$385	\$1,699	\$453	\$463	\$404	\$432	\$1,752	\$457	\$472	\$412	\$447	\$1,788	\$1,864	
<u>OUS sales</u>	<u>\$2,061</u>	<u>\$454</u>	<u>\$442</u>	<u>\$514</u>	<u>\$509</u>	<u>\$1,919</u>	<u>\$449</u>	<u>\$445</u>	<u>\$520</u>	<u>\$538</u>	<u>\$1,952</u>	<u>\$457</u>	<u>\$461</u>	<u>\$541</u>	<u>\$561</u>	<u>\$2,020</u>	<u>\$2,091</u>	
WW sales	\$3,715	\$907	\$913	\$904	\$894	\$3,618	\$902	\$908	\$924	\$970	\$3,704	\$914	\$933	\$953	\$1,008	\$3,808	\$3,956	
Year-over-year % change																		
US sales	7.6%	6.3%	4.9%	3.7%	-4.5%	2.7%	0.0%	-1.7%	3.6%	12.2%	3.1%	0.9%	2.0%	2.0%	3.5%	2.1%	4.2%	
<u>OUS sales</u>	<u>7.6%</u>	<u>-4.0%</u>	<u>-7.9%</u>	<u>-9.3%</u>	<u>-5.9%</u>	<u>-6.9%</u>	<u>-1.1%</u>	<u>0.7%</u>	<u>1.2%</u>	<u>5.7%</u>	<u>1.7%</u>	<u>1.8%</u>	<u>3.5%</u>	<u>4.0%</u>	<u>4.3%</u>	<u>3.5%</u>	<u>3.6%</u>	
WW sales	7.6%	0.9%	-1.7%	-4.1%	-5.3%	-2.6%	-0.6%	-0.5%	2.2%	8.5%	2.4%	1.3%	2.7%	3.1%	3.9%	2.8%	3.9%	
<u>OUS ex-FX</u>	<u>3.0%</u>	<u>-1.7%</u>	<u>-0.3%</u>	<u>-2.2%</u>	<u>-3.4%</u>	<u>-2.0%</u>	<u>-0.4%</u>	<u>1.0%</u>	<u>2.1%</u>	<u>7.4%</u>	<u>2.6%</u>	<u>4.5%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.1%</u>	<u>3.6%</u>	
<u>WW ex-FX</u>	<u>5.0%</u>	<u>2.1%</u>	<u>2.2%</u>	<u>0.2%</u>	<u>-3.9%</u>	<u>0.1%</u>	<u>-0.2%</u>	<u>-0.4%</u>	<u>2.7%</u>	<u>9.5%</u>	<u>2.9%</u>	<u>2.7%</u>	<u>3.0%</u>	<u>3.1%</u>	<u>3.8%</u>	<u>3.2%</u>	<u>3.9%</u>	
Baby Care																		
US sales	\$418	\$99	\$106	\$104	\$103	\$412	\$103	\$106	\$99	\$105	\$413	\$102	\$107	\$100	\$107	\$416	\$428	
<u>OUS sales</u>	<u>\$1,922</u>	<u>\$441</u>	<u>\$472</u>	<u>\$460</u>	<u>\$469</u>	<u>\$1,842</u>	<u>\$461</u>	<u>\$480</u>	<u>\$461</u>	<u>\$480</u>	<u>\$1,882</u>	<u>\$443</u>	<u>\$485</u>	<u>\$479</u>	<u>\$504</u>	<u>\$1,911</u>	<u>\$2,003</u>	
WW sales	\$2,340	\$540	\$578	\$564	\$572	\$2,254	\$564	\$586	\$560	\$585	\$2,295	\$545	\$592	\$579	\$611	\$2,327	\$2,430	
Year-over-year % change																		
US sales	2.2%	-5.7%	1.0%	-1.0%	0.0%	-1.4%	4.0%	0.0%	-4.8%	1.9%	0.2%	-1.0%	1.0%	1.0%	2.0%	0.8%	2.8%	
<u>OUS sales</u>	<u>6.8%</u>	<u>-3.3%</u>	<u>-4.3%</u>	<u>-9.4%</u>	<u>0.9%</u>	<u>-4.2%</u>	<u>4.5%</u>	<u>1.7%</u>	<u>0.2%</u>	<u>2.3%</u>	<u>2.2%</u>	<u>-3.9%</u>	<u>1.0%</u>	<u>4.0%</u>	<u>5.0%</u>	<u>1.6%</u>	<u>4.8%</u>	
WW sales	5.9%	-3.7%	-3.3%	-8.0%	0.7%	-3.7%	4.4%	1.4%	-0.7%	2.3%	1.8%	-3.4%	1.0%	3.5%	4.5%	1.4%	4.4%	
<u>OUS ex-FX</u>	<u>3.4%</u>	<u>-0.4%</u>	<u>3.5%</u>	<u>-2.1%</u>	<u>3.5%</u>	<u>1.1%</u>	<u>7.7%</u>	<u>3.8%</u>	<u>4.3%</u>	<u>7.1%</u>	<u>5.7%</u>	<u>2.4%</u>	<u>3.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>3.4%</u>	<u>4.8%</u>	
<u>WW ex-FX</u>	<u>3.2%</u>	<u>-1.4%</u>	<u>3.2%</u>	<u>-1.9%</u>	<u>2.8%</u>	<u>0.6%</u>	<u>7.0%</u>	<u>3.1%</u>	<u>2.6%</u>	<u>6.2%</u>	<u>4.7%</u>	<u>1.7%</u>	<u>2.6%</u>	<u>3.5%</u>	<u>3.6%</u>	<u>2.9%</u>	<u>4.4%</u>	
Oral Care																		
US sales	\$656	\$155	\$159	\$162	\$165	\$641	\$158	\$149	\$142	\$153	\$602	\$160	\$153	\$146	\$158	\$617	\$645	
<u>OUS sales</u>	<u>\$968</u>	<u>\$232</u>	<u>\$249</u>	<u>\$251</u>	<u>\$251</u>	<u>\$983</u>	<u>\$245</u>	<u>\$257</u>	<u>\$253</u>	<u>\$265</u>	<u>\$1,020</u>	<u>\$251</u>	<u>\$263</u>	<u>\$263</u>	<u>\$278</u>	<u>\$1,056</u>	<u>\$1,093</u>	
WW sales	\$1,624	\$387	\$408	\$413	\$416	\$1,624	\$403	\$406	\$395	\$418	\$1,622	\$411	\$417	\$409	\$436	\$1,673	\$1,738	
Year-over-year % change																		
US sales	3.3%	-4.9%	0.6%	0.0%	-4.6%	-2.3%	1.9%	-6.3%	-12.3%	-7.3%	-6.1%	1.3%	3.0%	3.0%	3.0%	2.5%	4.5%	
<u>OUS sales</u>	<u>8.6%</u>	<u>1.8%</u>	<u>3.3%</u>	<u>-3.5%</u>	<u>5.0%</u>	<u>1.5%</u>	<u>5.6%</u>	<u>3.2%</u>	<u>0.8%</u>	<u>5.6%</u>	<u>3.8%</u>	<u>2.4%</u>	<u>2.5%</u>	<u>4.0%</u>	<u>5.0%</u>	<u>3.5%</u>	<u>3.5%</u>	
WW sales	6.4%	-1.0%	2.3%	-2.1%	1.0%	0.0%	4.1%	-0.5%	-4.4%	0.5%	-0.1%	2.0%	2.7%	3.6%	4.3%	3.2%	3.9%	
<u>OUS ex-FX</u>	<u>3.9%</u>	<u>4.7%</u>	<u>11.9%</u>	<u>4.7%</u>	<u>6.6%</u>	<u>6.9%</u>	<u>7.3%</u>	<u>4.3%</u>	<u>3.2%</u>	<u>8.3%</u>	<u>5.9%</u>	<u>6.9%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.0%</u>	<u>4.7%</u>	<u>3.5%</u>	
<u>WW ex-FX</u>	<u>3.6%</u>	<u>0.7%</u>	<u>7.5%</u>	<u>3.0%</u>	<u>2.0%</u>	<u>3.2%</u>	<u>5.1%</u>	<u>0.2%</u>	<u>-3.0%</u>	<u>2.3%</u>	<u>1.1%</u>	<u>4.7%</u>	<u>3.6%</u>	<u>3.6%</u>	<u>3.6%</u>	<u>3.9%</u>	<u>3.9%</u>	

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
OTC																	
US sales	\$1,429	\$291	\$247	\$263	\$273	\$1,074	\$354	\$290	\$310	\$332	\$1,286	\$366	\$313	\$335	\$352	\$1,366	\$1,458
OUS sales	\$2,973	\$660	\$636	\$653	\$743	\$2,692	\$689	\$641	\$665	\$747	\$2,742	\$645	\$663	\$688	\$774	\$2,771	\$2,831
WW sales	\$4,402	\$951	\$883	\$916	\$1,016	\$3,766	\$1,043	\$931	\$975	\$1,079	\$4,028	\$1,011	\$977	\$1,023	\$1,126	\$4,137	\$4,289
Year-over-year % change																	
US sales	-22.9%	-26.7%	-25.2%	-20.8%	-26.2%	-24.8%	21.6%	17.4%	17.9%	21.6%	19.7%	3.4%	8.0%	8.0%	6.0%	6.2%	6.7%
OUS sales	10.3%	-9.8%	-15.5%	-9.6%	-3.0%	-9.5%	4.4%	0.8%	1.8%	0.5%	1.9%	-6.4%	3.5%	3.5%	3.6%	1.0%	2.2%
WW sales	-3.2%	-15.8%	-18.5%	-13.1%	-10.6%	-14.4%	9.7%	5.4%	6.4%	6.2%	7.0%	-3.1%	4.9%	4.9%	4.3%	2.7%	3.7%
OUS ex-FX	5.2%	1.7%	0.1%	6.0%	5.7%	3.4%	3.9%	0.9%	2.0%	1.1%	2.3%	-3.6%	3.0%	3.0%	3.0%	1.3%	2.2%
WW ex-FX	-6.2%	-0.3%	0.6%	5.9%	2.6%	2.1%	7.6%	5.4%	6.5%	6.6%	7.3%	-1.2%	4.6%	4.6%	3.9%	2.9%	3.7%
Women's Health																	
US sales	\$439	\$93	\$80	\$81	\$82	\$336	\$81	\$84	\$77	\$38	\$280	\$24	\$25	\$4	\$2	\$55	\$8
OUS sales	\$1,353	\$316	\$322	\$326	\$325	\$1,289	\$320	\$327	\$331	\$310	\$1,288	\$303	\$324	\$333	\$312	\$1,271	\$1,300
WW sales	\$1,792	\$409	\$402	\$407	\$407	\$1,625	\$401	\$411	\$408	\$348	\$1,568	\$327	\$349	\$337	\$313	\$1,326	\$1,308
Year-over-year % change																	
US sales	-15.9%	-25.6%	-33.9%	-22.1%	-7.9%	-23.5%	-12.9%	5.0%	-4.9%	-53.7%	-16.7%	-70.4%	-70.0%	-95.0%	-95.0%	-80.4%	-85.4%
OUS sales	2.3%	-5.4%	-9.6%	-7.9%	5.2%	-4.7%	1.3%	1.6%	1.5%	-4.6%	-0.1%	-5.3%	-1.0%	0.5%	0.5%	-1.3%	2.3%
WW sales	-2.8%	-10.9%	-15.7%	-11.1%	2.3%	-9.3%	-2.0%	2.2%	0.2%	-14.5%	-3.5%	-18.5%	-15.1%	-17.5%	-9.9%	-15.4%	-1.4%
OUS ex-FX	-1.5%	-1.7%	-0.2%	2.3%	9.4%	2.3%	4.9%	3.4%	4.3%	-0.8%	2.9%	1.0%	3.0%	0.5%	0.5%	1.3%	2.3%
WW ex-FX	-5.5%	-8.2%	-8.7%	-3.2%	5.5%	-4.0%	0.8%	3.6%	2.5%	-11.5%	-1.1%	-13.4%	-11.9%	-17.5%	-9.9%	-13.3%	-1.4%
Wound Care/Other																	
US sales	\$555	\$225	\$250	\$214	\$195	\$884	\$199	\$234	\$193	\$203	\$829	\$200	\$239	\$197	\$207	\$843	\$855
OUS sales	\$455	\$176	\$185	\$163	\$152	\$676	\$163	\$182	\$156	\$150	\$651	\$149	\$179	\$158	\$153	\$639	\$645
WW sales	\$1,010	\$401	\$435	\$377	\$347	\$1,560	\$362	\$416	\$349	\$353	\$1,480	\$349	\$418	\$354	\$360	\$1,481	\$1,500
Year-over-year % change																	
US sales	-1.4%	74.4%	42.0%	52.9%	77.3%	59.3%	-11.6%	-6.4%	-9.8%	4.1%	-6.2%	0.5%	2.0%	2.0%	2.0%	1.6%	1.5%
OUS sales	1.8%	54.4%	41.2%	48.2%	52.0%	48.6%	-7.4%	-1.6%	-4.3%	-1.3%	-3.7%	-8.6%	-1.5%	1.0%	2.0%	-1.9%	1.0%
WW sales	0.0%	65.0%	41.7%	50.8%	65.2%	54.5%	-9.7%	-4.4%	-7.4%	1.7%	-5.1%	-3.6%	0.5%	1.6%	2.0%	0.1%	1.3%
OUS ex-FX	-3.3%	1.7%	2.8%	4.5%	-8.0%	0.6%	-6.1%	-1.4%	-3.0%	0.6%	-2.8%	-6.4%	0.0%	1.0%	1.0%	-1.1%	1.0%
WW ex-FX	-2.3%	3.3%	-3.7%	-3.6%	-2.9%	-1.8%	-10.0%	-4.3%	-6.9%	2.6%	-4.7%	-2.6%	1.1%	1.6%	1.6%	0.4%	1.3%

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Total Consumer Sales																	
US sales	\$5,151	\$1,316	\$1,313	\$1,214	\$1,203	\$5,046	\$1,348	\$1,326	\$1,225	\$1,263	\$5,162	\$1,309	\$1,310	\$1,194	\$1,273	\$5,085	\$5,258
OUS sales	\$9,732	\$2,279	\$2,306	\$2,367	\$2,449	\$9,401	\$2,327	\$2,332	\$2,386	\$2,490	\$9,535	\$2,248	\$2,375	\$2,462	\$2,582	\$9,667	\$9,963
WW sales	\$14,883	\$3,595	\$3,619	\$3,581	\$3,652	\$14,447	\$3,675	\$3,658	\$3,611	\$3,753	\$14,697	\$3,557	\$3,685	\$3,656	\$3,855	\$14,752	\$15,221
Year-over-year % change																	
US sales	-6.7%	-2.2%	-1.9%	-0.4%	-3.6%	-2.0%	2.4%	1.0%	0.9%	5.0%	2.3%	-2.9%	-1.2%	-2.5%	0.8%	-1.5%	3.4%
OUS sales	7.3%	-2.5%	-6.0%	-6.1%	1.2%	-3.4%	2.1%	1.1%	0.8%	1.7%	1.4%	-3.4%	1.9%	3.2%	3.7%	1.4%	3.1%
WW sales	2.0%	-2.4%	-4.6%	-4.3%	-0.4%	-2.9%	2.2%	1.1%	0.8%	2.8%	1.7%	-3.2%	0.7%	1.2%	2.7%	0.4%	3.2%
OUS ex-FX	2.9%	0.4%	2.0%	1.8%	3.2%	1.9%	3.8%	2.0%	2.6%	4.1%	3.1%	0.7%	3.1%	3.0%	3.1%	2.5%	3.1%
WW ex-FX	-0.7%	-0.6%	0.6%	1.0%	0.9%	0.5%	3.3%	1.7%	2.0%	4.4%	2.8%	-0.6%	1.5%	1.1%	2.3%	1.1%	3.2%

Source: Deutsche Bank, Company reports



Figure 338 (cont'd): Johnson & Johnson's Earnings Model (\$ in millions, except per share data)

	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	
Income Statement																		
Sales	\$65,030	\$16,139	\$16,475	\$17,052	\$17,558	\$67,224	\$17,505	\$17,877	\$17,575	\$18,355	\$71,312	\$18,115	\$19,305	\$18,426	\$19,109	\$74,955	\$76,473	
Cost of goods sold	\$20,273	\$4,915	\$5,143	\$5,432	\$5,782	\$21,272	\$5,407	\$5,489	\$5,344	\$5,955	\$22,195	\$5,455	\$5,811	\$5,565	\$6,058	\$22,888	\$23,167	
Gross profit	\$44,757	\$11,224	\$11,332	\$11,620	\$11,776	\$45,952	\$12,098	\$12,388	\$12,231	\$12,400	\$49,117	\$12,660	\$13,494	\$12,862	\$13,051	\$52,067	\$53,306	
Gross margin	68.8%	69.5%	68.8%	68.1%	67.1%	68.4%	69.1%	69.3%	69.6%	67.6%	68.9%	69.9%	69.9%	69.8%	68.3%	69.5%	69.7%	
SG&A	\$20,969	\$5,015	\$4,965	\$5,228	\$5,661	\$20,869	\$5,223	\$5,376	\$5,314	\$5,917	\$21,830	\$5,183	\$5,734	\$5,565	\$6,058	\$22,539	\$22,725	
% of sales	32.2%	31.1%	30.1%	30.7%	32.2%	31.0%	29.8%	30.1%	30.2%	32.2%	30.6%	28.6%	29.7%	30.2%	31.7%	30.1%	29.7%	
R&D	\$7,548	\$1,645	\$1,766	\$1,923	\$2,331	\$7,665	\$1,784	\$1,946	\$2,042	\$2,411	\$8,183	\$1,831	\$2,162	\$2,211	\$2,541	\$8,746	\$8,783	
% of sales	11.6%	10.2%	10.7%	11.3%	13.3%	11.4%	10.2%	10.9%	11.6%	13.1%	11.5%	10.1%	11.2%	12.0%	13.3%	11.7%	11.5%	
Operating profit	\$16,240	\$4,564	\$4,601	\$4,469	\$3,784	\$17,418	\$5,091	\$5,066	\$4,875	\$4,072	\$19,104	\$5,646	\$5,598	\$5,086	\$4,452	\$20,782	\$21,798	
Operating margin	25.0%	28.3%	27.9%	26.2%	21.6%	25.9%	29.1%	28.3%	27.7%	22.2%	26.8%	31.2%	29.0%	27.6%	23.3%	27.7%	28.5%	
Interest (inc) exp	\$480	\$130	\$129	\$120	\$89	\$468	\$104	\$101	\$87	\$116	\$408	\$118	\$100	\$84	\$79	\$381	\$223	
Other (inc) exp	(\$1,593)	(\$494)	(\$174)	(\$176)	(\$420)	(\$1,264)	(\$83)	(\$394)	(\$43)	\$47	(\$473)	(\$32)	(\$190)	(\$190)	(\$190)	(\$602)	(\$640)	
Pretax earnings	\$17,353	\$4,928	\$4,646	\$4,525	\$4,115	\$18,214	\$5,070	\$5,359	\$4,831	\$3,909	\$19,169	\$5,560	\$5,689	\$5,192	\$4,563	\$21,003	\$22,214	
Pretax margin	26.7%	30.5%	28.2%	26.5%	23.4%	27.1%	29.0%	30.0%	27.5%	21.3%	26.9%	30.7%	29.5%	28.2%	23.9%	28.0%	29.0%	
Taxes	\$3,486	\$1,124	\$1,002	\$1,004	\$739	\$3,869	\$963	\$1,070	\$912	\$348	\$3,293	\$1,134	\$1,138	\$1,038	\$799	\$4,109	\$4,221	
Tax rate	20.1%	22.8%	21.6%	22.2%	18.0%	21.2%	19.0%	20.0%	18.9%	8.9%	17.2%	20.4%	20.0%	20.0%	17.5%	19.6%	19.0%	
Net inc, adj	\$13,867	\$3,804	\$3,644	\$3,521	\$3,376	\$14,345	\$4,107	\$4,289	\$3,919	\$3,561	\$15,876	\$4,426	\$4,551	\$4,153	\$3,764	\$16,895	\$17,993	
Net inc margin	21.3%	23.6%	22.1%	20.6%	19.2%	21.3%	23.5%	24.0%	22.3%	19.4%	22.3%	24.4%	23.6%	22.5%	19.7%	22.5%	23.5%	
Dill shares	2,775	2,775	2,798	2,818	2,833	2,813	2,859	2,893	2,881	2,872	2,877	2,875	2,880	2,882	2,883	2,880	2,888	
Adjusted EPS	\$5.00	\$1.37	\$1.30	\$1.25	\$1.19	\$5.10	\$1.44	\$1.48	\$1.36	\$1.24	\$5.52	\$1.54	\$1.58	\$1.44	\$1.31	\$5.87	\$6.23	
Year-over-Year % Change																		
Total sales	5.6%	-0.2%	-0.7%	6.5%	8.0%	3.4%	8.5%	8.5%	3.1%	4.5%	6.1%	3.5%	8.0%	4.8%	4.1%	5.1%	2.0%	
Gross profit	4.6%	-1.5%	-1.6%	6.3%	7.9%	2.7%	7.8%	9.3%	5.3%	5.3%	6.9%	4.6%	8.9%	5.2%	5.3%	6.0%	2.4%	
SG&A	8.0%	-0.8%	-4.8%	-0.2%	3.7%	-0.5%	4.1%	8.3%	1.6%	4.5%	4.6%	-0.8%	6.7%	4.7%	2.4%	3.2%	0.8%	
R&D	10.3%	-5.4%	-6.2%	8.5%	8.2%	1.6%	8.4%	10.2%	6.2%	3.4%	6.8%	2.6%	11.1%	8.3%	5.4%	6.9%	0.4%	
Operating profit	-1.7%	-0.8%	4.2%	14.0%	14.5%	7.3%	11.5%	10.1%	9.1%	7.6%	9.7%	10.9%	10.5%	4.3%	9.3%	8.8%	4.9%	
Pretax earnings	3.1%	1.5%	5.3%	2.2%	12.5%	5.0%	2.9%	15.3%	6.8%	-5.0%	5.2%	9.7%	6.1%	7.5%	16.7%	9.6%	5.8%	
Net earnings	4.4%	1.5%	2.7%	2.3%	7.9%	3.4%	8.0%	17.7%	11.3%	5.5%	10.7%	7.8%	6.1%	6.0%	5.7%	6.4%	6.5%	
Diluted Shares	-0.5%	0.1%	0.6%	1.4%	2.3%	1.3%	3.0%	3.4%	2.2%	1.4%	2.3%	0.6%	-0.5%	0.0%	0.4%	0.1%	0.3%	
Pro Forma EPS	4.9%	1.4%	2.1%	0.8%	5.4%	2.1%	4.8%	13.8%	8.9%	4.1%	8.2%	7.2%	6.6%	6.0%	5.3%	6.3%	6.2%	

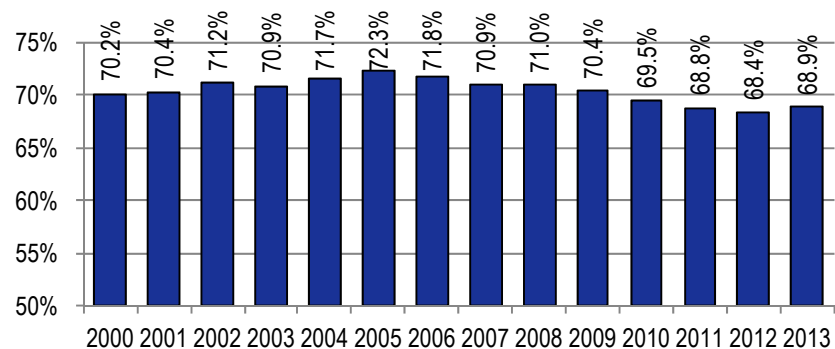
Source: Deutsche Bank, Company reports



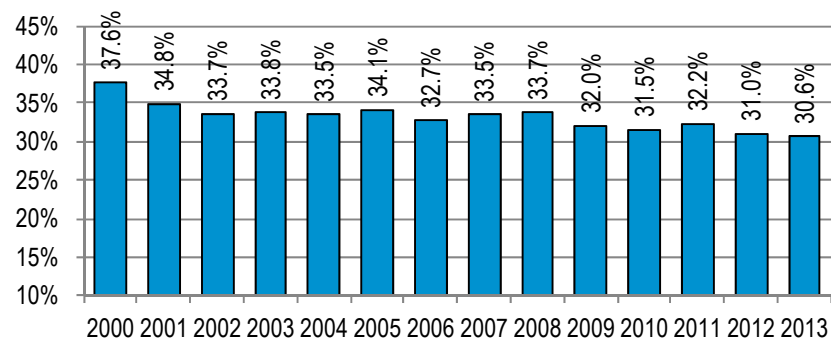
J&J Historical Margin Trends

Figure 339: Historical Margin Trends

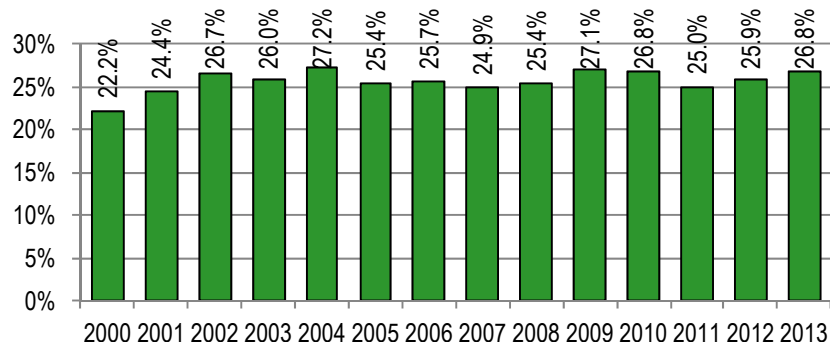
Gross margins



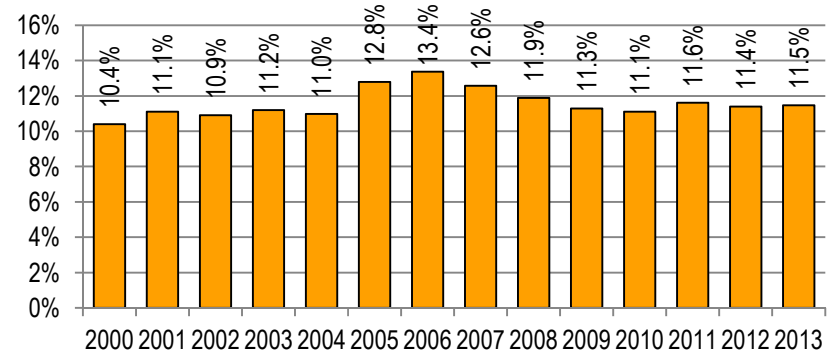
SG&A as % of sales



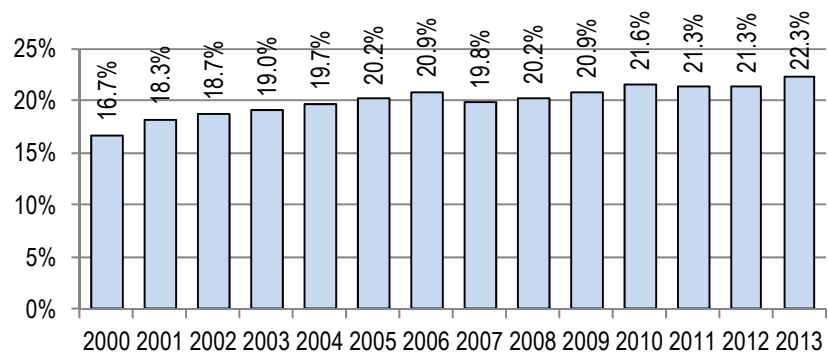
Operating Margin



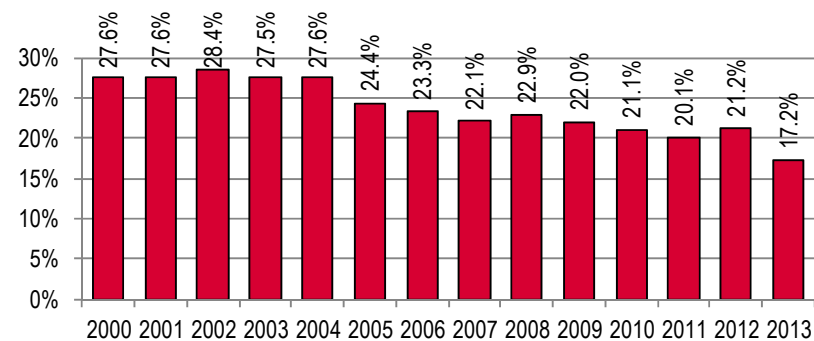
R&D as % of sales



Net Margin



Tax Rate

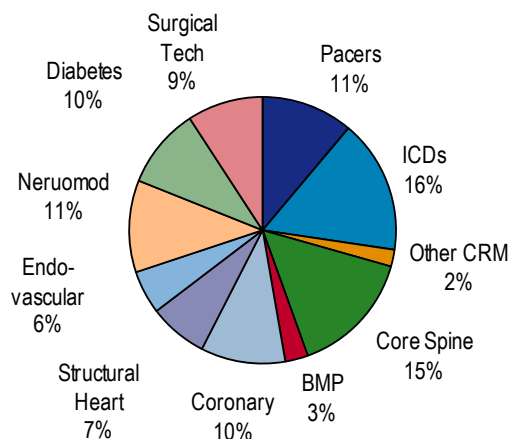


Source: Deutsche Bank, Company reports



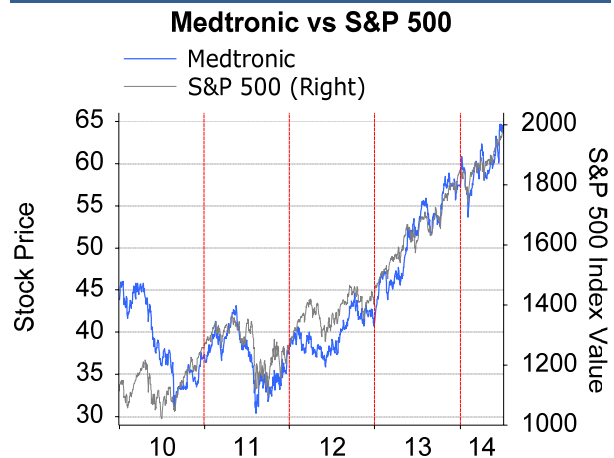
Medtronic (MDT-Buy)

Figure 340: Sales Mix, Fiscal 2014



Source: Deutsche Bank, Company reports

Figure 342: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 341: Rating and Valuation Summary

Mkt cap (\$M):	\$63,331	DB Rating:	Buy	FY EPS Projections		PE Valuation	
Price 07/09/14:	\$63.60	DB Target Price:	\$85.00	DB	TR Cons	CY	Abs PE
52 Wk Range: \$51.22-\$65.50		implied % chg: 34%		2014A	\$3.83	NTM	15.7x
2013 Price Perf: 39.9%		Dividend Yield: 1.9%		2015E	\$4.05	2014E	15.9x
YTD 2014 Price Perf: 10.8%		Target PE (C15E): 19.3x		2016E	\$4.47	2015E	14.4x

Source: Deutsche Bank, Company reports, Thomson Reuters (Note Consensus is Thomson Reuters)

Our Take on the Stock

Looking ahead, we believe MDT is well-positioned for the current and future healthcare environment. We believe MDT has the appropriate strategic focus, has a number of new products in the pipeline that should help to accelerate growth along with continued emerging market performance, and we believe will benefit longer term from its size and scale. We believe the acquisition of Covidien only improves the company's outlook and provides a sustainable tax advantage.

Upcoming Potential Catalysts

- **Ongoing:** Updates from MDT-COV merger. Watch for Proxy filing and anti-trust approvals.
- **July:** Read-thrus from competitors
- **July 25:** COV's F3Q14 earnings release
- **August 19:** MDT tentative earnings release
- **August 21:** Medtronic's annual shareholder meeting
- **September 13-17:** Transcatheter Cardiovascular Therapeutics (TCT), Washington DC

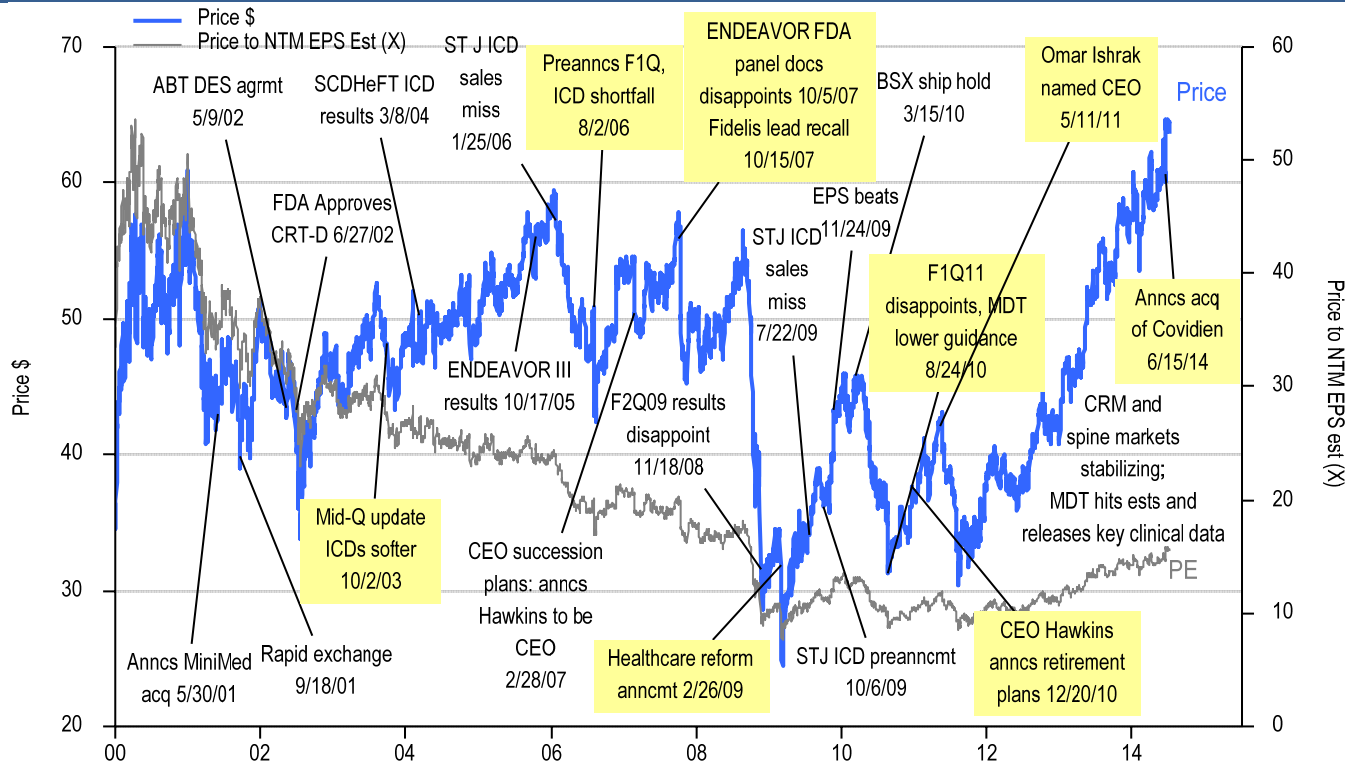
Valuation and Risks

We value MDT based on a peer approach (using ABT, JNJ, BDX, SYK, BSX, STJ) and using each's cash EPS ests. The peer group trades at a range of 14.5x-17.0x. Using this range and our Medtronic plc calendar 2016 cash EPS estimate would yield a valuation range of \$78-\$92 per share. On a standalone basis, using MDT calendar cash 2016 EPS and the peer group ranges (excluding the high end) yields a valuation range range of \$71-81 per share; a market multiple would yield a \$77 valuation. Our price target is derived through weighting the combined scenario by 90% and standalone scenario by 10%. Key downside risks include the inability to close the Covidien acquisition, inability to obtain regulatory clearances for and drive adoption of new products, healthcare reform efforts and austerity measures, patent and product liability, pricing pressures, product failures, and lower overall utilization. Other key risks relate to the Covidien deal including the inability to structure the deal as tax inversion, inability to achieve the revenue targets, and a disruption in sales due to the distraction of the deal.



Historical Stock Price Performance

Figure 343: Stock Price Performance and Company News Events



Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
MDT	-15.2%	-11.0%	6.6%	2.2%	15.9%	-7.1%	-6.1%	-37.5%	40.0%	-15.7%	3.1%	7.2%	39.9%	10.8%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports

Performance Commentary

Medtronic's stock has failed to re-attain its all-time high set in December 2000, but has come close several times. The company has struggled over the past decade on several fronts. First, acquisitions have not panned out as well as hoped, and two of its growth markets—implantable defibrillators and spine—slowed dramatically and led to reductions in the growth outlook for the company. In 2011, performance turned around as investors were optimistic that a new CEO could change the strategic direction and performance of the company, along with optimism around new product approvals. However, following the INFUSE news flow and continued weakness in end markets, investors became more skeptical on the outlook. The RESOLUTE launch in the US and Japan has helped drive sales in recent quarters. Shares have continued to trade higher on more positive earnings results, the outlook, stabilization in the CRM and spine businesses, pipeline developments, such as CoreValve and IN.PACT Admiral in the US, and more recently, the announcement of the acquisition of Covidien.



Medtronic's Product Portfolio Overview

Figure 344: Product overview

Product	% sales	Description	DB Commentary
CARDIAC RHYTHM MANAGEMENT			
ICDs	17%	In FY14, implantable cardioverter defibrillator (ICDs) sales totaled \$2.8 billion.	Primary competitors include Boston Scientific and St. Jude, and to a lesser extent Biotronik and Sorin.
Pacemakers	11%	In FY14, pacemaker sales totaled \$1.9 billion. Sales also include Medtronic's diagnostics business, which includes insertable cardiac monitors (ICM).	
Other CRM	2%	In FY14, other CRM sales totaled \$347 million. Sales include services and solutions business (e.g. Cardiocom, Cath Lab Mgmt), and atrial fibrillation.	
CARDIOVASCULAR			
Coronary	10%	In FY14, sales totaled \$1.7 billion. The coronary business includes coronary stents, balloon angioplasty catheters, guide catheters, and guidewires.	Primary competitors include Boston Scientific and Abbott Labs.
Structural Heart	7%	In FY14, structural heart sales totaled \$1.2 billion from surgical heart valves, transcatheter heart valves, surgical ablation tools, and open heart surgery.	Primary competitors include Edwards Lifesciences, St. Jude Medical, Sorin.
Endovascular	5%	In FY14, endovascular sales totaled \$895 million. The endovascular business includes products to treat aortic disease (AAA/TAA stent grafts) as well as peripheral vascular disease (peripheral stents and angioplasty systems).	Competitors include Covidien, Bard, Endologix, Gore, TriVascular, Lombard Medical, Cook Medical, and Abbott.
RESTORATIVE THERAPIES			
Neuromodulation	11%	In FY14, neuromodulation sales totaled \$1.9 billion and included neurostimulation for the treatment of pain as well as urological and gastro disorders, deep brain stimulation devices for Parkinson's disease, essential tremors, and dystonia. Sales also include implantable drug delivery systems.	Competitors include Boston Scientific and St. Jude and to a lesser extent Cyberonics.
Surgical Technologies	9%	In FY14, Surgical Technologies sales totaled \$1.6 billion. The segment includes four main product areas: neurosurgery products, ear, nose and throat (ENT) products, advanced energy products, and navigation products.	Competitors include Olympus, J&J, Stryker, Integra Lifesciences, Smith & Nephew, Conmed, B. Braun, and BrainLAB.
Core Spine	15%	In FY14, core spine sales were \$2.6 billion. The core spine business includes thoracolumbar products, cervical products, and minimal access spine technologies ("MAST"). The segment also includes its "value orthopedics" sales gained through the 2012 acquisition of Kanghui.	Competes against J&J, NuVasive, Stryker, Zimmer, Globus, and a host of smaller companies in basic spine.
BMP	3%	In FY14, bone morphogenetic protein (INFUSE) sales totaled \$471 million..	
Diabetes			
Diabetes	10%	In FY14, diabetes sales totaled \$1.7 billion and included insulin pumps and related accessories as well as continuous glucose monitoring (CGM) systems.	Competitors include Dexcom, Roche, Insulet, Tandem, and J&J's Animas.

Source: Deutsche Bank, Company reports

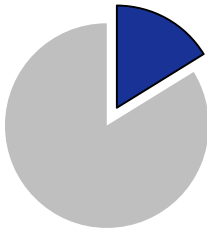


Cardiac Rhythm Management Sales Trends

Implantable Defibrillators

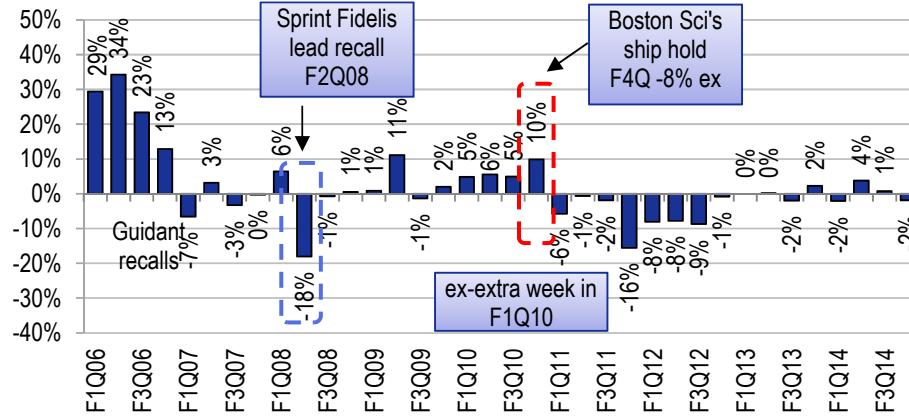
Figure 345: Sales mix

Implantable Defibrillators
 17% of total sales
 F2014



Source: Deutsche Bank, Company reports

Figure 346: Year-over-Year Change in Sales, Constant Currency



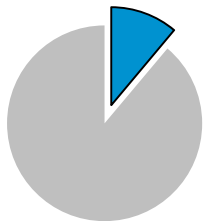
Source: Deutsche Bank, Company reports

Over the fiscal 2002-2006 period, Medtronic's ICD sales grew at a compound annual rate of 30%. However, beginning in late 2006, Medtronic's ICD business started to slow along with the overall ICD market growth due to industry recalls. In October 2007, Medtronic announced the recall of its Sprint Fidelis lead, which has had a significant impact on the company's ICD business. Since then the overall market has continued to slow. Medtronic has launched its newest ICD/CRT platform in the U.S. which has helped growth in recent quarters.

Pacemakers

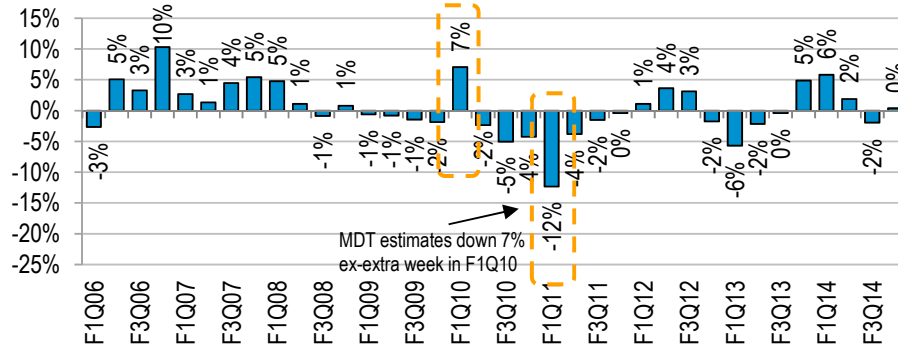
Figure 347: Sales mix

Pacemakers
 11% of total sales
 F2014



Source: Deutsche Bank, Company reports

Figure 348: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

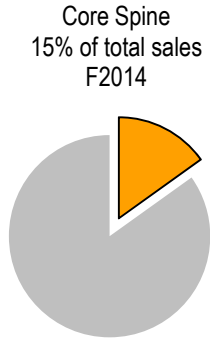
Sales in Medtronic's pacemaker business have declined, which has been a function of the sluggish growth of the overall pacemaker market in part due to some mix shift to cardiac resynchronization therapy defibrillators but also due to incremental pricing pressures. Management has attributed the recent increase in pricing pressures due to a lack of new product launches. The company recently launched Reveal LINQ which should help growth in upcoming quarters.



Spine Sales Trends

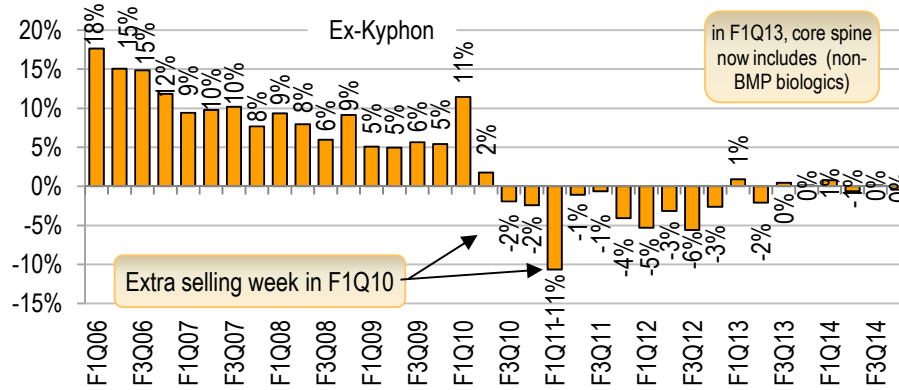
Core Spine

Figure 349: Sales mix



Source: Deutsche Bank, Company reports

Figure 350: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

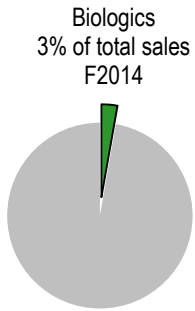
The core spine business includes thoracolumbar products, cervical products, and minimal access spine technologies (“MAST”). It also includes sales related to the legacy Kyphon businesses (kyphoplasty and XSTOP). Medtronic also sells Progenix DBM Putty, Osteofil Allograft Paste, and its MasterGraft family of products (granules, matrix, putty).

Sales have been under pressure as Medtronic has lost share to smaller competitors and due to the decline in kyphoplasty sales.



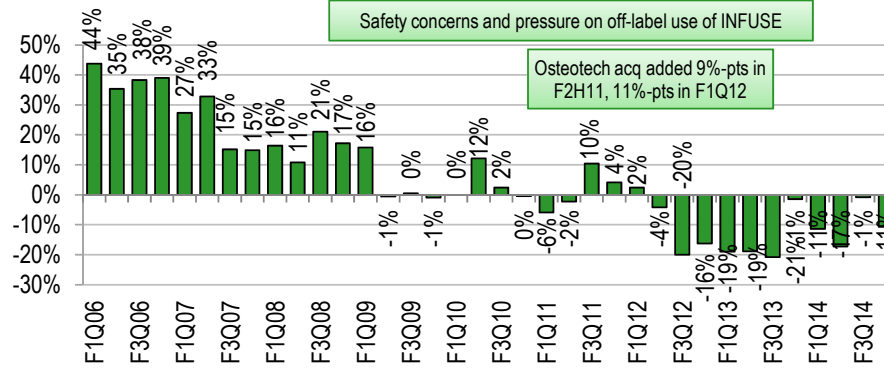
BMPs

Figure 351: Sales mix



Source: Deutsche Bank, Company reports

Figure 352: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

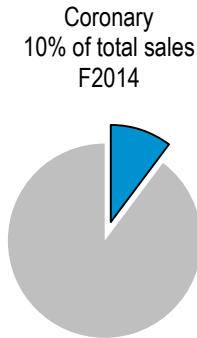
Over 90% of sales are derived in the United States and are mainly from INFUSE, a recombinant human bone morphogenetic protein (rhBMP-2), licensed from Pfizer.

Declines in INFUSE bone grafts have persisted since June 2011 when a journal article stated that some peer-reviewed clinical studies may have underreported complications related to INFUSE.

Coronary Trends

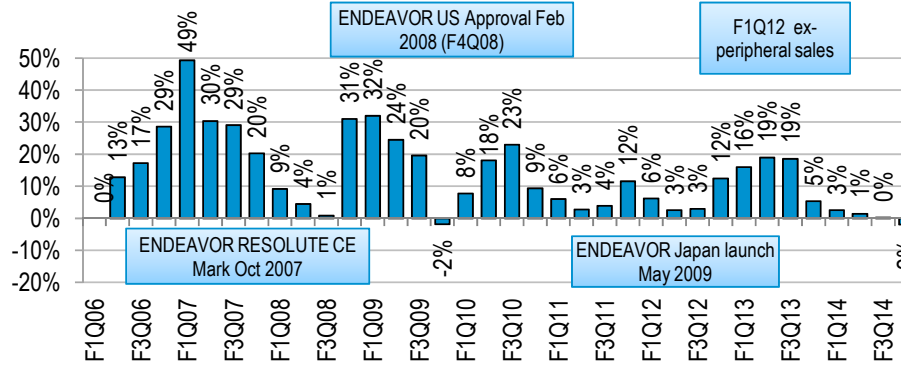
Coronary

Figure 353: Sales mix



Source: Deutsche Bank, Company reports

Figure 354: Year-over-Year Change in Sales, Constant Currency



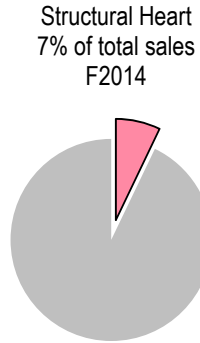
Source: Deutsche Bank, Company reports

The coronary business includes sales from bare metal stents, drug-eluting stents (ENDEAVOR and ENDEAVOR Resolute stents), as well as other coronary devices such as balloon catheters and renal denervation.



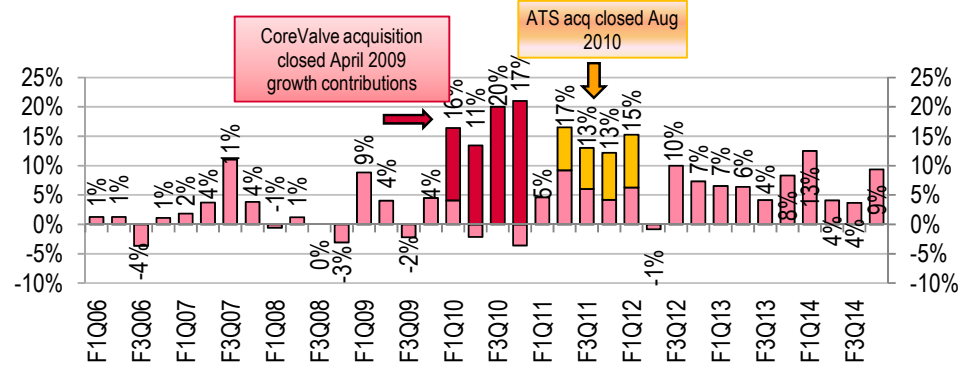
Structural Heart

Figure 355: Sales mix



Source: Deutsche Bank, Company reports

Figure 356: Year-over-Year Change in Sales, Constant Currency

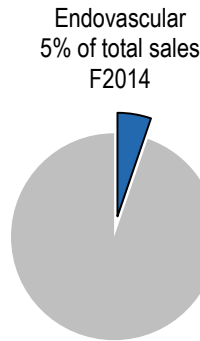


Source: Deutsche Bank, Company reports

The structural heart valve division consists primarily of surgical and transcatheter heart valves (CoreValve) and also includes surgical ablation, beating heart positioning and stabilization technologies. We believe this segment will continue to see growth as the CoreValve launch progresses in both US and OUS markets.

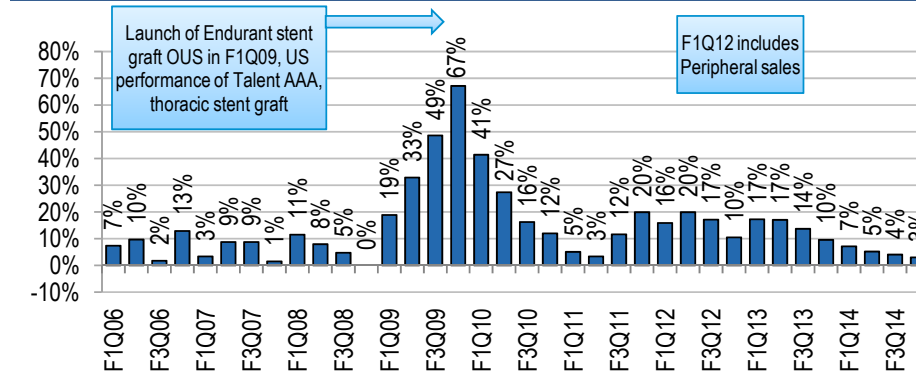
Endovascular

Figure 357: Sales mix



Source: Deutsche Bank, Company reports

Figure 358: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

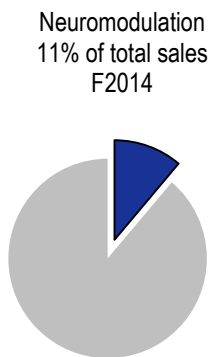
The endovascular business includes stents grafts used to repair aortic abdominal and thoracic aneurysms. Endovascular also includes the peripheral business, with products such as peripheral and carotid stents, drug-eluting balloons, and PTA catheters.



Other Major Divisions

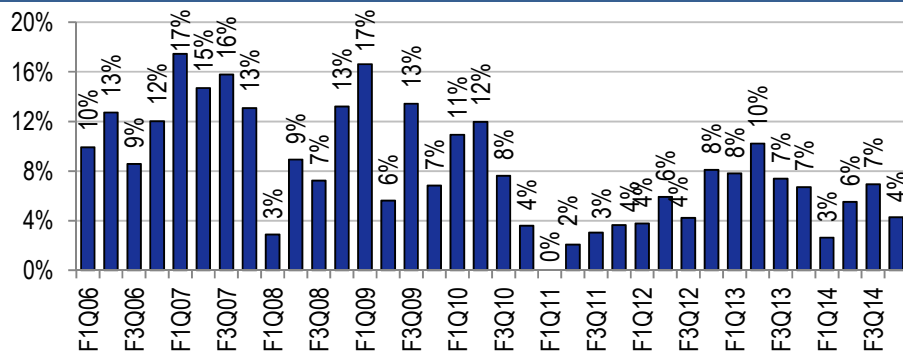
Neuromodulation

Figure 359: Sales mix



Source: Deutsche Bank, Company reports

Figure 360: Year-over-Year Change in Sales, Constant Currency

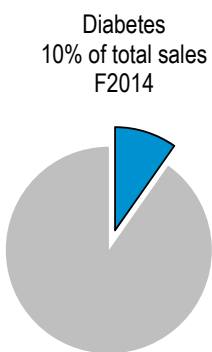


Source: Deutsche Bank, Company reports

Medtronic's neuromodulation business includes devices used for the treatment of chronic back and leg pain where medication therapy has failed to provide adequate relief, movement disorders such as Parkinson's disease, essential tremors, and dystonia (Humanitarian Device Exemption approval only), psychiatric disorders such as obsessive compulsive disorders, and urological and gastro disorders.

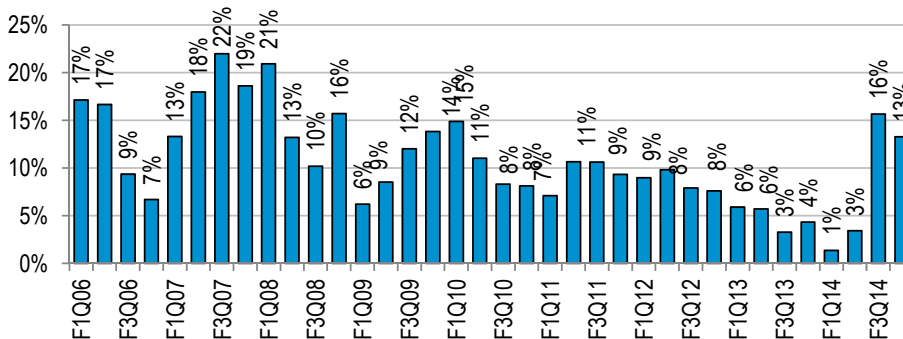
Diabetes

Figure 361: Sales mix



Source: Deutsche Bank, Company reports

Figure 362: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

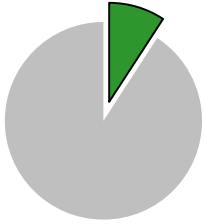
The business mainly is comprised of sales related to durable insulin pumps and related accessories and to a lesser extent continuous glucose monitoring products.



Surgical Technologies

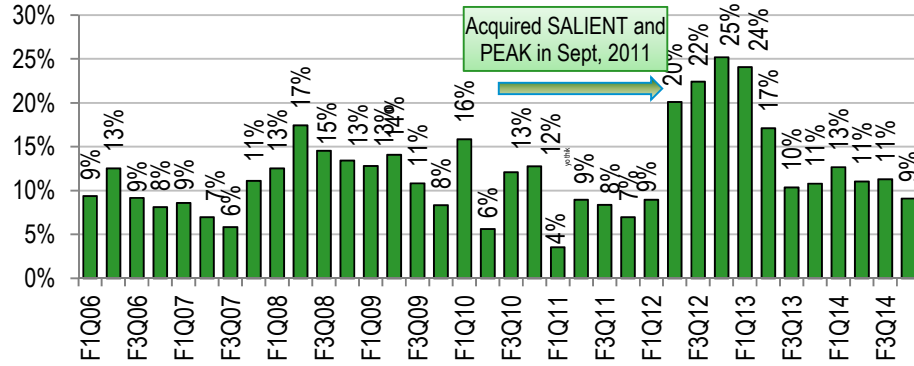
Figure 363: Sales mix

Surgical Technologies
9% of total sales
F2014



Source: Deutsche Bank, Company reports

Figure 364: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

The surgical technologies business consists of several different product lines: ENT, navigation and imaging, neurological technologies such as instruments and shunts, and the advanced energy business.



Medtronic's F4Q14 Results

Our Take on the Quarter

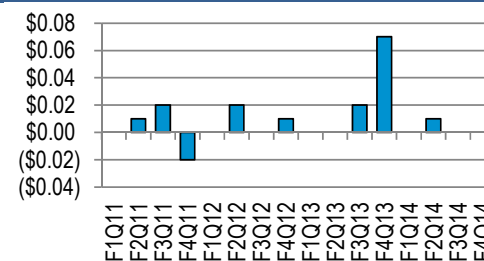
Sales of \$4,566M were slightly below Thomson Reuters (TR) Consensus of \$4,578M but above our estimate of \$4,544M. Sales were up 2.4% reported and up 3.3% ex-FX. EPS of \$1.12 were in line with Street and DB's \$1.12, though it was only a function of the significantly lower-than-expected tax rate as gross margins were slightly weaker and SG&A was disappointingly higher than expected.

Figure 365: Quarter Variance

	Actual	Thomson Reuters Consensus	DB Estimate
<i>(\$ in mil except per share)</i>			
Sales	\$4,566M	\$4,578M	\$4,544M
EPS	\$1.12	\$1.12	\$1.12

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 366: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- TAVR patent litigation settlement reached with EW, which should allow for US CoreValve sales uptake.
- Diabetes sales growth continues to be strong, driven by continued market share uptake of MiniMed 530G.

Mixed

- Lower tax rate driven by favorable product mix and lower tax rates in some subsidiaries. Relative to our model, the tax rate drove ~\$0.06 upside.
- Some of the SG&A spending was related to growth initiatives ahead

Negatives

- SG&A margin higher than expectations during the quarter due to a number of one-time items, but also execution issues

Quick P&L Recap

- Total sales of \$4,566 million were up 2.4% reported and up 3.3% ex-FX. US sales of \$2,421 million were up 2.1% while OUS sales of \$2,145 million were up 4.6% ex-FX. Emerging markets sales of \$571 million were up 14% ex-FX.
- Gross margin of 74.6% was down 20 bps y/y, due to a negative 20bps impact from foreign exchange, as well as pricing pressures.
- SG&A expense of 33.7% was up 60 bps y/y. MDT cited higher SG&A spend in the quarter primarily due to higher levels of legal spending in structural heart and spine, higher incentive payments due to new products launches, and accelerated investments in CoreValve, Reveal LINQ, and drug coated balloons in the US.
- R&D expense of 8.4% was down 80 bps y/y. MDT noted it continues to invest in new technologies and value creation to drive growth.
- Adjusted operating margin of 29.2% was down 170 bps y/y on an adjusted basis. MDT commented that it did not deliver on its previously stated goal of 30 – 50bps of operating margin leverage.
- Interest expense was \$10 million, a decrease of \$17M y/y.
- Net other expense was \$59M, in the middle of the company's guidance range of \$55M-\$65M.
- Adjusted tax rate 13.6%, which was significantly lower than guidance due to favorable profit mix and lower than anticipated effective tax rates of foreign subsidiaries.
- Share count was 1,012M, down 1.1% y/y
- Adjusted EPS of \$1.12 was up approximately 2.0% y/y which excludes the impact of approximately \$0.68 in after tax adjustments.

Figure 367: Key Product Sales Trends

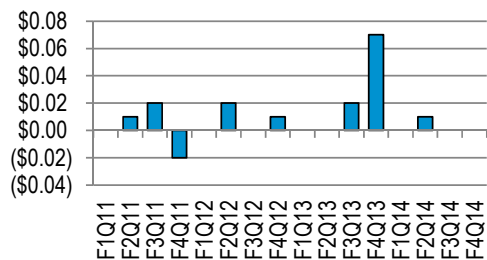
	Actual (\$ mil)	Y/Y % Change Rptd	Ex-FX
CRM	\$1,346	1%	2%
ICDs	\$734	-3%	-2%
Pacemakers	\$503	0%	0%
AF and Other	\$109	51%	51%
Other Cardiac & Vasc	\$1,023	1%	3%
Bare metal stents	\$29	-28%	-25%
Drug-eluting stents	\$288	-1%	2%
Other coronary	\$129	-4%	-3%
Structural heart	\$337	9%	9%
Endovascular	\$240	2%	3%
Spine	\$786	-3%	-2%
Core spinal	\$662	-1%	0%
Biologics	\$124	-11%	-11%
Neuromodulation	\$513	4%	4%
Diabetes	\$460	13%	13%
Surgical tech	\$438	8%	9%
Total sales	\$4,566	2%	3%

Source: Deutsche Bank, Company reports



Medtronic's F1Q15 Results Preview

Figure 368: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 371: DB versus Thomson Reuters Estimates

Revenues (\$ in millions)

	2014A	2015E		2016E	
		DB est	TR Est	DB est	TR Est
1Q	\$4,083	\$4,255	\$4,252	\$4,654	\$4,463
2Q	\$4,194	\$4,379	\$4,371	\$4,572	\$4,542
3Q	\$4,163	\$4,363	\$4,340	\$4,567	\$4,534
4Q	\$4,566	\$4,731	\$4,756	\$4,976	\$4,980
FY	\$17,006	\$17,728	\$17,711	\$18,768	\$18,446

Guidance (05/20/14):

F2015: up 3%-5% constant currency.

Earnings Per Share

	2014A	2015E		2016E	
		DB est	TR Est	DB est	TR Est
1Q	\$0.88	\$0.89	\$0.92	\$1.05	\$1.02
2Q	\$0.91	\$0.98	\$0.97	\$1.09	\$1.07
3Q	\$0.91	\$1.00	\$0.98	\$1.09	\$1.06
4Q	\$1.13	\$1.18	\$1.17	\$1.23	\$1.25
FY	\$3.83	\$4.05	\$4.05	\$4.47	\$4.32

Guidance (05/20/14):

F2014: \$4.00-\$4.10

Source: Deutsche Bank, Thomson Reuters

Figure 369: Earnings Release and Conference Call Information

Earnings Release Date: Tuesday August 19, 2014 before market open

Conf Call Date & Info: Tuesday, August 19, 2014 at 8:00am
www.medtronic.com

Source: Company report, Thomson Reuters

Figure 370: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
CRM	\$1,233	3%	3%
ICDs	\$659	1%	0%
Pacemakers	\$481	1%	0%
AF and Other	\$93	46%	46%
Other Cardiac & Vasc	\$1,005	4%	3%
Bare metal stents	\$28	-12%	-15%
Drug-eluting stents	\$288	6%	4%
Other coronary	\$126	-3%	-4%
Structural heart	\$338	8%	8%
Endovascular	\$224	2%	1%
Spine	\$765	0%	-1%
Core spinal	\$651	2%	1%
Biologics	\$113	-9%	-9%
Neuromodulation	\$450	5%	5%
Diabetes	\$410	11%	11%
Surgical tech	\$392	9%	8%
Total sales	\$4,255	4%	4%

What to focus on:

- Updates on Medtronic – Covidien Merger
- Update on fiscal 2015 Guidance
- CRM performance and market trends
- Update on CoreValve US launch strategy
- Drug Coated Balloon FDA approval pathway
- Emerging market performance and commentary
- Spine trends
- Other new product launches and pipeline updates

Source: Deutsche Bank



F2015 Guidance

Medtronic provided its initial expectations for fiscal 2015. Specifically, management guided to constant currency sales growth of 3.0%-5.0%. We view guidance as reasonable and achievable. At current rates, foreign exchange is expected to be a benefit of \$50-\$90 million. All in, adjusted EPS is anticipated to be in the range of \$4.00-\$4.10, which reflects operational leverage of approximately 50– 70bps. We note, Medtronic did not deliver on its operating leverage goals in fiscal 2014 of 30bps-50bps (it delivered 10bps of leverage) and it planned to make it up in FY15.

Below we summarize Medtronic's guidance for FY15 against actual performance in 2013 and 2014.

Figure 372: Medtronic Fiscal 2015 Guidance versus Expectations

(\$ millions)	F2013 Actual	F2014 Actual	FY15 Guidance 5/20/2014	DB FY15 Estimates
Constant Currency Sales	4.5%	3.6%	3%-5%	3.8%
Impact of currency	(\$326)	(\$173)	\$50M-\$90M	\$72
Gross margin	75.2%	74.6%	74.5%-75.0%	74.9%
SG&A as % of sales	34.3%	34.4%	33.7%-33.9%	33.8%
R&D as % of sales	9.4%	8.7%	8.5%	8.5%
Amortization	\$331	\$350	\$340M-\$360M	\$348
Net other expense	\$107	\$181	\$390M-\$430M	\$401
Net interest expense	\$61	\$108	\$50M-\$70M	\$55
Tax rate	18.3%	17.8%	18.0%-20.0%	18.5%
Share count (mil)	1,027	1,013	995M	999
Adjusted EPS	\$3.75	\$3.83	\$4.00-\$4.10	\$4.05
Implied EPS growth	9.5%	2.0%	6%-7%	5.8%

Note: 2013 sales exclude the divestiture of Physio-Control

Source: Deutsche Bank, Company Reports

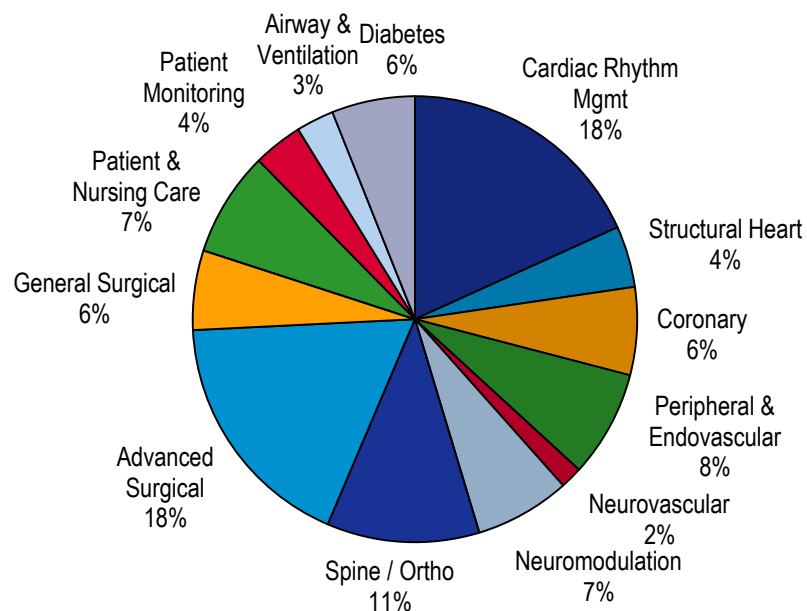


The Acquisition of Covidien

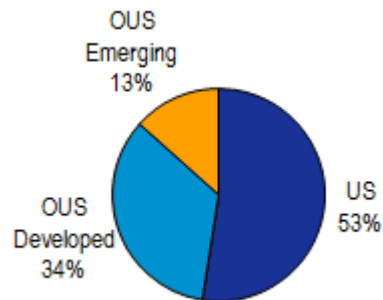
On June 15, Medtronic announced a definitive agreement to acquire Covidien. Under the terms of the merger agreement, Medtronic will acquire Covidien in a cash-and-stock transaction, which at the time of the announcement valued Covidien at \$93.22 per share, or a total of approximately \$42.9 billion. Holders of COV shares will receive \$35.16 per share in cash and 0.956 shares of Medtronic plc for every Covidien share. Following the close of the transaction, Covidien shareholders are expected to own approximately 30% of Medtronic plc. Medtronic has also agreed to assume the liabilities of Covidien. As of March 28, 2014, Covidien's current and long-term debt totaled \$5.0 billion (Covidien held \$1.2 billion in cash and cash equivalents). The transaction is expected to close in the 4QF14 or 1Q15.

Figure 373: Medtronic plc, pro forma FY14 sales

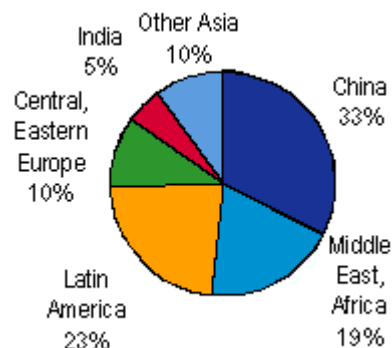
Pro Forma Sales Fiscal 2014 \$27.4 billion



Sales by Geography



Emerging Market (\$3.7 billion)



Note: Covidien's sales are LTM as of 03/28/2014
 Source: Deutsche Bank, Company reports

The pro forma company, Medtronic plc, will be lead by Omar Ishrak, Medtronic's current CEO. Medtronic expects to achieve at least \$850M annual pre-tax cost synergies by the end of FY2018. Assuming the achievement of cost, but not revenue synergies, Medtronic expects the deal to be accretive to FY16 cash EPS and significantly accretive thereafter. On a GAAP basis, management expects the deal to be accretive by FY18 EPS.



Figure 374: Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Cardiac Rhythm Mgmt																	
Pacemakers																	
US Sales	\$839	\$196	\$202	\$182	\$193	\$773	\$186	\$200	\$171	\$211	\$768	\$194	\$201	\$174	\$202	\$771	\$796
OUS Sales	\$1,139	\$267	\$278	\$277	\$312	\$1,134	\$288	\$277	\$268	\$292	\$1,125	\$286	\$283	\$275	\$298	\$1,142	\$1,195
WW Sales	\$1,978	\$463	\$480	\$459	\$505	\$1,907	\$474	\$477	\$439	\$503	\$1,893	\$481	\$484	\$448	\$500	\$1,913	\$1,991
Est FX impact	\$50	(\$16)	(\$20)	(\$6)	(\$11)	(\$53)	(\$16)	(\$12)	(\$11)	(\$4)	(\$43)	\$5	\$3	\$3	\$0	\$11	\$0
Y/Y % Change																	
US Sales	3.2%	-9.7%	-8.2%	-7.6%	-5.9%	-7.9%	-5.1%	-1.0%	-6.0%	9.3%	-0.6%	4.6%	0.3%	1.6%	-4.2%	0.4%	3.2%
OUS Sales	4.7%	-8.2%	-4.5%	2.6%	8.7%	-0.4%	7.9%	-0.4%	-3.2%	-6.4%	-0.8%	-0.6%	2.2%	2.4%	2.1%	1.5%	4.6%
WW Sales	4.1%	-8.9%	-6.1%	-1.7%	2.6%	-3.6%	2.4%	-0.6%	-4.4%	-0.4%	-0.7%	1.4%	1.4%	2.1%	-0.5%	1.1%	4.0%
OUS ex-FX est	0.1%	-2.7%	2.4%	4.8%	12.5%	4.2%	13.9%	4.0%	0.7%	-5.1%	3.0%	-2.3%	1.2%	1.3%	2.1%	0.6%	4.6%
WW ex-FX est	1.4%	-5.7%	-2.2%	-0.4%	4.9%	-0.9%	5.8%	1.9%	-2.0%	0.4%	1.5%	0.4%	0.8%	1.4%	-0.5%	0.5%	4.0%
ICDs																	
US Sales	\$1,647	\$399	\$411	\$383	\$425	\$1,618	\$383	\$427	\$372	\$391	\$1,573	\$379	\$417	\$370	\$395	\$1,562	\$1,595
OUS Sales	\$1,176	\$276	\$278	\$271	\$330	\$1,155	\$272	\$286	\$283	\$343	\$1,184	\$280	\$291	\$287	\$344	\$1,202	\$1,230
WW Sales	\$2,823	\$675	\$689	\$654	\$755	\$2,773	\$655	\$713	\$655	\$734	\$2,757	\$659	\$708	\$657	\$740	\$2,764	\$2,825
Est FX impact	\$47	(\$22)	(\$20)	(\$7)	(\$6)	(\$55)	(\$6)	(\$2)	(\$4)	(\$7)	(\$19)	\$4	\$3	\$2	\$1	\$10	\$0
Y/Y % Change																	
US Sales	-10.0%	-2.9%	-2.8%	-3.3%	1.9%	-1.8%	-4.0%	3.9%	-2.9%	-8.0%	-2.8%	-0.9%	-2.2%	-0.6%	1.1%	-0.7%	2.1%
OUS Sales	4.0%	-3.5%	-2.5%	-2.5%	0.9%	-1.8%	-1.4%	2.9%	4.4%	3.9%	2.5%	2.9%	1.6%	1.4%	0.4%	1.5%	2.3%
WW Sales	-4.7%	-3.2%	-2.7%	-3.0%	1.5%	-1.8%	-3.0%	3.5%	0.2%	-2.8%	-0.6%	0.7%	-0.7%	0.3%	0.8%	0.3%	2.2%
OUS ex-FX est	-0.2%	4.2%	4.6%	0.0%	2.8%	2.9%	0.7%	3.6%	5.9%	6.1%	4.2%	1.5%	0.6%	0.7%	0.1%	0.7%	2.3%
WW ex-FX est	-6.3%	0.0%	0.1%	-1.9%	2.3%	0.2%	-2.1%	3.8%	0.8%	-1.9%	0.1%	0.1%	-1.1%	0.0%	0.6%	-0.1%	2.2%
AF & Other CRM																	
US Sales	\$99	\$28	\$32	\$30	\$35	\$125	\$34	\$49	\$51	\$59	\$193	\$57	\$63	\$64	\$71	\$254	\$308
OUS Sales	\$108	\$27	\$26	\$28	\$37	\$118	\$30	\$34	\$39	\$50	\$153	\$36	\$41	\$47	\$60	\$184	\$222
WW Sales	\$207	\$55	\$58	\$58	\$72	\$243	\$64	\$83	\$90	\$109	\$346	\$93	\$104	\$111	\$131	\$438	\$530
Est FX impact	\$1	(\$2)	(\$1)	(\$1)	\$0	(\$4)	(\$1)	\$0	\$0	\$0	(\$1)	\$0	\$0	\$0	\$0	\$0	\$0
Total CRM																	
US Sales	\$2,585	\$623	\$645	\$595	\$653	\$2,516	\$603	\$676	\$594	\$661	\$2,534	\$631	\$681	\$607	\$668	\$2,587	\$2,698
OUS Sales	\$2,423	\$570	\$582	\$576	\$679	\$2,407	\$590	\$597	\$590	\$685	\$2,462	\$602	\$615	\$608	\$703	\$2,528	\$2,647
WW Sales	\$5,008	\$1,193	\$1,227	\$1,171	\$1,332	\$4,923	\$1,193	\$1,273	\$1,184	\$1,346	\$4,996	\$1,233	\$1,295	\$1,216	\$1,371	\$5,115	\$5,346
Est FX impact	\$98	(\$40)	(\$41)	(\$14)	(\$17)	(\$112)	(\$23)	(\$14)	(\$15)	(\$11)	(\$63)	\$9	\$6	\$5	\$1	\$21	\$0
Y/Y % Change																	
US Sales	-3.9%	-4.0%	-3.3%	-3.9%	0.5%	-2.7%	-3.2%	4.8%	-0.2%	1.2%	0.7%	4.7%	0.7%	2.3%	1.1%	2.1%	4.3%
OUS Sales	4.5%	-5.6%	-3.2%	0.5%	5.3%	-0.7%	3.5%	2.6%	2.4%	0.9%	2.3%	2.1%	3.0%	3.1%	2.6%	2.7%	4.7%
WW Sales	0.0%	-4.8%	-3.2%	-1.8%	2.9%	-1.7%	0.0%	3.7%	1.1%	1.1%	1.5%	3.4%	1.8%	2.7%	1.9%	2.4%	4.5%
OUS ex-FX est	0.3%	1.0%	3.7%	3.0%	7.9%	4.0%	7.5%	5.0%	5.0%	2.5%	4.9%	0.6%	1.9%	2.3%	2.4%	1.8%	4.7%
WW ex-FX est	-2.0%	-1.6%	0.0%	-0.6%	4.2%	0.5%	1.9%	4.9%	2.4%	1.9%	2.8%	2.6%	1.3%	2.3%	1.8%	2.0%	4.5%

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Spine																	
Core Spinal																	
US Sales	\$1,736	\$430	\$430	\$422	\$437	\$1,719	\$426	\$421	\$419	\$429	\$1,695	\$428	\$427	\$423	\$435	\$1,714	\$1,763
OUS Sales	\$907	\$215	\$219	\$217	\$234	\$885	\$215	\$215	\$212	\$233	\$875	\$223	\$224	\$220	\$241	\$909	\$954
WW Sales	\$2,643	\$645	\$649	\$639	\$671	\$2,604	\$641	\$636	\$631	\$662	\$2,570	\$651	\$652	\$644	\$676	\$2,623	\$2,718
Est FX impact	\$41	(\$12)	(\$12)	(\$4)	(\$7)	(\$35)	(\$9)	(\$9)	(\$9)	(\$6)	(\$33)	\$4	\$3	\$2	\$1	\$10	\$0
Y/Y % Change																	
US Sales	-0.5%	0.2%	-4.4%	-0.9%	1.4%	-1.0%	-0.9%	-2.1%	-0.7%	-1.8%	-1.4%	0.5%	1.5%	1.0%	1.5%	1.1%	2.9%
OUS Sales	15.4%	-3.2%	-2.7%	1.4%	-4.9%	-2.4%	0.0%	-1.8%	-2.3%	-0.4%	-1.1%	3.9%	4.4%	3.9%	3.4%	3.9%	5.0%
WW Sales	4.5%	-0.9%	-3.9%	-0.2%	-0.9%	-1.5%	-0.6%	-2.0%	-1.3%	-1.3%	-1.3%	1.6%	2.5%	2.0%	2.2%	2.1%	3.6%
OUS ex-FX est	10.2%	2.3%	2.7%	3.3%	-2.0%	1.4%	4.2%	2.3%	1.8%	2.1%	2.6%	2.0%	3.0%	3.0%	3.0%	2.8%	5.0%
WW ex-FX est	2.8%	0.9%	-2.1%	0.5%	0.1%	-0.2%	0.8%	-0.6%	0.2%	-0.4%	0.0%	1.0%	2.0%	1.7%	2.0%	1.7%	3.6%
Biologics																	
US Sales	\$564	\$128	\$119	\$100	\$122	\$469	\$110	\$96	\$98	\$105	\$409	\$99	\$96	\$98	\$103	\$396	\$397
OUS Sales	\$59	\$13	\$14	\$14	\$18	\$59	\$14	\$14	\$15	\$19	\$62	\$14	\$14	\$15	\$21	\$65	\$68
WW Sales	\$623	\$141	\$133	\$114	\$140	\$528	\$124	\$110	\$113	\$124	\$471	\$113	\$110	\$113	\$123	\$461	\$464
Est FX impact	\$3	\$0	\$0	\$0	\$1	\$1	(\$1)	\$0	\$0	(\$1)	(\$2)	\$0	\$0	\$0	\$1	\$1	\$0
Y/Y % Change																	
US Sales	-30.3%	-20.0%	-20.1%	-22.5%	-3.2%	-16.8%	-14.1%	-19.3%	-2.0%	-13.9%	-12.8%	-10.0%	0.0%	0.0%	-2.0%	-3.2%	0.3%
OUS Sales	-22.4%	-7.1%	-6.7%	-6.7%	20.0%	0.0%	7.7%	0.0%	7.1%	5.6%	5.1%	3.0%	3.0%	3.0%	8.3%	4.6%	4.1%
WW Sales	-29.6%	-19.0%	-18.9%	-20.8%	-0.7%	-15.2%	-12.1%	-17.3%	-0.9%	-11.4%	-10.8%	-8.5%	0.4%	0.4%	-0.4%	-2.2%	0.8%
OUS ex-FX est	-26.3%	-7.1%	-6.7%	-6.7%	13.3%	-1.7%	15.4%	0.0%	7.1%	11.1%	8.5%	3.0%	3.0%	3.0%	3.0%	3.0%	4.1%
WW ex-FX est	-29.9%	-19.0%	-18.9%	-20.8%	-1.4%	-15.4%	-11.3%	-17.3%	-0.9%	-10.7%	-10.4%	-8.5%	0.4%	0.4%	-1.2%	-2.4%	0.8%
Total Spine																	
US Sales	\$2,300	\$558	\$549	\$522	\$559	\$2,188	\$536	\$517	\$517	\$534	\$2,104	\$527	\$523	\$521	\$538	\$2,110	\$2,160
OUS Sales	\$966	\$228	\$233	\$231	\$252	\$944	\$229	\$229	\$227	\$252	\$937	\$238	\$239	\$236	\$262	\$974	\$1,022
WW Sales	\$3,266	\$786	\$782	\$753	\$811	\$3,132	\$765	\$746	\$744	\$786	\$3,041	\$765	\$762	\$757	\$800	\$3,084	\$3,182
Est FX impact	\$44	(\$12)	(\$12)	(\$4)	(\$6)	(\$34)	(\$10)	(\$9)	(\$9)	(\$7)	(\$35)	\$4	\$3	\$2	\$2	\$11	\$0
Y/Y % Change																	
US Sales	-9.9%	-5.3%	-8.3%	-5.9%	0.4%	-4.9%	-3.9%	-5.8%	-1.0%	-4.5%	-3.8%	-1.7%	1.2%	0.8%	0.8%	0.3%	2.4%
OUS Sales	12.1%	-3.4%	-2.9%	0.9%	-3.4%	-2.3%	0.4%	-1.7%	-1.7%	0.0%	-0.7%	3.8%	4.3%	3.9%	3.8%	3.9%	4.9%
WW Sales	-4.4%	-4.7%	-6.8%	-4.0%	-0.9%	-4.1%	-2.7%	-4.6%	-1.2%	-3.1%	-2.9%	0.0%	2.2%	1.7%	1.8%	1.4%	3.2%
OUS ex-FX est	7.0%	1.7%	2.1%	2.6%	-1.1%	1.2%	4.8%	2.1%	2.2%	2.8%	3.0%	2.1%	3.0%	3.0%	3.0%	2.8%	4.9%
WW ex-FX est	-5.7%	-3.3%	-5.4%	-3.4%	-0.1%	-3.1%	-1.4%	-3.5%	0.0%	-2.2%	-1.8%	-0.5%	1.8%	1.5%	1.5%	1.0%	3.2%

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Cardiovascular																	
Bare Metal Stents																	
US Sales	\$79	\$17	\$16	\$14	\$15	\$62	\$12	\$12	\$12	\$11	\$47	\$11	\$11	\$11	\$10	\$43	\$41
OUS Sales	\$159	\$34	\$31	\$31	\$25	\$121	\$20	\$20	\$18	\$18	\$76	\$17	\$18	\$17	\$17	\$69	\$70
WW Sales	\$238	\$51	\$47	\$45	\$40	\$183	\$32	\$32	\$30	\$29	\$123	\$28	\$28	\$28	\$28	\$112	\$111
Est FX impact	\$7	(\$2)	(\$2)	(\$1)	(\$2)	(\$7)	(\$2)	(\$1)	(\$1)	(\$1)	(\$5)	\$1	\$1	\$1	\$0	\$3	\$0
Y/Y % Change																	
US Sales	27.4%	-10.5%	-20.0%	-30.0%	-25.0%	-21.5%	-29.4%	-25.0%	-14.3%	-26.7%	-24.2%	-7.2%	-9.2%	-12.2%	-5.0%	-8.5%	-4.9%
OUS Sales	-15.4%	-19.0%	-16.2%	-22.5%	-37.5%	-23.9%	-41.2%	-35.5%	-41.9%	-28.0%	-37.2%	-14.8%	-12.5%	-4.9%	-2.9%	-9.0%	0.8%
WW Sales	-4.8%	-16.4%	-17.5%	-25.0%	-33.3%	-23.1%	-37.3%	-31.9%	-33.3%	-27.5%	-32.8%	-12.0%	-11.2%	-7.8%	-3.7%	-8.8%	-1.4%
OUS ex-FX est	-19.1%	-14.3%	-10.8%	-20.0%	-32.5%	-19.5%	-35.3%	-32.3%	-38.7%	-24.0%	-33.1%	-19.8%	-17.5%	-10.5%	-2.9%	-13.0%	0.8%
WW ex-FX est	-7.6%	-13.1%	-14.0%	-23.3%	-30.0%	-20.2%	-33.3%	-29.8%	-31.1%	-25.0%	-30.1%	-15.1%	-14.3%	-11.2%	-3.7%	-11.2%	-1.4%
Drug-Eluting Stents																	
US Sales	\$200	\$102	\$99	\$97	\$107	\$405	\$105	\$103	\$97	\$99	\$404	\$99	\$91	\$88	\$93	\$372	\$359
OUS Sales	\$623	\$151	\$159	\$177	\$183	\$670	\$168	\$171	\$183	\$189	\$711	\$189	\$177	\$193	\$167	\$726	\$759
WW Sales	\$823	\$253	\$258	\$274	\$290	\$1,075	\$273	\$274	\$280	\$288	\$1,115	\$288	\$269	\$281	\$259	\$1,098	\$1,118
Est FX impact	\$19	(\$12)	(\$12)	(\$6)	(\$4)	(\$34)	(\$5)	(\$5)	(\$7)	(\$7)	(\$24)	\$5	\$2	\$2	\$1	\$10	\$0
Y/Y % Change																	
US Sales	1.0%	137.2%	147.5%	162.2%	33.8%	102.5%	2.9%	4.0%	0.0%	-7.5%	-0.2%	-5.2%	-11.5%	-8.8%	-6.5%	-8.0%	-3.5%
OUS Sales	18.2%	0.7%	4.6%	12.0%	12.3%	7.5%	11.3%	7.5%	3.4%	3.3%	6.1%	12.5%	3.8%	5.4%	-11.7%	2.1%	4.5%
WW Sales	13.5%	31.1%	34.4%	40.5%	19.3%	30.6%	7.9%	6.2%	2.2%	-0.7%	3.7%	5.7%	-2.0%	0.5%	-9.9%	-1.5%	1.8%
OUS ex-FX est	14.6%	8.7%	12.5%	15.8%	14.7%	13.0%	14.6%	10.7%	7.3%	7.1%	9.7%	9.5%	2.6%	4.3%	-12.2%	0.7%	4.5%
WW ex-FX est	10.9%	37.3%	40.6%	43.6%	21.0%	34.8%	9.9%	8.1%	4.7%	1.7%	6.0%	3.8%	-2.7%	-0.2%	-10.2%	-2.4%	1.8%
Other Coronary																	
US Sales	\$103	\$25	\$24	\$23	\$24	\$96	\$24	\$24	\$23	\$23	\$94	\$24	\$24	\$23	\$23	\$95	\$97
OUS Sales	\$433	\$104	\$100	\$103	\$111	\$418	\$106	\$97	\$103	\$106	\$412	\$102	\$94	\$103	\$109	\$408	\$412
WW Sales	\$536	\$129	\$124	\$126	\$135	\$514	\$130	\$121	\$126	\$129	\$506	\$126	\$119	\$126	\$132	\$503	\$509
Est FX impact	\$14	(\$4)	(\$4)	(\$1)	(\$3)	(\$12)	(\$2)	(\$2)	(\$2)	(\$2)	(\$8)	\$1	\$2	\$1	\$1	\$5	\$0
Y/Y % Change																	
US Sales	-16.3%	-10.7%	-4.0%	-8.0%	-4.0%	-6.8%	-4.0%	0.0%	0.0%	-4.2%	-2.1%	1.0%	1.0%	1.0%	1.0%	1.0%	2.3%
OUS Sales	17.7%	-2.8%	-2.0%	1.0%	-9.0%	-3.5%	1.9%	-3.0%	0.0%	-4.5%	-1.4%	-3.8%	-2.8%	0.0%	2.9%	-0.9%	1.0%
WW Sales	9.2%	-4.4%	-2.4%	-0.8%	-8.2%	-4.1%	0.8%	-2.4%	0.0%	-4.4%	-1.6%	-2.9%	-2.0%	0.2%	2.6%	-0.5%	1.2%
OUS ex-FX est	13.9%	0.9%	2.0%	2.0%	-6.6%	-0.7%	3.8%	-1.0%	1.9%	-2.7%	0.5%	-4.8%	-4.9%	-1.0%	6.0%	-2.1%	1.0%
WW ex-FX est	6.3%	-1.5%	0.8%	0.0%	-6.1%	-1.9%	2.3%	-0.8%	1.6%	-3.0%	0.0%	-3.7%	-3.7%	-0.6%	1.8%	-1.5%	1.2%

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Total Coronary																	
US Sales	\$382	\$144	\$139	\$134	\$146	\$563	\$141	\$139	\$132	\$133	\$545	\$135	\$126	\$122	\$126	\$510	\$497
OUS Sales	\$1,215	\$289	\$290	\$311	\$319	\$1,209	\$294	\$288	\$304	\$313	\$1,199	\$308	\$289	\$313	\$294	\$1,204	\$1,241
WW Sales	\$1,597	\$433	\$429	\$445	\$465	\$1,772	\$435	\$427	\$436	\$446	\$1,744	\$443	\$416	\$435	\$420	\$1,713	\$1,738
Est FX impact	\$40	(\$18)	(\$18)	(\$8)	(\$9)	(\$53)	(\$9)	(\$8)	(\$10)	(\$10)	(\$37)	\$7	\$5	\$4	\$2	\$18	\$0
Y/Y % Change																	
US Sales	-0.3%	60.0%	63.5%	63.4%	16.8%	47.4%	-2.1%	0.0%	-1.5%	-8.9%	-3.2%	-4.4%	-9.1%	-7.4%	-5.1%	-6.5%	-2.6%
OUS Sales	12.2%	-3.3%	-0.3%	3.7%	-1.8%	-0.5%	1.7%	-0.7%	-2.3%	-1.9%	-0.8%	4.7%	0.4%	3.0%	-6.2%	0.4%	3.1%
WW Sales	8.9%	11.3%	14.1%	16.5%	3.3%	11.0%	0.5%	-0.5%	-2.0%	-4.1%	-1.6%	1.8%	-2.7%	-0.2%	-5.9%	-1.8%	1.4%
OUS ex-FX est	8.5%	2.7%	5.8%	6.3%	0.9%	3.9%	4.8%	2.1%	1.0%	1.3%	2.2%	2.4%	-1.3%	1.7%	-6.9%	-1.1%	3.1%
WW ex-FX est	6.2%	15.9%	18.9%	18.6%	5.3%	14.3%	2.5%	1.4%	0.2%	-1.9%	0.5%	0.2%	-3.9%	-1.1%	-6.3%	-2.8%	1.4%
Structural Heart																	
US Sales	\$398	\$102	\$102	\$96	\$110	\$410	\$102	\$106	\$102	\$133	\$443	\$136	\$150	\$146	\$159	\$590	\$636
OUS Sales	\$697	\$178	\$169	\$176	\$200	\$723	\$211	\$175	\$179	\$204	\$769	\$203	\$183	\$194	\$213	\$792	\$845
WW Sales	\$1,095	\$280	\$271	\$272	\$310	\$1,133	\$313	\$281	\$281	\$337	\$1,212	\$338	\$333	\$339	\$372	\$1,383	\$1,480
Est FX impact	\$22	(\$13)	(\$12)	(\$4)	(\$3)	(\$32)	(\$2)	(\$1)	(\$1)	(\$2)	(\$6)	\$1	\$2	\$1	\$0	\$4	\$0
Y/Y % Change																	
US Sales	6.7%	2.0%	4.1%	-1.0%	6.8%	3.0%	0.0%	3.9%	6.3%	20.9%	8.0%	33.0%	41.1%	42.9%	19.8%	33.3%	7.7%
OUS Sales	15.6%	1.7%	0.6%	4.8%	7.5%	3.7%	18.5%	3.6%	1.7%	2.0%	6.4%	-4.0%	4.7%	8.1%	4.4%	3.0%	6.6%
WW Sales	12.2%	1.8%	1.9%	2.6%	7.3%	3.5%	11.8%	3.7%	3.3%	8.7%	7.0%	8.1%	18.4%	20.8%	10.5%	14.1%	7.1%
OUS ex-FX est	11.9%	9.1%	7.7%	7.1%	9.1%	8.3%	19.7%	4.1%	2.3%	3.0%	7.2%	-4.5%	3.5%	7.6%	4.4%	2.5%	6.6%
WW ex-FX est	9.9%	6.5%	6.4%	4.2%	8.3%	6.4%	12.5%	4.1%	3.7%	9.4%	7.5%	7.7%	17.7%	20.4%	10.5%	13.7%	7.1%
Endovascular & Peripheral																	
US Sales	\$323	\$81	\$83	\$77	\$89	\$330	\$80	\$83	\$80	\$87	\$330	\$82	\$86	\$83	\$90	\$342	\$427
OUS Sales	\$460	\$128	\$127	\$135	\$146	\$536	\$139	\$135	\$138	\$153	\$565	\$141	\$140	\$150	\$168	\$599	\$648
WW Sales	\$783	\$209	\$210	\$212	\$235	\$866	\$219	\$218	\$218	\$240	\$895	\$224	\$226	\$234	\$258	\$942	\$1,075
Est FX impact	\$14	(\$9)	(\$10)	(\$4)	(\$5)	(\$28)	(\$5)	(\$3)	(\$3)	(\$2)	(\$13)	\$2	\$2	\$2	\$1	\$7	\$0
Y/Y % Change																	
US Sales	19.2%	6.6%	2.5%	-2.5%	2.3%	2.2%	-1.2%	0.0%	3.9%	-2.2%	0.0%	3.0%	4.0%	4.0%	4.0%	3.8%	24.8%
OUS Sales	16.5%	16.4%	18.7%	21.6%	10.6%	16.5%	8.6%	6.3%	2.2%	4.8%	5.4%	1.6%	3.7%	8.9%	9.8%	6.1%	8.1%
WW Sales	17.6%	12.4%	11.7%	11.6%	7.3%	10.6%	4.8%	3.8%	2.8%	2.1%	3.3%	2.1%	3.8%	7.1%	7.7%	5.2%	14.1%
OUS ex-FX est	12.9%	24.5%	28.0%	25.2%	14.4%	22.6%	12.5%	8.7%	4.1%	6.2%	7.7%	0.1%	2.3%	7.5%	9.1%	4.9%	8.1%
WW ex-FX est	15.5%	17.2%	17.0%	13.7%	9.6%	14.2%	7.2%	5.2%	4.0%	3.0%	4.8%	1.2%	2.9%	6.2%	7.3%	4.5%	14.1%

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Total Cardiovascular																	
US Sales	\$1,103	\$327	\$324	\$307	\$345	\$1,303	\$323	\$328	\$314	\$353	\$1,318	\$353	\$362	\$351	\$376	\$1,442	\$1,560
OUS Sales	\$2,372	\$595	\$586	\$622	\$665	\$2,468	\$644	\$598	\$621	\$670	\$2,533	\$652	\$612	\$657	\$674	\$2,595	\$2,733
WW Sales	\$3,475	\$922	\$910	\$929	\$1,010	\$3,771	\$967	\$926	\$935	\$1,023	\$3,851	\$1,005	\$975	\$1,008	\$1,050	\$4,038	\$4,293
Est FX impact	\$76	(\$40)	(\$40)	(\$16)	(\$17)	(\$113)	(\$16)	(\$12)	(\$14)	(\$14)	(\$56)	\$10	\$9	\$7	\$3	\$29	\$0
Y/Y % Change																	
US Sales	7.4%	22.9%	22.7%	19.0%	9.5%	18.1%	-1.2%	1.2%	2.3%	2.3%	1.2%	9.3%	10.4%	11.8%	6.5%	9.4%	8.1%
OUS Sales	14.0%	1.9%	3.5%	7.4%	3.4%	4.0%	8.2%	2.0%	-0.2%	0.8%	2.6%	1.2%	2.4%	5.8%	0.7%	2.5%	5.3%
WW Sales	11.8%	8.5%	9.6%	11.0%	5.4%	8.5%	4.9%	1.8%	0.6%	1.3%	2.1%	3.9%	5.2%	7.8%	2.7%	4.8%	6.3%
OUS ex-FX est	10.3%	8.7%	10.6%	10.2%	6.1%	8.8%	10.9%	4.1%	2.0%	2.9%	4.9%	-0.4%	0.9%	4.7%	0.2%	1.3%	5.3%
WW ex-FX est	9.4%	13.2%	14.5%	12.9%	7.2%	11.8%	6.6%	3.1%	2.1%	2.7%	3.6%	2.9%	4.3%	7.1%	2.4%	4.1%	6.3%
Neuromodulation																	
US Sales	\$1,169	\$295	\$324	\$309	\$332	\$1,260	\$293	\$337	\$329	\$342	\$1,301	\$305	\$354	\$349	\$363	\$1,370	\$1,474
OUS Sales	\$531	\$124	\$130	\$138	\$160	\$552	\$135	\$142	\$149	\$171	\$597	\$145	\$152	\$159	\$183	\$639	\$693
WW Sales	\$1,700	\$419	\$454	\$447	\$492	\$1,812	\$428	\$479	\$478	\$513	\$1,898	\$450	\$506	\$508	\$545	\$2,009	\$2,167
Est FX impact	\$20	(\$9)	(\$10)	(\$3)	(\$2)	(\$24)	(\$2)	\$0	\$0	\$0	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0
Y/Y % Change																	
US Sales	5.6%	8.5%	9.8%	7.7%	5.4%	7.8%	-0.7%	4.0%	6.5%	3.0%	3.3%	4.0%	5.0%	6.0%	6.0%	5.3%	7.6%
OUS Sales	9.7%	-0.8%	3.2%	4.5%	8.1%	4.0%	8.9%	9.2%	8.0%	6.9%	8.2%	7.5%	7.0%	7.0%	7.0%	7.1%	8.4%
WW Sales	6.9%	5.5%	7.8%	6.7%	6.3%	6.6%	2.1%	5.5%	6.9%	4.3%	4.7%	5.1%	5.6%	6.3%	6.3%	5.9%	7.9%
OUS ex-FX est	5.6%	6.4%	11.1%	6.8%	9.5%	8.5%	10.5%	9.2%	8.0%	6.9%	8.5%	7.5%	7.0%	7.0%	7.0%	7.1%	8.4%
WW ex-FX est	5.6%	7.8%	10.2%	7.4%	6.7%	8.0%	2.6%	5.5%	6.9%	4.3%	4.9%	5.1%	5.6%	6.3%	6.3%	5.9%	7.9%
Diabetes																	
US Sales	\$906	\$215	\$229	\$223	\$234	\$901	\$208	\$229	\$270	\$270	\$977	\$235	\$250	\$270	\$278	\$1,033	\$1,099
OUS Sales	\$575	\$149	\$149	\$154	\$173	\$625	\$161	\$164	\$166	\$190	\$681	\$175	\$178	\$181	\$208	\$742	\$814
WW Sales	\$1,481	\$364	\$378	\$377	\$407	\$1,526	\$369	\$393	\$436	\$460	\$1,658	\$410	\$428	\$451	\$486	\$1,775	\$1,914
Est FX impact	\$19	(\$12)	(\$10)	(\$2)	(\$2)	(\$26)	\$0	\$2	\$0	(\$1)	\$1	\$1	\$1	\$1	\$1	\$4	\$0
Y/Y % Change																	
US Sales	5.0%	0.5%	0.4%	-1.3%	-1.7%	-0.6%	-3.3%	0.0%	21.1%	15.4%	8.4%	13.0%	9.0%	0.0%	3.0%	5.7%	6.5%
OUS Sales	18.8%	5.7%	7.2%	9.2%	12.3%	8.7%	8.1%	10.1%	7.8%	9.8%	9.0%	8.6%	8.6%	9.1%	9.5%	9.0%	9.7%
WW Sales	9.9%	2.5%	3.0%	2.7%	3.8%	3.0%	1.4%	4.0%	15.6%	13.0%	8.7%	11.1%	8.8%	3.5%	5.7%	7.1%	7.8%
OUS ex-FX est	14.9%	14.2%	14.4%	10.6%	13.6%	13.2%	10.0%	8.7%	7.8%	10.4%	8.8%	8.0%	8.0%	8.5%	9.0%	8.4%	9.7%
WW ex-FX est	8.5%	5.9%	5.7%	3.3%	4.3%	4.8%	1.4%	3.4%	15.6%	13.3%	8.6%	10.8%	8.6%	3.2%	5.5%	6.8%	7.8%

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Surgical Technologies																	
US Sales	\$764	\$209	\$218	\$215	\$249	\$891	\$233	\$240	\$241	\$261	\$975	\$249	\$259	\$260	\$282	\$1,051	\$1,145
OUS Sales	\$490	\$115	\$126	\$135	\$158	\$534	\$128	\$137	\$145	\$177	\$587	\$143	\$154	\$163	\$196	\$656	\$722
WW Sales	\$1,254	\$324	\$344	\$350	\$407	\$1,425	\$361	\$377	\$386	\$438	\$1,562	\$392	\$413	\$423	\$478	\$1,706	\$1,866
Est FX impact	\$15	(\$6)	(\$5)	(\$2)	(\$4)	(\$17)	(\$4)	(\$5)	(\$4)	(\$6)	(\$19)	\$2	\$2	\$2	\$1	\$7	\$0
Y/Y % Change																	
US Sales	20.9%	34.0%	18.5%	7.5%	11.2%	16.6%	11.5%	10.1%	12.1%	4.8%	9.4%	7.0%	8.0%	8.0%	8.0%	7.8%	8.9%
OUS Sales	21.3%	4.5%	10.5%	13.4%	7.5%	9.0%	11.3%	8.7%	7.4%	12.0%	9.9%	11.6%	12.5%	12.4%	10.6%	11.7%	10.1%
WW Sales	21.0%	21.8%	15.4%	9.7%	9.7%	13.6%	11.4%	9.6%	10.3%	7.6%	9.6%	8.6%	9.6%	9.6%	9.0%	9.2%	9.4%
OUS ex-FX est	17.6%	10.0%	14.9%	15.1%	10.2%	12.4%	14.8%	12.7%	10.0%	15.8%	13.4%	10.0%	11.0%	11.0%	10.0%	10.5%	10.1%
WW ex-FX est	19.6%	24.1%	17.1%	10.3%	10.8%	15.0%	12.7%	11.0%	11.3%	9.1%	10.9%	8.1%	9.1%	9.1%	8.8%	8.8%	9.4%
Physio Control																	
US Sales	\$123																
OUS Sales	\$89																
WW Sales	\$212																
Est FX impact	\$8																
Y/Y % Change																	
US Sales	-50.2%																
OUS Sales	-50.0%																
WW Sales	-50.1%																
OUS ex-FX est	-54.5%																
WW ex-FX est	-52.0%																
Total Company																	
US Sales	\$8,950	\$2,227	\$2,289	\$2,171	\$2,372	\$9,059	\$2,196	\$2,327	\$2,265	\$2,421	\$9,209	\$2,300	\$2,429	\$2,359	\$2,505	\$9,593	\$10,137
OUS Sales	\$7,446	\$1,781	\$1,806	\$1,856	\$2,087	\$7,530	\$1,887	\$1,867	\$1,898	\$2,145	\$7,797	\$1,955	\$1,950	\$2,004	\$2,225	\$8,135	\$8,632
WW Sales	\$16,396	\$4,008	\$4,095	\$4,027	\$4,459	\$16,589	\$4,083	\$4,194	\$4,163	\$4,566	\$17,006	\$4,255	\$4,379	\$4,363	\$4,731	\$17,728	\$18,768
Est FX impact	\$280	(\$119)	(\$118)	(\$41)	(\$48)	(\$326)	(\$55)	(\$38)	(\$41)	(\$39)	(\$173)	\$26	\$21	\$17	\$8	\$72	\$0
Y/Y % Change																	
US Sales	-1.9%	1.0%	-0.5%	1.2%	3.2%	1.2%	-1.4%	1.7%	4.3%	2.1%	1.7%	4.7%	4.4%	4.1%	3.5%	4.2%	5.7%
OUS Sales	9.3%	-3.4%	-1.4%	4.7%	4.5%	1.1%	6.0%	3.4%	2.3%	2.8%	3.5%	3.6%	4.4%	5.6%	3.8%	4.3%	6.1%
WW Sales	2.9%	-1.0%	-0.9%	2.8%	3.8%	1.2%	1.9%	2.4%	3.4%	2.4%	2.5%	4.2%	4.4%	4.8%	3.6%	4.2%	5.9%
OUS ex-FX est	5.2%	3.1%	5.0%	7.0%	6.9%	5.5%	9.0%	5.5%	4.5%	4.6%	5.8%	2.2%	3.3%	4.7%	3.4%	3.4%	6.1%
WW ex-FX est	1.2%	1.9%	2.0%	3.8%	4.9%	3.2%	3.2%	3.3%	4.4%	3.3%	3.6%	3.6%	3.9%	4.4%	3.4%	3.8%	5.9%
WW ex-FX and Ph	2.5%	4.6%	4.7%	3.8%	4.9%	4.5%	3.2%										

Source: Deutsche Bank, Company reports



Figure 374 (cont'd): Medtronic's Earnings Model (\$ in millions, except per share data)

	Apr'11 F2011	Apr'12 F2012	Jul'12 F1Q13	Oct'12 F2Q13	Jan'13 F3Q13	Apr'13 F4Q13	Apr'13 F2013	Jul'13 F1Q14	Oct'13 F2Q14	Jan'14 F3Q14	Apr'14 F4Q14	Apr'14 F2014	Jul'14 F1Q15E	Oct'14 F2Q15E	Jan'15 F3Q15E	Apr'15 F4Q15E	Apr'15 F2015E	Apr'16 F2016E
Adjusted P&L																		
Sales	\$15,508	\$16,184	\$4,008	\$4,095	\$4,027	\$4,459	\$16,589	\$4,083	\$4,194	\$4,163	\$4,566	\$17,006	\$4,255	\$4,379	\$4,363	\$4,731	\$17,728	\$18,768
COGS	\$3,700	\$3,889	\$973	\$1,020	\$999	\$1,124	\$4,116	\$1,022	\$1,090	\$1,050	\$1,161	\$4,323	\$1,076	\$1,103	\$1,095	\$1,183	\$4,458	\$4,673
Gross Profits	\$11,808	\$12,295	\$3,035	\$3,075	\$3,028	\$3,335	\$12,473	\$3,061	\$3,104	\$3,113	\$3,405	\$12,683	\$3,178	\$3,275	\$3,268	\$3,548	\$13,270	\$14,095
Gross margin	76.1%	76.0%	75.7%	75.1%	75.2%	74.8%	75.2%	75.0%	74.0%	74.8%	74.6%	74.6%	74.7%	74.8%	74.9%	75.0%	74.9%	75.1%
SG&A Expenses	\$5,427	\$5,623	\$1,405	\$1,417	\$1,401	\$1,475	\$5,698	\$1,416	\$1,438	\$1,454	\$1,539	\$5,847	\$1,489	\$1,480	\$1,462	\$1,556	\$5,987	\$6,257
% of sales	35.0%	34.7%	35.1%	34.6%	34.8%	33.1%	34.3%	34.7%	34.3%	34.9%	33.7%	34.4%	35.0%	33.8%	33.5%	32.9%	33.8%	33.3%
R&D expenses	\$1,472	\$1,490	\$385	\$387	\$376	\$409	\$1,557	\$360	\$372	\$360	\$385	\$1,477	\$370	\$377	\$367	\$402	\$1,515	\$1,661
% of sales	9.5%	9.2%	9.6%	9.5%	9.3%	9.2%	9.4%	8.8%	8.9%	8.6%	8.4%	8.7%	8.7%	8.6%	8.4%	8.5%	8.5%	8.9%
Operating Income	\$4,909	\$5,182	\$1,245	\$1,271	\$1,251	\$1,451	\$5,218	\$1,285	\$1,294	\$1,299	\$1,481	\$5,359	\$1,319	\$1,419	\$1,440	\$1,589	\$5,767	\$6,177
Operating Margin	31.7%	32.0%	31.1%	31.0%	31.1%	32.5%	31.5%	31.5%	30.9%	31.2%	32.4%	31.5%	31.0%	32.4%	33.0%	33.6%	32.5%	32.9%
Amortization exp	\$340	\$335	\$80	\$79	\$88	\$84	\$331	\$86	\$88	\$89	\$87	\$350	\$87	\$87	\$87	\$87	\$348	\$344
Net other	\$110	\$331	\$39	\$63	\$17	(\$12)	\$107	\$44	\$33	\$45	\$59	\$181	\$102	\$101	\$97	\$101	\$401	\$382
Adj Op Income	\$4,460	\$4,516	\$1,126	\$1,129	\$1,146	\$1,379	\$4,780	\$1,155	\$1,173	\$1,165	\$1,335	\$4,828	\$1,130	\$1,231	\$1,256	\$1,401	\$5,018	\$5,451
Adj Op Margin	28.8%	27.9%	28.1%	27.6%	28.5%	30.9%	28.8%	28.3%	28.0%	28.0%	29.2%	28.4%	26.6%	28.1%	28.8%	29.6%	28.3%	29.0%
Interest exp (income)	\$108	\$64	\$10	\$1	\$23	\$27	\$61	\$40	\$33	\$25	\$10	\$108	\$17	\$18	\$14	\$7	\$55	\$10
Pretax income	\$4,352	\$4,452	\$1,116	\$1,128	\$1,123	\$1,352	\$4,719	\$1,115	\$1,140	\$1,140	\$1,325	\$4,720	\$1,113	\$1,214	\$1,241	\$1,394	\$4,962	\$5,441
Taxes	\$752	\$818	\$233	\$226	\$177	\$228	\$864	\$217	\$221	\$224	\$180	\$842	\$217	\$237	\$242	\$223	\$919	\$1,045
Tax rate	17.3%	18.4%	20.9%	20.0%	15.8%	16.9%	18.3%	19.5%	19.4%	19.6%	13.6%	17.8%	19.5%	19.5%	19.5%	16.0%	18.5%	19.2%
Net income	\$3,600	\$3,634	\$883	\$902	\$946	\$1,124	\$3,855	\$898	\$919	\$916	\$1,145	\$3,878	\$896	\$977	\$999	\$1,171	\$4,044	\$4,397
Net Margin	23.2%	22.5%	22.0%	22.0%	23.5%	25.2%	23.2%	22.0%	21.9%	22.0%	25.1%	22.8%	21.1%	22.3%	22.9%	24.8%	22.8%	23.4%
Diluted Shares	1,082	1,061	1,037	1,028	1,021	1,023	1,027	1,021	1,009	1,010	1,012	1,013	1,005	998	997	996	999	984
Adjusted EPS	\$3.33	\$3.43	\$0.85	\$0.88	\$0.93	\$1.10	\$3.75	\$0.88	\$0.91	\$0.91	\$1.13	\$3.83	\$0.89	\$0.98	\$1.00	\$1.18	\$4.05	\$4.47
Post tax amort (corp rate)		\$0.26	\$0.06	\$0.06	\$0.07	\$0.07	\$0.26	\$0.07	\$0.07	\$0.07	\$0.07	\$0.28	\$0.07	\$0.07	\$0.07	\$0.07	\$0.28	\$0.28
Cash EPS		\$3.68	\$0.91	\$0.94	\$1.00	\$1.17	\$4.02	\$0.95	\$0.98	\$0.98	\$1.21	\$4.11	\$0.96	\$1.05	\$1.07	\$1.25	\$4.33	\$4.75
Y/Y % Change																		
Sales	-2.0%	4.4%	1.6%	1.8%	2.8%	3.8%	2.5%	1.9%	2.4%	3.4%	2.4%	2.5%	4.2%	4.4%	4.8%	3.6%	4.2%	5.9%
Gross Profit	-1.7%	4.1%	1.3%	0.4%	1.4%	2.6%	1.4%	0.9%	0.9%	2.8%	2.1%	1.7%	3.8%	5.5%	5.0%	4.2%	4.6%	6.2%
SG&A	0.2%	3.6%	1.8%	0.5%	2.2%	0.9%	1.3%	0.8%	1.5%	3.8%	4.3%	2.6%	5.2%	2.9%	0.5%	1.1%	2.4%	4.5%
R&D	0.8%	1.2%	6.4%	4.3%	3.3%	4.1%	4.5%	-6.5%	-3.9%	-4.3%	-5.9%	-5.1%	2.8%	1.2%	1.8%	4.4%	2.6%	9.6%
Operating Income	-4.4%	5.6%	-0.6%	-0.9%	-0.1%	4.0%	0.7%	3.2%	1.8%	3.8%	2.1%	2.7%	2.6%	9.6%	10.8%	7.3%	7.6%	7.1%
Pretax Income	-5.2%	2.3%	6.6%	5.1%	3.1%	8.8%	6.0%	-0.1%	1.1%	1.5%	-2.0%	0.0%	-0.2%	6.5%	8.9%	5.2%	5.1%	9.7%
Net Income	0.7%	0.9%	5.1%	1.9%	8.4%	8.5%	6.1%	1.7%	1.9%	-3.2%	1.9%	0.6%	-0.2%	6.3%	9.1%	2.3%	4.3%	8.7%
Share count	-2.5%	-2.0%	-3.0%	-3.3%	-3.7%	-2.5%	-3.1%	-1.6%	-1.8%	-1.1%	-1.1%	-1.4%	-1.6%	-1.1%	-1.3%	-1.6%	-1.4%	-1.5%
Adjusted EPS	3.2%	3.0%	8.4%	5.4%	12.5%	11.3%	9.5%	3.3%	3.7%	-2.1%	3.0%	2.0%	1.4%	7.5%	10.5%	4.0%	5.8%	10.3%

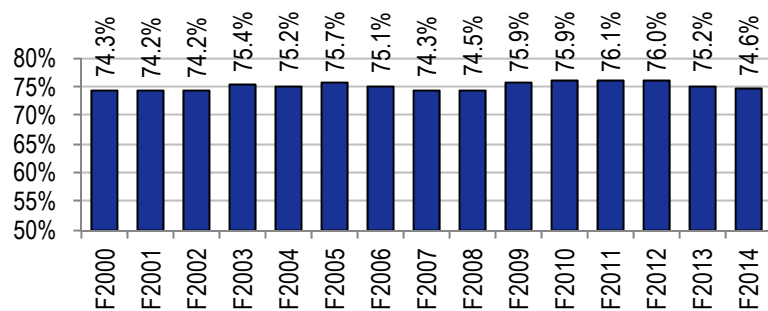
source: Deutsche Bank, Company reports



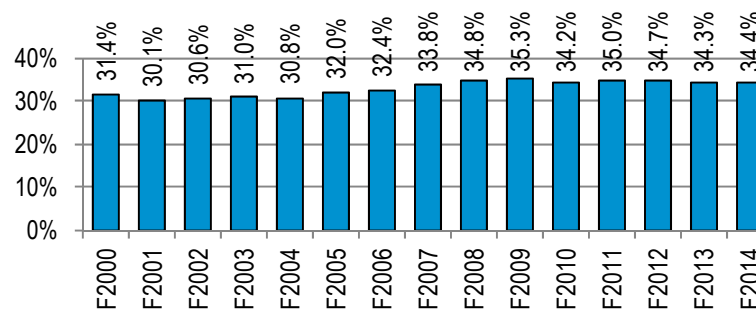
Medtronic Historical Margin Trends

Figure 375: Historical Margin Trends

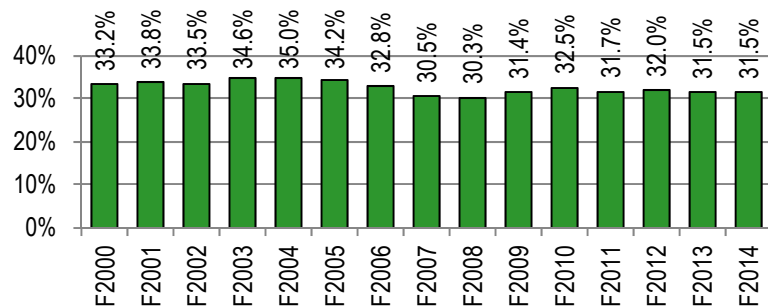
Gross margins



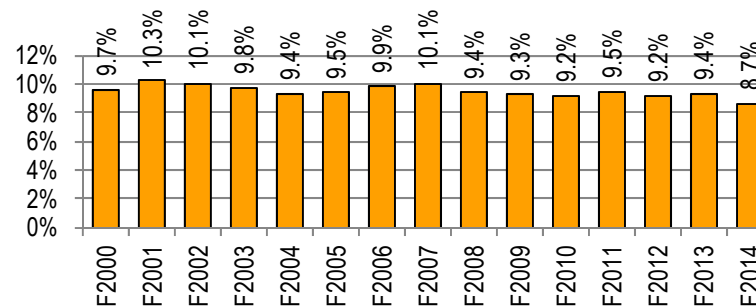
SG&A as % of sales



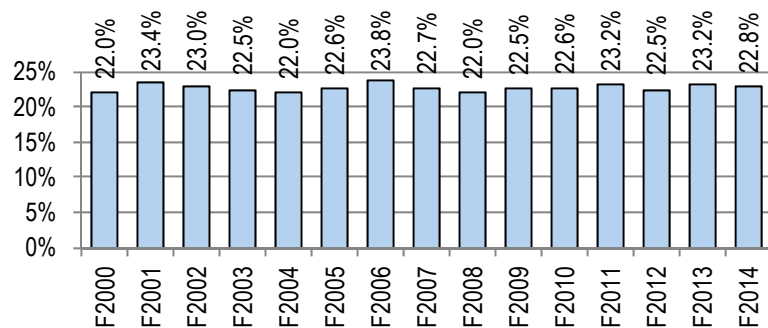
Operating Margin



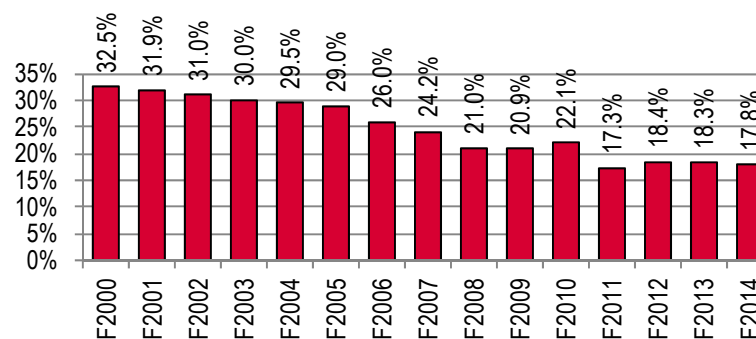
R&D as % of sales



Net Margin



Tax Rate

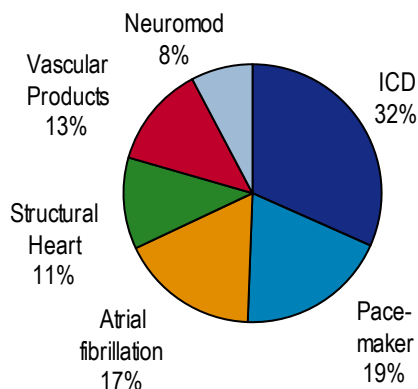


Source: Deutsche Bank, Company reports



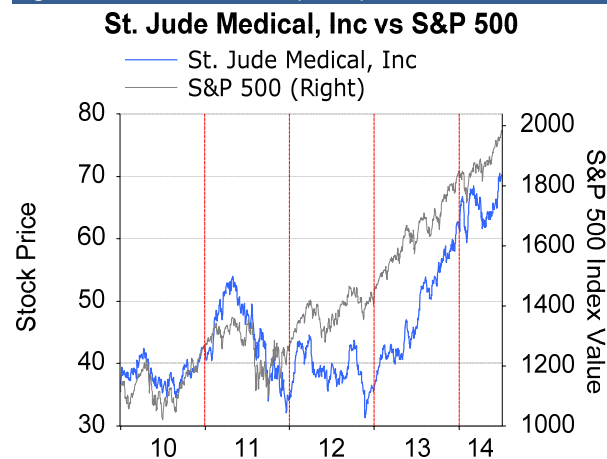
St. Jude Medical (STJ-Buy)

Figure 376: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 378: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 377: Rating and Valuation Summary

Mkt cap (\$M):	\$19,782	DB Rating:	Buy	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$69.60	DB Target Price:	\$78.00	DB	TR Cons	CY	Abs PE	
52 Wk Range: \$46.90-\$71.90		implied % chg: 12%		2013A	\$3.76	NTM	17.3x	
2013 Price Perf: 71.4%		Dividend Yield: 1.9%		2014E	\$3.99 \$3.99	2014E	17.5x	
YTD 2014 Price Perf:	12.3%	Target PE (C15E):		17.9x	2015E	\$4.36 \$4.31	2015E	15.9x

EPS estimates include intangible amort

Source: Deutsche Bank, Company reports, Thomson Reuters

Our Take on the Stock

St. Jude's recent sales results have shown improvement as the CRM market has stabilized/improved and the impact of the Durata lead concerns have waned. Looking ahead, we believe St. Jude's sales growth rate can accelerate into the mid-single digits with the addition of several pipeline products. Given the company's focus on its cost structure and with the help of financial leverage, this should translate into at least high single digit EPS growth. Considering this and the stock's valuation, we rate STJ a Buy.

Upcoming Potential Catalysts

- **July 16:** STJ earnings release
- **July 24:** Read-thrus from Boston Scientific's results
- **Aug 19:** Read-thrus from Medtronic's results
- **2H14:** FDA approval and US launch of TactiCath ablation catheter, resolution of the Plano warning letter

Valuation and Risks

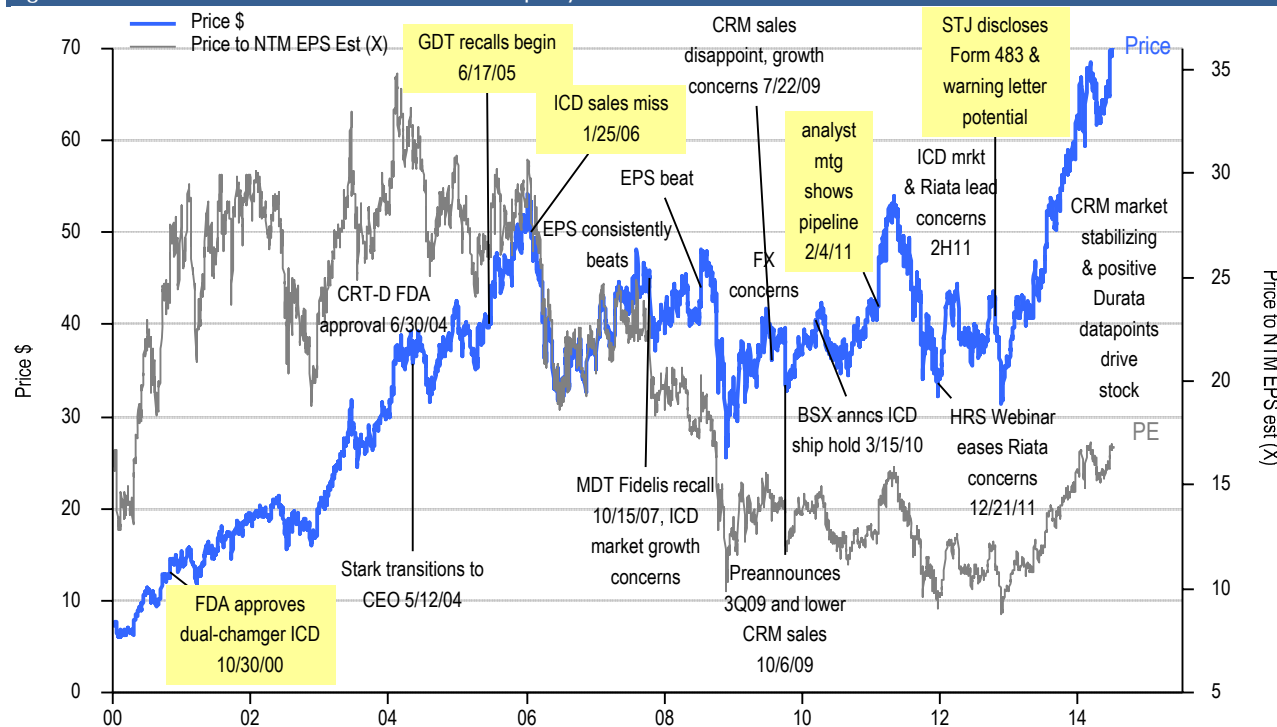
Our target price applies a 18x PE multiple to our 2015E EPS estimate (or 17x our cash EPS estimate), which is a about a 10% premium to the market to reflect the accelerating growth trends and potential for upside driven through pipeline milestones. The MedTech sector has traded at a 9% premium to the market since 2008. Downside risks include greater pricing pressure (particularly in CRM), market share losses or issues associated with Durata, acquisitions, failure on pipeline products, or inability to manage expenses. Adverse foreign currency movements are also a key risk factor as STJ does not hedge.



Historical Stock Price Performance

STJ shares typically trade on the performance of the implantable defibrillator business as well as the overall ICD market trends. Foreign exchange rates are also a driver of the stock given the company's exposure at the bottom line to currency.

Figure 379: Stock Price Performance and Company News Events



Performance Commentary

STJ shares have traded along with the company's implantable defibrillator sales performance and end market commentary. As the company received approval for its new products (a dual chamber device in October 2000, and a CRT-D device in June 2004) and as competitors faced recall issues, St. Jude's market share increased. The significant move in 2011 was due to the company's positive investor/analyst meeting where the company showcased its pipeline. The pullback in the second half of 2011 was reflective of concerns on the ICD market dynamics, delay in FDA approval for its Unify Quadra system, and Riata lead issues. The stock rebounded in the early part of 2012 given 4Q11 earnings and the analyst meeting in February. However, additional headlines and issues related to the Riata leads caused another pullback in the stock in April. 1Q12 results beat expectations but 2Q12 guidance was lower than what the Street was expecting.

Disappointments with the data on the PFO Closure trial in October 2013 and the news about an FDA inspection and Form 483 observation took the stock lower in October and November. Throughout 2013 and into 2014, shares appreciated as the CRM market has stabilized, Durata concerns eased, and optimism on the new product front.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
STJ	26.4%	2.3%	54.5%	36.7%	19.7%	-27.2%	11.2%	-18.9%	11.6%	16.2%	-19.8%	5.4%	71.4%	12.3%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&E	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



St. Jude's Product Portfolio Overview

Figure 380: Product overview

Product	% sales	Description	DB Commentary
CARDIAC RHYTHM MANAGEMENT			
Implantable Cardioverter Defibrillators (ICDs)	32%	In 2013, defibrillator sales totaled \$1.7 billion. The newest products launched are the next generation Ellipse ICD and Assura family of ICD and CRT-D devices, which received FDA approval in June 2013 and CE Mark approval in May 2013.	Competitors include Boston Scientific and Medtronic and to a lesser extent Biotronik and Sorin.
Pacemakers	19%	In 2013, pacemaker sales totaled \$1.0 billion. Newest products include Assurity and Endurity traditional pacemakers, Allure CRT pacemakers, and the Nanostim leadless pacemaker.	Competitors include Boston Scientific and Medtronic and to a lesser extent Biotronik and Sorin.
CARDIOVASCULAR			
Vascular	13%	In 2013, sales totaled \$704 million. This business division includes sales of vascular closure products (Angio-Seal franchise, RadiSTop compression-assist device, and FemoStop Gold disposable manual compression device), FFR pressure wires, Optimal Coherence Tomography (OCT) products (acquired via LightLab), and other accessories.	Competitors include Abbott Labs, Medtronic, J&J, and several smaller private players.
Structural heart	11%	In 2013, sales totaled \$631 million. This business unit includes heart valves as well as AGA's Amplatzer occluder and left atrial appendage devices. St. Jude launched its Trifecta pericardial tissue valve in Europe in the second half of 2010 and received FDA approval for the valve in late April 2011. Since the launch of Trifecta, STJ has nearly doubled revenue through market growth and increased share gains.	Competitors include Edwards Lifesciences, Medtronic, and Sorin.
OTHER DIVISIONS			
Atrial Fibrillation	17%	In 2013, sales totaled \$957 million. St. Jude's Atrial fibrillation business includes products such as catheters, catheter ablation devices, temporary pacing catheters, diagnostic mapping, introducers, guide wires, and guiding sheaths.	Competitors include J&J, Bard, Boston Scientific, and Medtronic.
Neuromodulation	8%	In 2013, sales totaled \$426 million. St. Jude markets a number of products used for deep brain stimulation and spinal cord stimulation, including implantable pulse generators, percutaneous leads, paddle leads, programming systems, patient controllers, charging systems, and accessories. A key product in this business is Eon Mini (launched in September 2008) indicated for the treatment of chronic intractable pain.	Key competitors include Medtronic and Boston Scientific, and to a lesser extent Cyberonics.

Source: Deutsche Bank, Company reports



Implantable Defibrillators (ICDs)

Figure 381: Sales mix

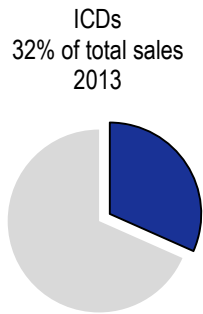
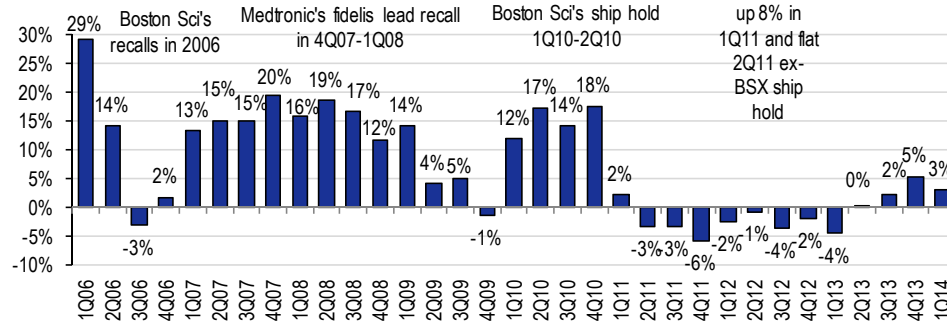


Figure 382: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Pacemakers

Figure 383: Sales mix

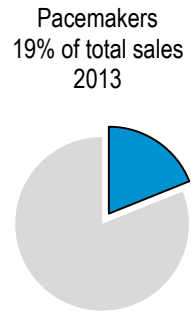
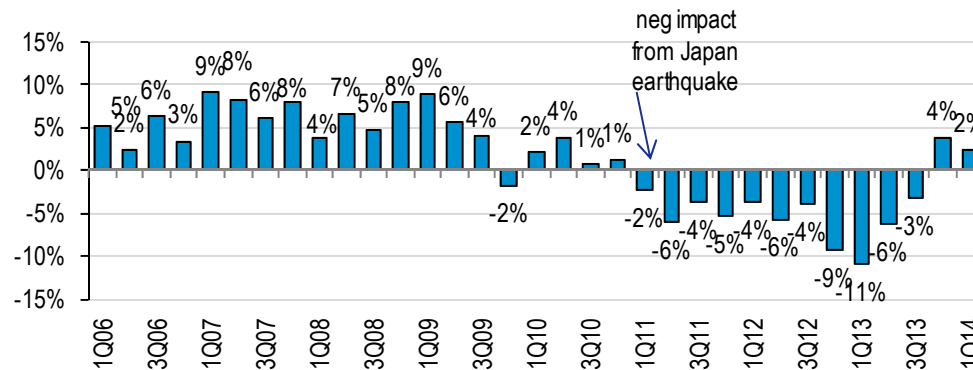


Figure 384: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

St. Jude had been able to steadily gain market share over the past decade from 8% in 2000 to just under 29% in 2012. Share gains had been driven by new product launches, such as its first dual-chamber ICD in the US in 2000 and cardiac resynchronization therapy defibrillators (CRT-D) in 2004, but sales came under pressure due to overall trends of the ICD market and pressure due to its Riata lead recall and related concerns on Durata, but recently, Riata / Durata pressures have waned and new products such as STJ's quadripolar systems have lifted sales.

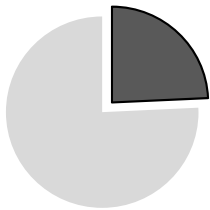
Sales since 2011 have generally been under pressure mainly reflecting the overall market. More recently sales growth has improved with the launch of several devices in Europe and Japan.



Cardiovascular Products

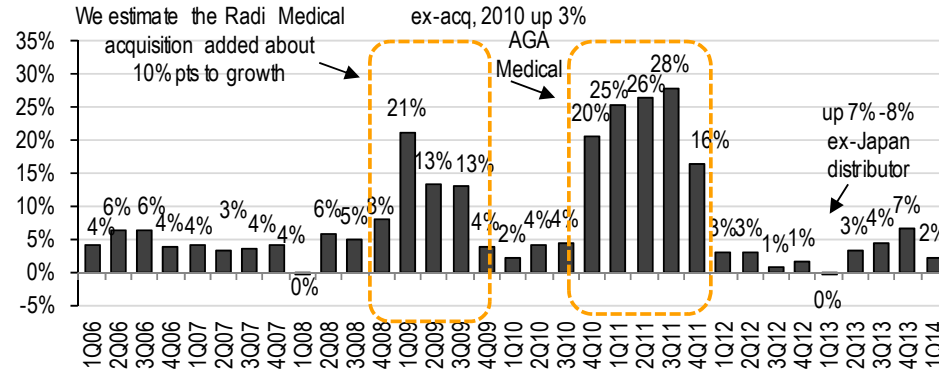
Figure 385: Sales mix

Cardiovascular
24% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 386: Year-over-Year Change in Sales, Constant Currency



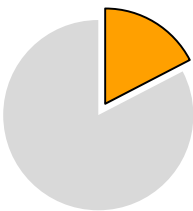
Source: Deutsche Bank, Company reports

Cardiovascular products include vascular and structural heart devices. The Vascular division includes sales of vascular closure devices, FFR pressure wires, Optimal Coherence Tomography (OCT) products (acquired via LightLab), and other related accessories. The structural heart group includes sales of heart valves, as well as the Amplatzer septal occluder and left atrial appendage devices.

Atrial Fibrillation

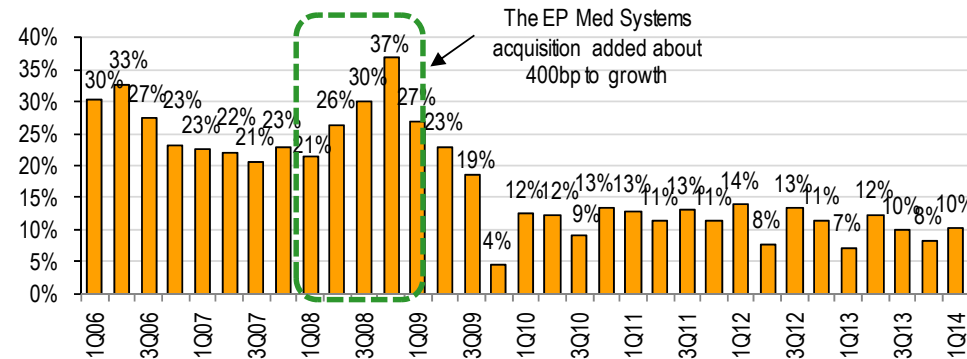
Figure 387: Sales mix

Atrial Fibrillation
18% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 388: Year-over-Year Change in Sales, Constant Currency



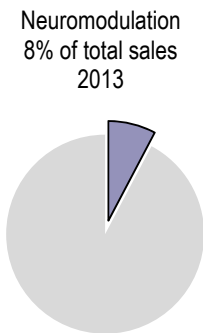
Source: Deutsche Bank, Company reports

St. Jude entered the atrial fibrillation market through the acquisition of Daig Corporation for \$440 million in 1996 and completed four additional meaningful acquisitions to expand its presence in the industry—Epicor (2004), Endocardial Solutions (2005), EP MedSystems (2008), MediGuide (2008), and Endosense (2013).



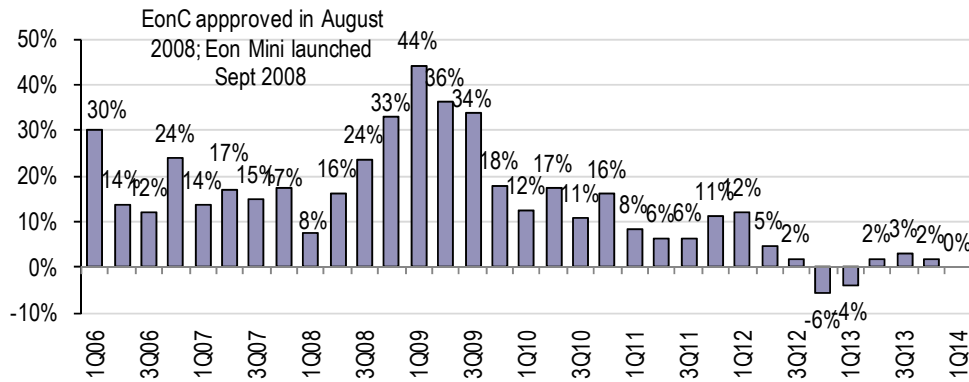
Neuromodulation

Figure 389: Sales mix



Source: Deutsche Bank, Company reports

Figure 390: Year-over-Year Change in Sales, Constant Currency



Source: Deutsche Bank, Company reports

St. Jude entered the neuromodulation market through its acquisition of Advanced Neuromodulation Systems (ANS) for \$1.4 billion in 2005. St. Jude markets a number of products used for deep brain stimulation and spinal cord stimulation, including implantable pulse generators, percutaneous leads, paddle leads, programming systems, patient controllers, charging systems, and accessories.



St. Jude Medical 1Q14 Results

Our Take on the Quarter

1Q14 sales of \$1,363M came in slightly above both our estimate \$1,342M and TR consensus \$1,358M. Sales were up 2% on a reported basis and 4% ex-FX, primarily driven by the Company's Atrial Fibrillation business (+10%). Adjusted EPS of \$0.96 was also slightly above both our / TR estimate (\$0.95) and at the high end of Company guidance (\$0.94-\$0.96).

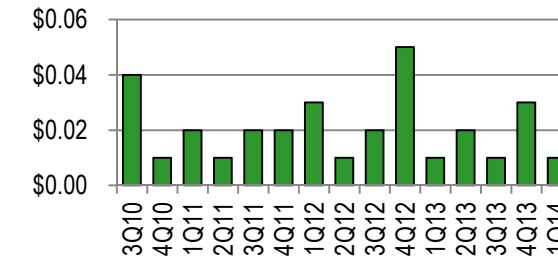
Figure 391: Quarter Variance

(\$ in mil except
per share)

	Actual	TR Consensus	DB Estimate
Sales	\$1,363M	\$1,358M	\$1,342M
EPS	\$0.96	\$0.95	\$0.95

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 392: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Strong AFib sales help to partially offset flat sales in NeuroMod and lower sales in US pacemakers.
- SG&A margin improvements (down 100bps y/y) due to cost management resulting from a more centralized operating structure.
- Sylmar warning letter on track to be closed out later in the year.
- Recently approved US products should improve performance in the US CRM business and narrow the growth differential between US and OUS markets.

Negatives

- US pacemakers down 6.5%. New products approved in US should improve sales.

Quick P&L Recap

- Total sales of \$1,363M were up 1.9% reported and up 3.7% ex-FX. US sales were flat while OUS sales were up 6.6% ex-FX.
 - Pacemakers:** Up 2.4% CC, driven by a 6.5% dip in the US partially offset by 9.0% growth in OUS mkts.
 - ICDs:** Up 3.0% CC driven by 4.7% growth in the US and 0.6% growth OUS. Management noted that its ICD lead to port ratio continues to remain stable.
 - AFib:** Up 10.3% CC driven by 5.5% growth in the US and 13.4% growth OUS. AFib was the strongest contributor to growth in the quarter, primarily due to the limited international launch of TactiCath.
 - Cardiovascular:** Up 2.2% CC, due to the continued shift from low-growth products to fast-growing products in FFR, OCT, and CardioMEMS.
 - Neurostimulation:** Flat y/y, driven by 28.0% international growth partially offset by 9.5% decline in the US.
- Gross margin of 72.0% was down 120 bps y/y, primarily due to the impact of excise taxes (-120bps) and negative currency (-10bps).
- SG&A was 34.0% of sales, down 100 bps y/y due to cost management initiatives.
- R&D was 12.5% of sales, up 50 bps y/y, which includes spending related to Spinal Modulation and CardioMEMS.
- Adj tax rate was 18.3%, within the guidance range of 18%-19% and adjusted for the US R&D tax credit.
- Avg diluted share count was 289.3M, up 0.7% y/y due to stock price appreciation.
- Adjusted EPS of \$0.96 was up 5.4% y/y. Adjusted results exclude approximately \$0.09 of after-tax special items.

Figure 393: Key Product Sales Trends

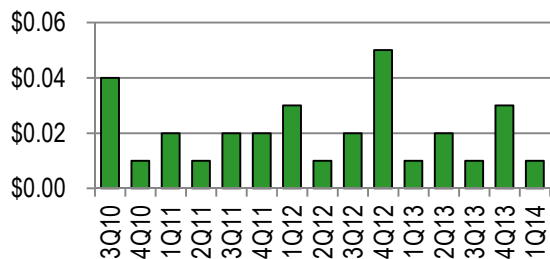
	Actual (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
CRM	\$687	1%	3%
ICDs	\$436	2%	3%
Pacemakers	\$251	0%	2%
Atrial Fibrillation	\$251	8%	10%
Cardiovascular	\$326	-1%	2%
Neurostim	\$99	0%	0%
Total sales	\$1,363	2%	4%

Source: Deutsche Bank, Company reports



St. Jude's 2014 Results Preview

Figure 394: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 397: DB versus Thomson Reuters Estimates

Revenues (\$ in millions)

	2014E		2015E	
	DB est	TR Est	DB est	TR Est
2013A				
1Q	\$1,338	\$1,363	\$1,448	\$1,436
2Q	\$1,403	\$1,440	\$1,517	\$1,507
3Q	\$1,338	\$1,399	\$1,468	\$1,477
4Q	\$1,422	\$1,503	\$1,578	\$1,567
FY	\$5,501	\$5,705	\$6,011	\$5,976

Guidance (04/16/14):

2Q14: \$1,380-\$1,460 million

2014: \$5,610-\$5,760 million

Earnings Per Share

	2014E		2015E	
	DB est	TR Est	DB est	TR Est
2013A				
1Q	\$0.91	\$0.96	\$1.04	\$1.02
2Q	\$0.96	\$1.00	\$1.07	\$1.08
3Q	\$0.90	\$0.92	\$1.03	\$1.06
4Q	\$0.99	\$1.07	\$1.18	\$1.17
FY	\$3.76	\$3.99	\$4.36	\$4.31

Guidance (04/16/14):

2Q14: \$0.99-\$1.01

2014: \$3.95-\$4.00

Source: Deutsche Bank, Thomson Reuters

Figure 395: Earnings Release and Conference Call Information

Earnings Release Date: Wednesday July 16, 2014 before market open

Conf Call Date & Info: Wednesday, July 16, 2014 at 8:00am
Dial In: +1 866 393 8590, Code: 55756524
<http://investors.sjm.com>

Source: Company reports

Figure 396: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change		STJ
		Rptd	Ex-FX	Guidance 4/16/2014
CRM	\$734	2%	2%	\$705-\$735
ICDs	\$467	3%	2%	
Pacemakers	\$267	1%	2%	
Atrial Fibrillation	\$255	7%	9%	\$240-\$260
Cardiovascular	\$344	1%	2%	\$335-\$355
Neurostim	\$108	0%	0%	\$100-\$110
Total sales	\$1,440	3%	3%	\$1,380-\$1,460

What to focus on

- 2014 guidance update
- CRM trends and market commentary
- Pipeline updates and new product areas
 - Recent CRM / neuromodulation product approvals
 - CardioMEMS
 - Portico's US trial
 - Renal denervation program
 - Update on Nanostim US clinical trial
- Restructuring/cost savings initiatives
- Update on Neuromodulation warning letter

Source: Deutsche Bank



2014 Guidance Update

Along with 1Q14 results, St. Jude increased its 2014 sales guidance by approximately \$10M, resulting in total sales of \$5,610M-\$5,760M, denoting constant currency sales growth of 3%-5%. The increase in guidance was primarily driven by the impact of foreign exchange; St. Jude previously anticipated FX to reduce sales by \$40M-\$55M and now anticipates FX will reduce sales by only \$30M-\$40M.

By product line, St. Jude anticipates segment sales of:

- **CRM:** \$2,800M - \$2,850M, driven by new product launches and favorable market dynamics in the CRM space.
- **Atrial Fibrillation:** \$1,025M - \$1,065M, primarily driven by the launch of TactiCath.
- **Cardiovascular:** \$1,355M - \$1,395M, which is a decline from prior guidance of \$1,365M - \$1,405M due primarily to the removal of renal denervation revenue for the remainder of the year. The Cardiovascular segment also continues to include \$15M - \$20M of sales from CardioMEMS in the back half of the year.
- **Neuromodulation:** \$430M - \$450M, which should see an uptick in sales due to the launches of new products.

Figure 398: St. Jude FY 2014 Guidance vs DB Estimates

Sales (\$M)	2013A	2014 Guidance Issued 1/22/14	2014 Guidance Issued 4/16/14	Implied y/y % chg	DB 2014E
CRM	\$2,845	\$2,790 - \$2,840	\$2,800 - \$2,850	-2% - 0%	\$2,845
Atrial Fib	\$957	\$1,020 - \$1,060	\$1,025 - \$1,065	7% - 11%	\$1,045
Cardiovascular	\$1,335	\$1,365 - \$1,405	\$1,355 - \$1,395	1% - 4%	\$1,374
Neuromodulation	\$426	\$425 - \$445	\$430 - \$450	1% - 6%	\$441
Total sales	\$5,563	\$5,600 - \$5,750	\$5,610 - \$5,760	1% - 4%	\$5,705
FX impact (\$M)	(\$102)	(\$40) - (\$55)	(\$30) - (\$40)		(\$24)
<i>FX assumptions:</i>		1 Euro=\$1.33-\$1.38 102-107 Yen = US\$1	1 Euro=\$1.35-\$1.40 100-105 Yen = US\$1		
P&L					
Gross margin	72.3%	71.5% - 72.0%	71.5% - 72.0%		71.8%
SG&A as % of sales	33.9%	33.5% - 34.0%	33.5% - 34.0%		33.5%
R&D as % of sales	12.6%	12.2% - 12.7%	12.2% - 12.7%		12.5%
Other expense (\$M)	\$77	\$75 - \$85	\$75 - \$85		\$85
Tax rate (w/ R&D crdt)	21.0%	18.0% - 19.0%	18.0% - 19.0%		18.3%
Share count	291	291 - 293	291 - 293		292
EPS reported	\$3.76	\$3.94 - \$3.99	\$3.95 - \$4.00	5% - 6%	\$3.99
FX impact		\$0.06 - \$0.08	\$0.05 - \$0.07	6% - 8%	

Source: Deutsche Bank, St. Jude Medical



Figure 399: St. Jude's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Cardiac Rhythm Management																		
Pacemakers																		
US revenues	\$526	\$500	\$116	\$117	\$114	\$103	\$450	\$107	\$110	\$107	\$100	\$424	\$100	\$108	\$107	\$105	\$420	\$425
OUS revenues	\$694	\$711	\$169	\$170	\$165	\$157	\$661	\$144	\$154	\$157	\$163	\$618	\$151	\$159	\$161	\$171	\$642	\$665
WW revenues	\$1,220	\$1,211	\$285	\$287	\$279	\$260	\$1,111	\$251	\$264	\$264	\$263	\$1,042	\$251	\$267	\$269	\$275	\$1,062	\$1,090
FX Impact (\$)	\$7	\$44	(\$1)	(\$11)	(\$15)	(\$5)	(\$32)	(\$3)	(\$5)	(\$6)	(\$7)	(\$21)	(\$6)	(\$1)	\$2	\$3	(\$2)	\$0
Y/Y % Change																		
US revenues	1.3%	-4.9%	-11.5%	-9.3%	-9.5%	-9.6%	-10.0%	-7.8%	-6.0%	-6.1%	-2.9%	-5.8%	-6.5%	-2.0%	0.4%	4.5%	-1.0%	1.1%
OUS revenues	3.4%	2.4%	1.8%	-9.1%	-8.3%	-11.8%	-7.0%	-14.8%	-9.4%	-4.8%	3.8%	-6.5%	4.9%	3.3%	2.8%	4.9%	4.0%	3.5%
WW revenues	2.5%	-0.7%	-4.0%	-9.2%	-8.8%	-11.0%	-8.3%	-11.9%	-8.0%	-5.4%	1.2%	-6.2%	0.0%	1.1%	1.8%	4.7%	1.9%	2.6%
OUS ex-FX	2.5%	-3.9%	2.4%	-3.2%	0.0%	-9.0%	-2.5%	-13.0%	-6.5%	-1.2%	8.3%	-3.3%	9.0%	4.0%	1.5%	3.0%	4.3%	3.5%
WW ex-FX	2.0%	-4.3%	-3.7%	-5.7%	-3.9%	-9.2%	-5.6%	-10.9%	-6.3%	-3.2%	3.8%	-4.3%	2.4%	1.5%	1.1%	3.6%	2.1%	2.6%
ICDs																		
US revenues	\$1,138	\$1,046	\$266	\$267	\$247	\$236	\$1,016	\$255	\$270	\$253	\$249	\$1,027	\$267	\$275	\$261	\$252	\$1,055	\$1,067
OUS revenues	\$682	\$777	\$184	\$192	\$165	\$186	\$727	\$172	\$184	\$165	\$193	\$714	\$169	\$192	\$172	\$195	\$728	\$744
WW revenues	\$1,820	\$1,823	\$450	\$459	\$412	\$422	\$1,743	\$427	\$454	\$418	\$442	\$1,741	\$436	\$467	\$433	\$447	\$1,783	\$1,811
FX Impact (\$)	\$1	\$48	(\$4)	(\$15)	(\$17)	(\$6)	(\$42)	(\$3)	(\$7)	(\$3)	(\$3)	(\$16)	(\$4)	\$2	\$2	\$2	\$2	\$0
Y/Y % Change																		
US revenues	14.0%	-8.1%	-5.0%	-1.8%	-3.9%	-0.4%	-2.9%	-4.1%	1.1%	2.4%	5.5%	1.1%	4.7%	1.9%	3.0%	1.3%	2.7%	1.1%
OUS revenues	17.6%	13.9%	-0.5%	-6.3%	-12.2%	-6.5%	-6.4%	-6.5%	-4.2%	0.0%	3.8%	-1.8%	-1.7%	4.2%	4.5%	0.9%	1.9%	2.2%
WW revenues	15.3%	0.2%	-3.2%	-3.8%	-7.4%	-3.2%	-4.4%	-5.1%	-1.1%	1.5%	4.7%	-0.1%	2.1%	2.8%	3.6%	1.1%	2.4%	1.6%
OUS ex-FX	17.5%	6.9%	1.6%	1.0%	-3.2%	-3.5%	-1.0%	-4.9%	-0.5%	1.8%	5.4%	0.4%	0.6%	3.1%	3.3%	-0.2%	1.6%	2.2%
WW ex-FX	15.3%	-2.5%	-2.4%	-0.6%	-3.6%	-1.8%	-2.1%	-4.4%	0.4%	2.2%	5.5%	0.8%	3.0%	2.4%	3.1%	0.7%	2.3%	1.6%
Total CRM																		
US revenues	\$1,664	\$1,546	\$382	\$384	\$361	\$339	\$1,466	\$362	\$380	\$360	\$349	\$1,451	\$367	\$383	\$368	\$357	\$1,475	\$1,491
OUS revenues	\$1,376	\$1,488	\$353	\$362	\$330	\$343	\$1,388	\$316	\$338	\$322	\$356	\$1,332	\$320	\$351	\$334	\$366	\$1,370	\$1,409
WW revenues	\$3,040	\$3,034	\$735	\$746	\$691	\$682	\$2,854	\$678	\$718	\$682	\$705	\$2,783	\$687	\$734	\$702	\$722	\$2,845	\$2,900
FX Impact (\$)	\$7	\$92	(\$5)	(\$26)	(\$32)	(\$11)	(\$74)	(\$6)	(\$12)	(\$9)	(\$10)	(\$37)	(\$10)	\$1	\$4	\$5	\$0	\$0
Y/Y % Change																		
US revenues	9.7%	-7.1%	-7.1%	-4.2%	-5.7%	-3.4%	-5.2%	-5.2%	-1.0%	-0.3%	2.9%	-1.0%	1.4%	0.7%	2.2%	2.2%	1.6%	1.1%
OUS revenues	10.0%	8.1%	0.6%	-7.7%	-10.3%	-9.0%	-6.7%	-10.5%	-6.6%	-2.4%	3.8%	-4.0%	1.3%	3.8%	3.7%	2.7%	2.9%	2.8%
WW revenues	9.8%	-0.2%	-3.5%	-5.9%	-8.0%	-6.3%	-5.9%	-7.8%	-3.8%	-1.3%	3.4%	-2.5%	1.3%	2.2%	2.9%	2.5%	2.2%	1.9%
OUS ex-FX	9.4%	1.5%	2.0%	-1.0%	-1.6%	-6.1%	-1.7%	-8.8%	-3.3%	0.3%	6.7%	-1.4%	4.4%	3.5%	2.4%	1.3%	2.9%	2.8%
WW ex-FX	9.6%	-3.2%	-2.9%	-2.6%	-3.7%	-4.8%	-3.5%	-6.9%	-2.1%	0.0%	4.8%	-1.2%	2.8%	2.0%	2.3%	1.8%	2.2%	1.9%

Source: Deutsche Bank, Company reports



Figure 399 (cont'd): St. Jude's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Atrial Fibrillation																		
US revenues	\$301	\$331	\$86	\$86	\$87	\$91	\$350	\$91	\$92	\$96	\$98	\$377	\$96	\$97	\$106	\$113	\$411	\$459
OUS revenues	\$407	\$492	\$135	\$132	\$133	\$148	\$548	\$142	\$145	\$139	\$154	\$580	\$155	\$158	\$152	\$169	\$634	\$689
WW revenues	\$708	\$823	\$221	\$218	\$220	\$239	\$898	\$233	\$237	\$235	\$252	\$957	\$251	\$255	\$257	\$282	\$1,045	\$1,149
FX Impact (\$)	\$6	\$29	(\$1)	(\$6)	(\$9)	(\$4)	(\$20)	(\$4)	(\$8)	(\$7)	(\$7)	(\$26)	(\$6)	(\$3)	\$0	\$0	(\$9)	\$0
Y/Y % Change																		
US revenues	5.2%	10.0%	7.5%	2.4%	4.8%	8.3%	5.7%	5.8%	7.0%	10.3%	7.7%	7.7%	5.5%	5.0%	10.0%	15.0%	9.0%	11.8%
OUS revenues	19.0%	20.9%	17.4%	6.5%	11.8%	10.4%	11.4%	5.2%	9.8%	4.5%	4.1%	5.8%	9.2%	8.9%	9.0%	10.0%	9.3%	8.7%
WW revenues	12.7%	16.2%	13.3%	4.8%	8.9%	9.6%	9.1%	5.4%	8.7%	6.8%	5.4%	6.6%	7.7%	7.4%	9.4%	11.9%	9.2%	9.9%
OUS ex-FX	17.3%	13.8%	18.3%	11.3%	19.3%	13.4%	15.4%	8.1%	15.9%	9.8%	8.8%	10.6%	13.4%	11.0%	9.0%	10.0%	10.8%	8.7%
WW ex-FX	11.8%	12.1%	13.8%	7.7%	13.4%	11.5%	11.5%	7.2%	12.4%	10.0%	8.4%	9.5%	10.3%	8.7%	9.4%	11.9%	10.1%	9.9%
Cardiovascular Products																		
Structural Heart																		
US revenues	\$124	\$200	\$55	\$51	\$53	\$49	\$208	\$51	\$51	\$51	\$53	\$206	\$51	\$51	\$51	\$54	\$208	\$212
OUS revenues	\$238	\$397	\$100	\$109	\$92	\$103	\$404	\$102	\$111	\$98	\$114	\$425	\$103	\$115	\$104	\$124	\$446	\$496
WW revenues	\$362	\$597	\$155	\$160	\$145	\$152	\$612	\$153	\$162	\$149	\$167	\$631	\$154	\$167	\$155	\$178	\$653	\$708
FX Impact (\$)	\$5	\$23	\$0	(\$6)	(\$8)	(\$3)	(\$17)	(\$3)	(\$4)	(\$4)	(\$3)	(\$14)	(\$3)	(\$1)	(\$1)	\$0	(\$5)	\$0
Y/Y % Change																		
US revenues	11.7%	61.3%	10.0%	2.0%	0.0%	4.3%	4.0%	-7.3%	0.0%	-3.8%	8.2%	-1.0%	0.7%	0.7%	0.7%	1.4%	0.9%	1.9%
OUS revenues	11.7%	66.8%	7.5%	5.8%	-6.1%	0.0%	1.8%	2.0%	1.8%	6.5%	10.7%	5.2%	0.8%	3.8%	5.8%	8.8%	4.9%	11.3%
WW revenues	11.7%	64.9%	8.4%	4.6%	-4.0%	1.3%	2.5%	-1.3%	1.3%	2.8%	9.9%	3.1%	0.7%	2.8%	4.0%	6.4%	3.6%	8.3%
OUS ex-FX	9.6%	57.1%	7.5%	11.7%	2.0%	2.9%	6.0%	5.0%	5.5%	10.9%	13.6%	8.7%	3.7%	4.7%	6.8%	8.8%	6.0%	11.3%
WW ex-FX	10.3%	58.6%	8.4%	8.5%	1.3%	3.3%	5.4%	0.6%	3.8%	5.5%	11.8%	5.4%	2.7%	3.4%	4.7%	6.4%	4.3%	8.3%
Vascular Products																		
US revenues	\$261	\$248	\$66	\$63	\$58	\$60	\$247	\$62	\$66	\$63	\$66	\$257	\$63	\$68	\$71	\$77	\$279	\$320
OUS revenues	\$414	\$492	\$115	\$117	\$111	\$126	\$469	\$113	\$112	\$105	\$117	\$447	\$109	\$110	\$105	\$118	\$442	\$452
WW revenues	\$675	\$740	\$181	\$180	\$169	\$186	\$716	\$175	\$178	\$168	\$183	\$704	\$172	\$177	\$176	\$195	\$721	\$772
FX Impact (\$)	\$6	\$31	(\$1)	(\$6)	(\$8)	(\$4)	(\$19)	(\$4)	(\$7)	(\$7)	(\$7)	(\$25)	(\$6)	(\$3)	(\$1)	\$0	(\$10)	\$0
Y/Y % Change																		
US revenues	-5.8%	-5.0%	1.5%	-4.5%	0.0%	1.7%	-0.4%	-6.1%	4.8%	8.6%	10.0%	4.0%	1.6%	2.3%	12.9%	16.6%	8.4%	15.0%
OUS revenues	17.6%	18.8%	-3.4%	-4.9%	-6.7%	-3.8%	-4.7%	-1.7%	-4.3%	-5.4%	-7.1%	-4.7%	-3.5%	-2.0%	0.1%	1.0%	-1.1%	2.2%
WW revenues	7.3%	9.6%	-1.6%	-4.8%	-4.5%	-2.1%	-3.2%	-3.3%	-1.1%	-0.6%	-1.6%	-1.7%	-1.7%	-0.4%	4.9%	6.6%	2.4%	7.2%
OUS ex-FX	16.1%	11.4%	-2.5%	0.0%	0.0%	-0.8%	-0.8%	1.7%	1.7%	0.9%	-1.6%	0.6%	1.8%	0.7%	1.1%	1.0%	1.1%	2.2%
WW ex-FX	6.4%	5.0%	-1.1%	-1.6%	0.0%	0.0%	-0.7%	-1.1%	2.8%	3.6%	2.2%	1.8%	1.7%	1.3%	5.5%	6.6%	3.8%	7.2%

Source: Deutsche Bank, Company reports



Figure 399 (cont'd): St. Jude's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Total Cardiovascular Products																		
US revenues	\$385	\$448	\$121	\$114	\$111	\$109	\$455	\$113	\$117	\$114	\$119	\$463	\$114	\$119	\$122	\$131	\$486	\$532
OUS revenues	\$652	\$889	\$215	\$226	\$203	\$229	\$873	\$215	\$223	\$203	\$231	\$872	\$212	\$225	\$209	\$242	\$888	\$948
WW revenues	\$1,037	\$1,337	\$336	\$340	\$314	\$338	\$1,328	\$328	\$340	\$317	\$350	\$1,335	\$326	\$344	\$331	\$373	\$1,374	\$1,480
FX Impact (\$)	\$10	\$54	(\$1)	(\$12)	(\$16)	(\$7)	(\$36)	(\$7)	(\$11)	(\$11)	(\$10)	(\$39)	(\$9)	(\$4)	(\$2)	\$0	(\$15)	\$0
Y/Y % Change																		
US revenues	-0.8%	16.4%	5.2%	-1.7%	0.0%	2.8%	1.6%	-6.6%	2.6%	2.7%	9.2%	1.8%	1.2%	1.6%	7.4%	9.8%	5.0%	9.4%
OUS revenues	15.4%	36.3%	1.4%	0.0%	-6.5%	-2.1%	-1.8%	0.0%	-1.3%	0.0%	0.9%	-0.1%	-1.5%	0.9%	2.9%	4.8%	1.8%	6.8%
WW revenues	8.8%	28.9%	2.8%	-0.6%	-4.3%	-0.6%	-0.7%	-2.4%	0.0%	1.0%	3.6%	0.5%	-0.6%	1.1%	4.5%	6.5%	2.9%	7.7%
OUS ex-FX	13.6%	28.1%	1.9%	5.3%	0.9%	0.9%	2.2%	3.3%	3.5%	5.4%	5.2%	4.4%	2.7%	2.7%	3.9%	4.8%	3.5%	6.8%
WW ex-FX	7.8%	23.7%	3.1%	2.9%	0.6%	1.5%	2.0%	-0.3%	3.2%	4.5%	6.5%	3.5%	2.2%	2.3%	5.1%	6.5%	4.1%	7.7%
Est. contribution fr	\$43	\$232																
Est underlying gro	3.3%	1.4%	3.1%	2.9%	0.6%	1.5%	2.0%	-0.3%	3.2%	4.5%	6.5%	3.5%	2.2%					
Neuromodulation																		
US revenues	\$306	\$322	\$79	\$80	\$80	\$87	\$326	\$74	\$80	\$76	\$82	\$312	\$67	\$78	\$78	\$90	\$313	\$344
OUS revenues	\$74	\$97	\$24	\$26	\$21	\$26	\$97	\$25	\$28	\$28	\$33	\$114	\$32	\$30	\$30	\$36	\$128	\$138
WW revenues	\$380	\$419	\$103	\$106	\$101	\$113	\$423	\$99	\$108	\$104	\$115	\$426	\$99	\$108	\$109	\$126	\$441	\$482
FX Impact (\$)	\$1	\$8	\$0	(\$3)	(\$3)	(\$1)	(\$7)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Y/Y % Change																		
US revenues	9.3%	5.2%	12.9%	3.9%	0.0%	-8.4%	1.2%	-6.3%	0.0%	-5.0%	-5.7%	-4.3%	-9.5%	-3.0%	3.0%	10.0%	0.3%	9.7%
OUS revenues	42.3%	31.1%	9.1%	-3.7%	-4.5%	0.0%	0.0%	4.2%	7.7%	33.3%	26.9%	17.5%	28.0%	8.0%	8.0%	8.0%	12.4%	8.0%
WW revenues	14.5%	10.3%	12.0%	1.9%	-1.0%	-6.6%	1.0%	-3.9%	1.9%	3.0%	1.8%	0.7%	0.0%	-0.1%	4.3%	9.4%	3.6%	9.2%
OUS ex-FX	40.4%	20.3%	9.1%	7.4%	9.1%	3.8%	7.2%	4.2%	7.7%	33.3%	26.9%	17.5%	28.0%	8.0%	8.0%	8.0%	12.4%	8.0%
WW ex-FX	14.2%	8.2%	12.0%	4.8%	2.0%	-5.8%	2.6%	-3.9%	1.9%	3.0%	1.8%	0.7%	0.0%	-0.1%	4.3%	9.4%	3.6%	9.2%
Total revenues																		
US revenues	\$2,656	\$2,647	\$668	\$664	\$639	\$626	\$2,597	\$640	\$669	\$646	\$648	\$2,603	\$644	\$676	\$674	\$690	\$2,685	\$2,826
OUS revenues	\$2,509	\$2,966	\$727	\$746	\$687	\$746	\$2,906	\$698	\$734	\$692	\$774	\$2,898	\$719	\$764	\$724	\$813	\$3,020	\$3,184
WW revenues	\$5,165	\$5,613	\$1,395	\$1,410	\$1,326	\$1,372	\$5,503	\$1,338	\$1,403	\$1,338	\$1,422	\$5,501	\$1,363	\$1,440	\$1,399	\$1,503	\$5,705	\$6,011
FX Impact (\$)	\$24	\$183	(\$7)	(\$47)	(\$60)	(\$23)	(\$137)	(\$17)	(\$31)	(\$27)	(\$27)	(\$102)	(\$25)	(\$6)	\$2	\$5	(\$24)	\$0
Y/Y % Change																		
US revenues	7.5%	-0.3%	-1.2%	-2.1%	-2.7%	-1.6%	-1.9%	-4.2%	0.8%	1.1%	3.5%	0.2%	0.7%	1.0%	4.4%	6.5%	3.2%	5.3%
OUS revenues	13.5%	18.2%	3.9%	-3.0%	-5.4%	-3.2%	-2.0%	-4.0%	-1.6%	0.7%	3.8%	-0.3%	3.0%	4.1%	4.7%	5.0%	4.2%	5.4%
WW revenues	10.3%	8.7%	1.4%	-2.6%	-4.1%	-2.5%	-2.0%	-4.1%	-0.5%	0.9%	3.6%	0.0%	1.9%	2.6%	4.5%	5.7%	3.7%	5.4%
OUS ex-FX	12.4%	10.9%	4.9%	3.1%	2.9%	-0.3%	2.6%	-1.7%	2.5%	4.7%	7.4%	3.2%	6.6%	4.9%	4.4%	4.4%	5.0%	5.4%
WW ex-FX	9.8%	5.1%	1.9%	0.7%	0.2%	-0.9%	0.5%	-2.9%	1.7%	2.9%	5.6%	1.8%	3.7%	3.1%	4.4%	5.4%	4.1%	5.4%

Source: Deutsche Bank, Company reports



Figure 399 (cont'd): St. Jude's Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Adjusted P&L																		
Revenues	\$5,165	\$5,612	\$1,395	\$1,410	\$1,326	\$1,372	\$5,503	\$1,338	\$1,403	\$1,338	\$1,422	\$5,501	\$1,363	\$1,440	\$1,399	\$1,503	\$5,705	\$6,011
Cost of goods sold	\$1,373	\$1,455	\$358	\$367	\$348	\$372	\$1,445	\$359	\$380	\$380	\$406	\$1,525	\$382	\$407	\$397	\$426	\$1,611	\$1,672
Gross Profits	\$3,792	\$4,156	\$1,037	\$1,043	\$978	\$1,000	\$4,058	\$979	\$1,023	\$958	\$1,016	\$3,976	\$981	\$1,033	\$1,002	\$1,078	\$4,094	\$4,338
gross margin	73.4%	74.1%	74.3%	74.0%	73.8%	72.9%	73.7%	73.2%	72.9%	71.6%	71.4%	72.3%	72.0%	71.8%	71.6%	71.7%	71.8%	72.2%
SG&A expenses	\$1,779	\$1,979	\$490	\$494	\$456	\$451	\$1,891	\$468	\$486	\$451	\$458	\$1,863	\$463	\$492	\$474	\$483	\$1,912	\$1,982
% of sales	34.5%	35.3%	35.1%	35.0%	34.4%	32.9%	34.4%	35.0%	34.6%	33.7%	32.2%	33.9%	34.0%	34.2%	33.9%	32.1%	33.5%	33.0%
R&D expenses	\$631	\$705	\$175	\$173	\$170	\$158	\$676	\$160	\$173	\$172	\$186	\$691	\$170	\$179	\$176	\$188	\$713	\$745
% of sales	12.2%	12.6%	12.5%	12.3%	12.8%	11.5%	12.3%	12.0%	12.3%	12.9%	13.1%	12.6%	12.5%	12.4%	12.6%	12.5%	12.5%	12.4%
Operating income	\$1,381	\$1,472	\$372	\$376	\$352	\$391	\$1,491	\$351	\$364	\$335	\$372	\$1,422	\$348	\$362	\$351	\$407	\$1,469	\$1,612
operating margin	26.7%	26.2%	26.7%	26.7%	26.5%	28.5%	27.1%	26.2%	25.9%	25.0%	26.2%	25.8%	25.5%	25.2%	25.1%	27.1%	25.7%	26.8%
Other (inc) expense	\$64	\$95	\$23	\$25	\$19	\$28	\$95	\$19	\$22	\$17	\$19	\$77	\$20	\$22	\$22	\$21	\$85	\$71
Pretax income	\$1,317	\$1,377	\$349	\$351	\$333	\$363	\$1,396	\$332	\$342	\$318	\$353	\$1,345	\$328	\$340	\$329	\$386	\$1,384	\$1,541
pretax margin	25.5%	24.5%	25.0%	24.9%	25.1%	26.5%	25.4%	24.8%	24.4%	23.8%	24.8%	24.5%	24.1%	23.6%	23.6%	25.7%	24.3%	25.6%
Taxes	\$323	\$303	\$77	\$75	\$72	\$78	\$302	\$70	\$75	\$66	\$72	\$283	\$60	\$62	\$60	\$71	\$253	\$274
Tax rate	24.5%	22.0%	22.1%	21.4%	21.6%	21.5%	21.6%	21.1%	21.9%	20.8%	20.3%	21.0%	18.3%	18.3%	18.3%	18.3%	18.3%	17.8%
Non-control interest								-\$1	-\$8	-\$10	-\$12	-\$31	-\$10	-\$13	-\$6	-\$6	-\$35	-\$20
Adj Net Inc to STJ	\$994	\$1,074	\$272	\$276	\$261	\$285	\$1,094	\$263	\$275	\$262	\$294	\$1,094	\$278	\$291	\$269	\$315	\$1,166	\$1,286
net income margin	19.2%	19.1%	19.5%	19.6%	19.7%	20.8%	19.9%	19.7%	19.6%	19.6%	20.6%	19.9%	20.4%	20.2%	19.2%	21.0%	20.4%	21.4%
Avg diluted shares	330.5	327.1	317.7	315.2	316.3	310.0	314.8	287.4	286.7	292.0	296.2	290.6	289.3	290.5	293.7	296.0	292.4	294.8
Adjusted EPS	\$3.01	\$3.28	\$0.86	\$0.88	\$0.83	\$0.92	\$3.48	\$0.91	\$0.96	\$0.90	\$0.99	\$3.76	\$0.96	\$1.00	\$0.92	\$1.07	\$3.99	\$4.36
Year-over-Year % Change																		
Revenues	10.3%	8.6%	1.4%	-2.5%	-4.1%	-2.5%	-1.9%	-4.1%	-0.5%	0.9%	3.6%	0.0%	1.9%	2.6%	4.5%	5.7%	3.7%	5.4%
Gross Profit	9.6%	9.6%	1.1%	-3.2%	-4.1%	-3.2%	-2.4%	-5.6%	-1.9%	-2.0%	1.6%	-2.0%	0.2%	1.0%	4.6%	6.1%	3.0%	6.0%
SG&A	4.6%	11.2%	0.3%	-3.9%	-8.0%	-6.2%	-4.4%	-4.5%	-1.6%	-1.1%	1.6%	-1.5%	-1.1%	1.3%	5.1%	5.4%	2.6%	3.6%
R&D	10.6%	11.7%	-0.4%	-1.9%	-3.6%	-10.6%	-4.1%	-8.6%	0.0%	1.2%	17.7%	2.2%	6.3%	3.2%	2.5%	1.0%	3.1%	4.5%
Operating Income	16.3%	6.6%	2.8%	-2.9%	1.3%	4.0%	1.3%	-5.6%	-3.2%	-4.8%	-4.9%	-4.6%	-0.9%	-0.5%	4.9%	9.5%	3.3%	9.7%
Pretax Income	15.5%	4.6%	4.1%	-3.1%	1.5%	3.2%	1.4%	-4.9%	-2.6%	-4.5%	-2.8%	-3.7%	-1.2%	-0.5%	3.6%	9.3%	2.9%	11.3%
Net Income	18.6%	8.1%	4.0%	-2.3%	2.0%	3.9%	1.8%	-3.3%	-0.4%	0.4%	3.0%	0.0%	5.7%	5.8%	2.7%	7.4%	6.6%	10.4%
Diluted Shares	-4.0%	-1.0%	-3.4%	-5.2%	-3.2%	-3.1%	-3.8%	-9.5%	-9.0%	-7.7%	-4.5%	-7.7%	0.7%	1.3%	0.6%	-0.1%	0.6%	0.8%
Adjusted EPS	23.6%	9.2%	7.7%	3.1%	5.4%	7.3%	5.8%	6.5%	9.5%	8.7%	7.8%	8.3%	5.4%	4.5%	2.1%	7.5%	5.9%	9.5%

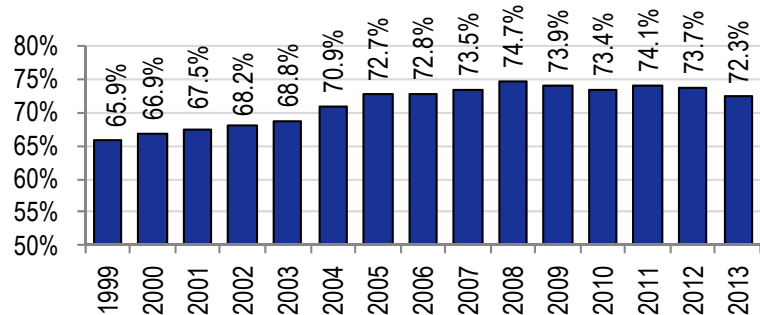
Source: Deutsche Bank, Company reports



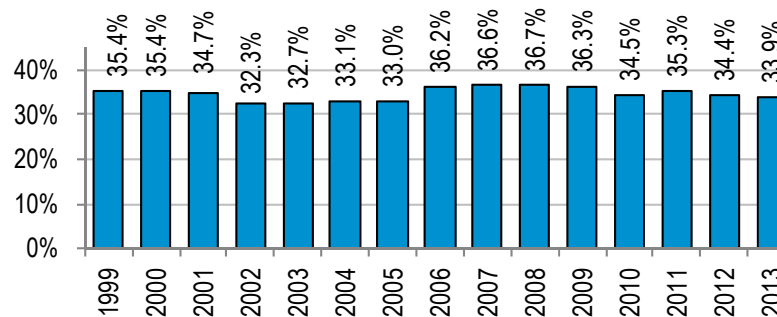
St. Jude Historical Margin Trends

Figure 400: Historical Margin Trends

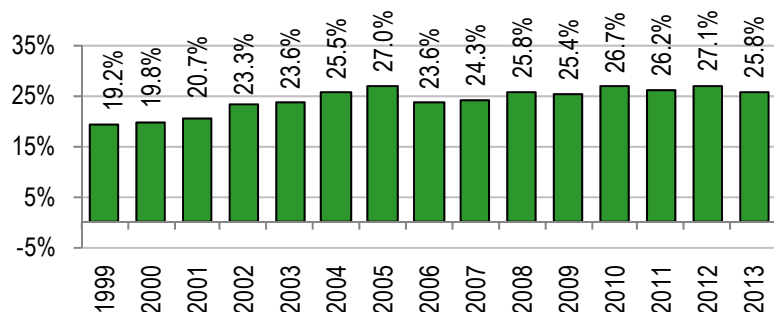
Gross margins



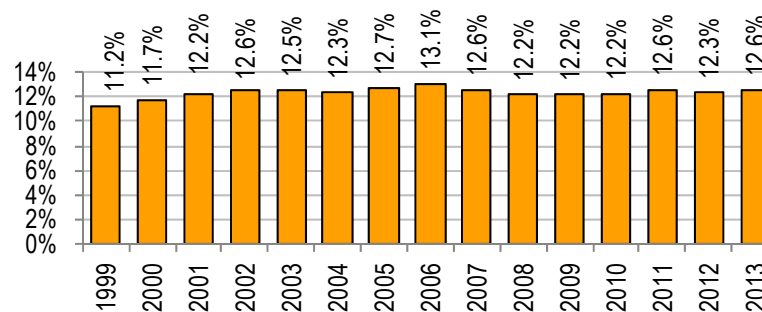
SG&A as % of sales



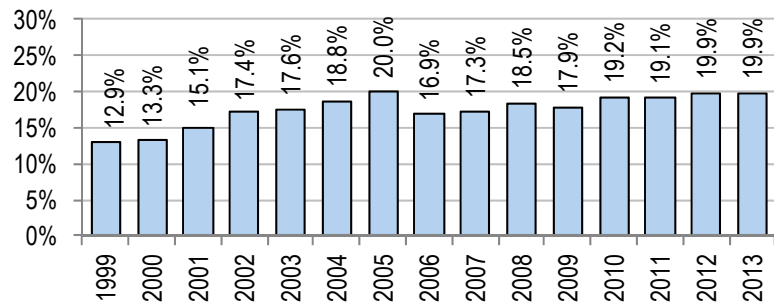
Operating Margin



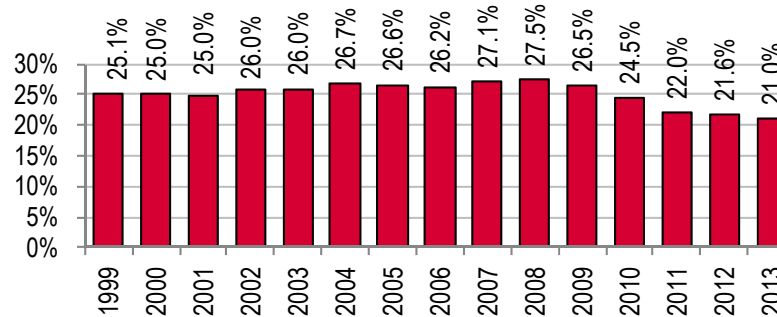
R&D as % of sales



Net Margin



Tax Rate

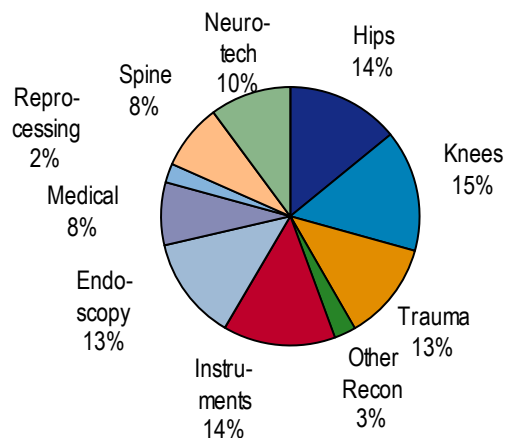


Source: Deutsche Bank, Company reports



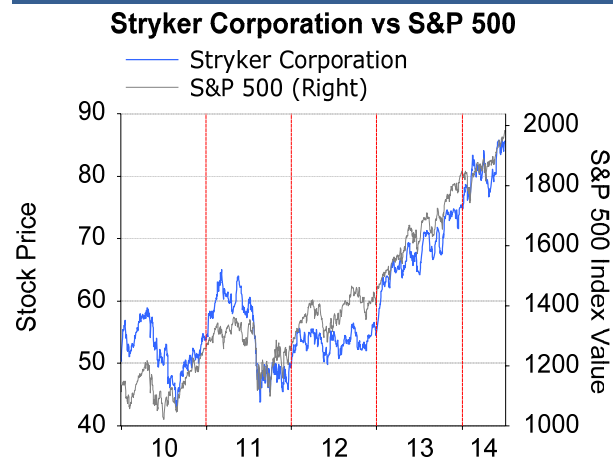
Stryker (SYK-Buy)

Figure 401: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 403: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 402: Rating and Valuation Summary

Mkt cap (\$M):	\$31,836	DB Rating:	Buy	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$83.98	DB Target Price:	\$90.00	DB	TR Cons	CY	Abs PE	
52 Wk Range: \$65.81-\$86.93		implied % chg: 7%		2013A	\$4.64	NTM	17.0x	
2013 Price Perf: 37.1%		Dividend Yield: 1.5%		2014E	\$4.79	\$4.80	2014E	17.5x
YTD 2014 Price Perf: 11.8%		Target PE (C15E): 17.1x		2015E	\$5.26	\$5.28	2015E	16.0x
EPS estimates exclude intangible amort								

Source: Deutsche Bank, Company reports, Thomson Reuters

Our Take on the Stock

Stryker often gets classified as an "ortho" or "capex" company, descriptions that do not give credit to its diversification. We believe Stryker has the right strategy for the current environment to deliver above-average mid-single digit sales growth and believe it will see leverage and be able to deliver double-digit EPS growth. Given this outlook, the strength of the balance sheet and the current valuation, we rate SYK a Buy.

Upcoming Potential Catalysts

- **Ongoing:** Market read-thrus from Zimmer-Biomet merger
- **July 15:** Read-thrus from J&J results
- **July 17:** Stryker's earnings release
- **July 24:** Read-thrus from Zimmer's results
- **September 17:** Stryker's analyst meeting

Valuation and Risks

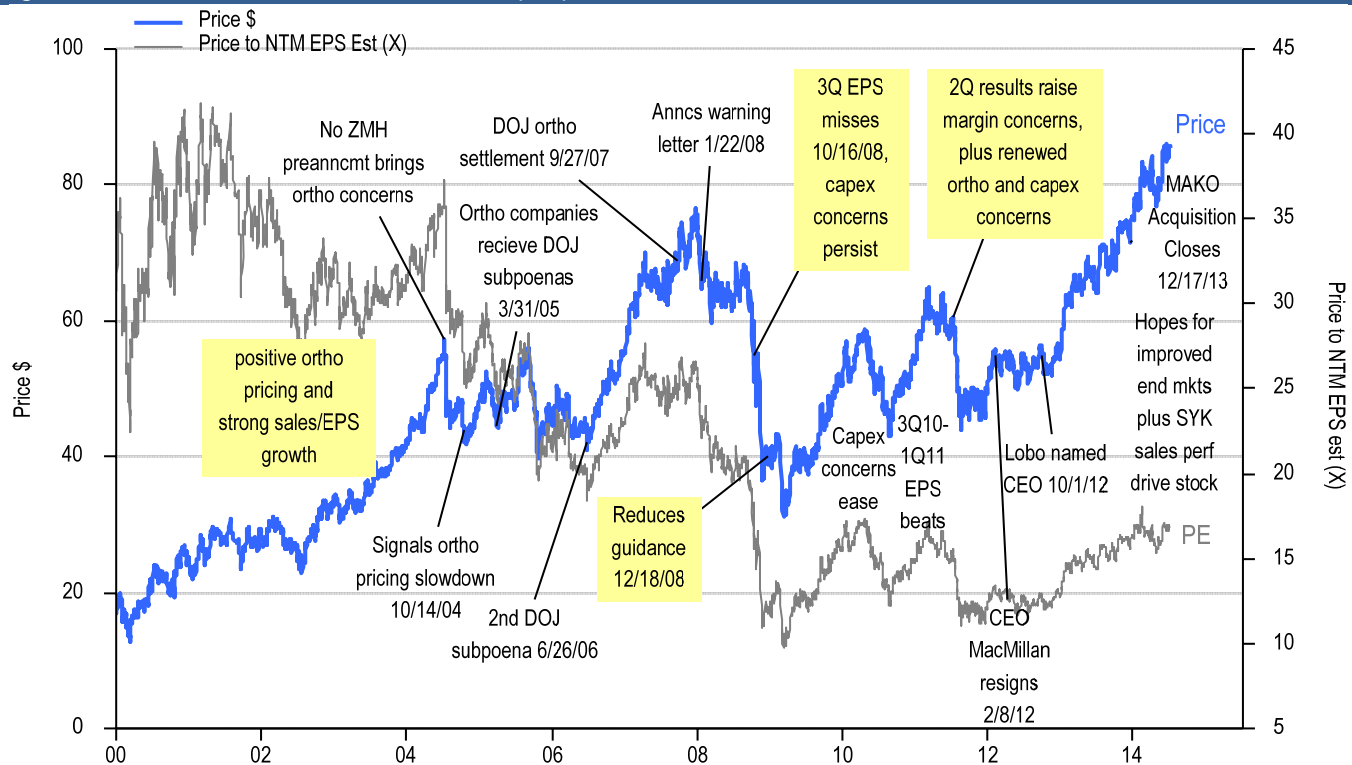
Our target price applies a 17x PE multiple to our 2015E cash EPS and 18x our adjusted EPS (w/amort), the latter of which is a 15% premium to the current S&P 500 '14E multiple. We believe a premium is justified given Stryker's growth profile, diversification, and strong balance sheet. Downside risks include market share losses in orthopedics, integration issues with MAKO, increased pricing pressure, hospital capex spending reductions, and inability to drive operating margin expansion.



Historical Stock Price Performance

SYK shares trade on the general orthopedic market and hospital capital equipment market updates. Typically there is not a lot of intra-quarter news flow, so earnings performances tend to be the major catalyst for the stock.

Figure 404: Stock Price Performance and Company News Events



Performance Commentary

SYK shares have typically traded on earnings releases as there tends to be little intra-quarter news flow. SYK shares also trade on sentiment on the orthopedic and capital expenditure markets. SYK shares contracted in late 2008 due to capital expenditure and a slowdown in elective procedure concerns. Through the early part of 2009 shares increased on the hopes that volumes would improve in 2H09, which they did not and the shares pulled back. Similarly, SYK shares increased in 1H10 on the strength of the MedSurg business and hopes for orthopedic volume return, but recent results and economic again have prompted a pullback in the stock as hopes for a recovery in the orthopedic business are pushed back and concerns on the capital equipment business were renewed. SYK shares traded lower after 3Q11 results both on 2012 growth concerns and in sympathy with sector. Shares have since risen with a better outlook for the orthopedic recon markets, a broader rotation into Medtech, as well as what we believe is confidence in the new management team.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
SYK	15.4%	15.0%	26.7%	13.5%	-7.9%	24.0%	35.6%	-46.5%	26.1%	6.6%	-7.4%	10.3%	37.1%	11.8%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&E	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Stryker's Product Portfolio Overview

Figure 405: Product overview

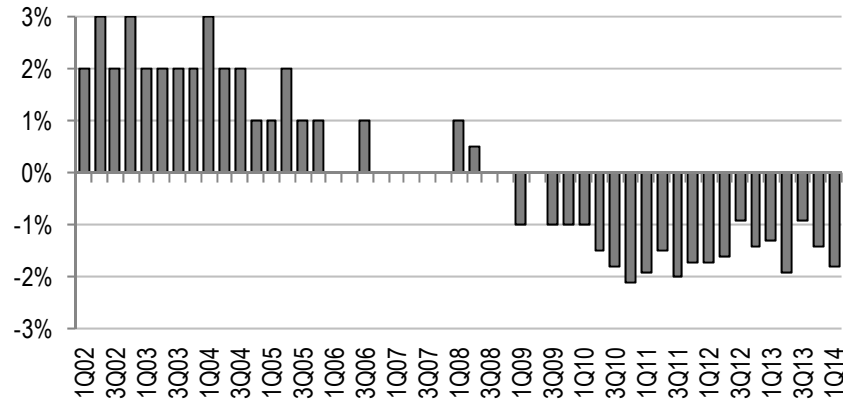
Product	% sales	Description	DB Commentary
ORTHOPEDIC IMPLANTS			
Knee implants	15%	Knee sales totaled \$1.4 billion in 2013. Stryker major knee implant systems are the Triathlon, Scorpio, and the Global Modular Replacement System (GRMS).	Primary competitors include Zimmer, J&J Depuy Synthes, Biomet, and Smith & Nephew.
Hip Implants	14%	Hip sales totaled \$1.3 billion in 2013. Stryker markets a variety of hip implant systems, including primary acetabular systems with cross-linked polyethylene, hip revision systems, hip fracture systems, and hip resurfacing systems.	Primary competitors include Zimmer, J&J Depuy Synthes, Biomet, and Smith & Nephew.
Trauma & Extremities	13%	Trauma and extremity sales totaled about \$1.1 billion in 2013. Stryker Trauma includes internal fixation devices, intramedullary and cephalomedullary nails, locked and non-locked plating, hip fracture solutions and external fixation systems.	Competitors include J&J Depuy Synthes, Biomet, Wright Medical, and Zimmer.
Other recon	3%	Other recon sales totaled \$245 million and included bone cements and other devices.	
MEDSURG EQUIPMENT			
Instruments	14%	Instrument sales totaled \$1.3 billion in 2013 and included an array of surgical, ENT, neurological, and interventional spine equipment. Stryker also sells an assortment of surgical navigation systems.	Stryker competes against Zimmer, Medtronic, Conmed, and B. Braun.
Endoscopy	13%	Endoscopy sales totaled \$1.2 billion in 2013. Stryker's Endoscopy franchise manufactures video-imaging and visualization equipment, operating room integration systems, and instruments for use in arthroscopy, general surgery, and urology. Endoscopy products include medical video cameras and accessories, digital imaging and viewing software and hardware, arthroscopes, laparoscopes, powered surgical instruments, RF ablation systems, and OR information management system.	Stryker's main competitors include Smith & Nephew, Conmed, Karl Storz, and Olympus.
Medical	8%	Medical sales totaled \$710 million in 2013. Stryker's Medical business includes bed and bed frames for the acute care and specialty surgical care facilities, stretchers and patient transport devices, ambulance cots, and evacuation equipment.	Stryker's competitors include Hill-Rom as the largest competitor, and Kinetic Concepts.
Reprocessing / Sustainability Solutions	2%	Reprocessing sales totaled \$213 million in 2013. Stryker acquired Ascent Healthcare Solutions in December 2009.	Competitors include J&J and a number of other (mainly) private companies in this space.
NEUROTECHNOLOGY and SPINE			
Neurotechnology	10%	Stryker acquired Boston Scientific's Neurovascular business on January 3, 2011. Stryker's legacy neurotechnology business generated sales of \$915 million in 2013.	Competitors include J&J Depuy Synthes, Covidien (ev3) and Medtronic.
Spine	8%	Spine sales totaled \$743 million in 2013 and included cervical, thoracolumbar and interbody systems comprised of plates, rods, screws, connectors, spaces and cages.	Primary competitors include Medtronic, J&J Depuy Synthes, Globus, and NuVasive.

Source: Deutsche Bank, Company reports



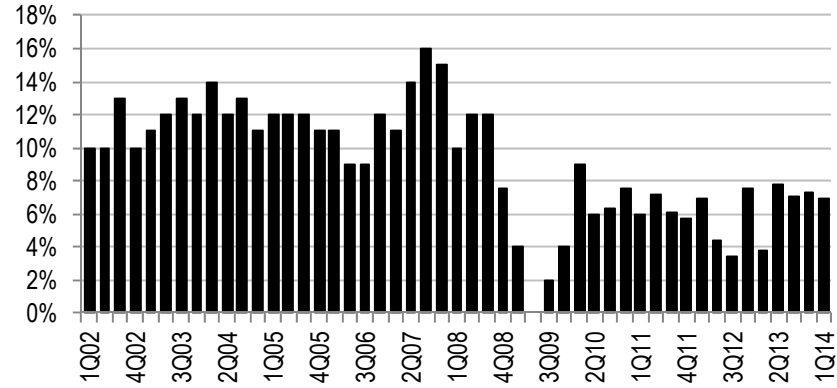
Pricing and Volume/Mix Trends

Figure 406: Total Company Pricing



Source: Deutsche Bank, Company reports

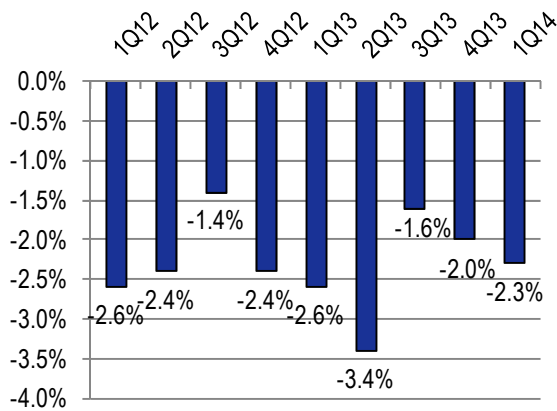
Figure 407: Volume/Mix Trends



Source: Deutsche Bank, Company reports

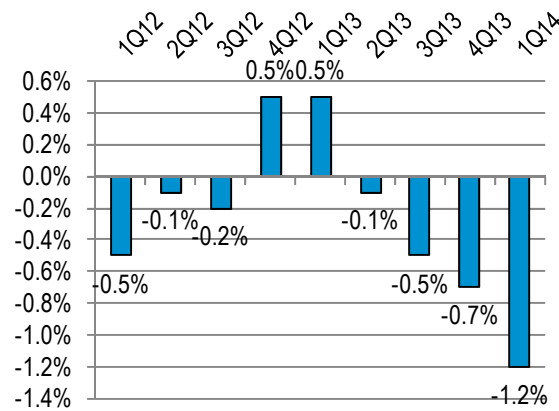
Pricing by Division

Figure 408: Orthopedic



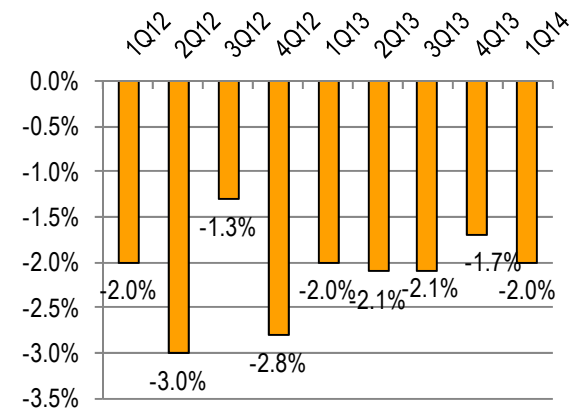
Source: Deutsche Bank, Company reports

Figure 409: MedSurg



Source: Deutsche Bank, Company reports

Figure 410: Neurotech/Spine

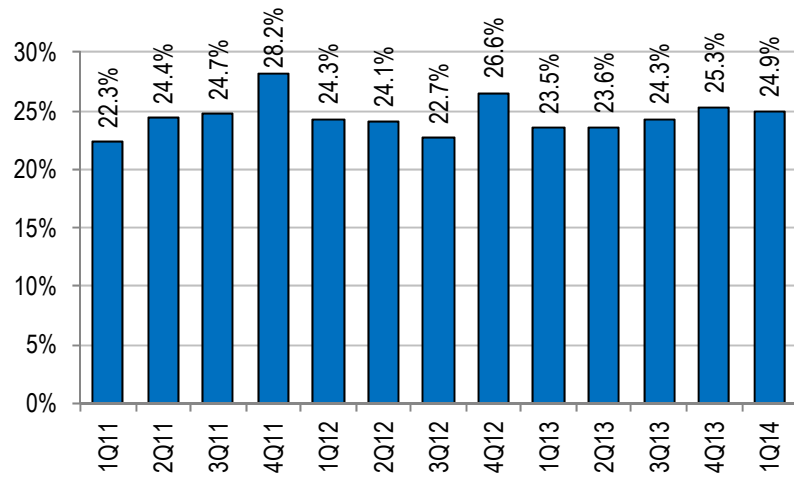


Source: Deutsche Bank, Company reports



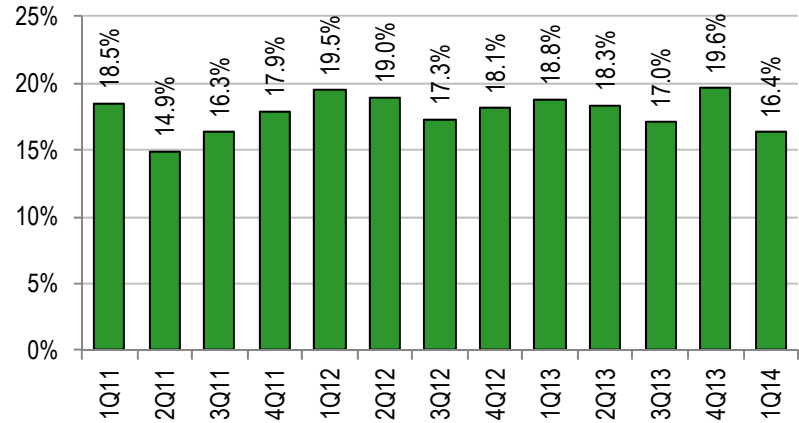
Net Income Margins by Operating Divisions

Figure 411: Orthopedic Net Income Margins



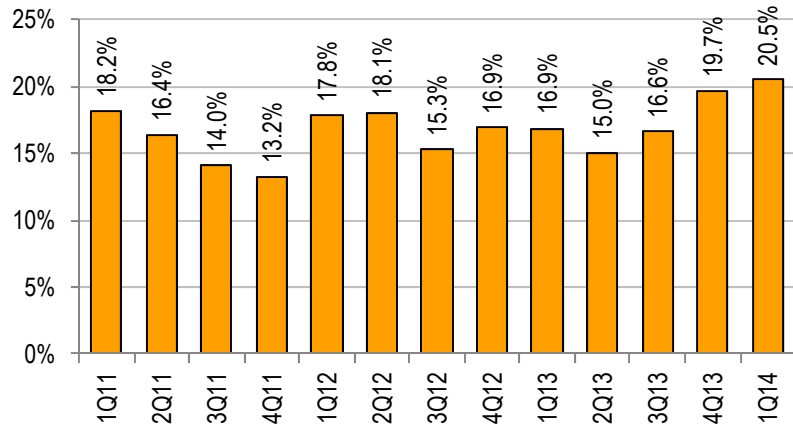
Source: Deutsche Bank, Company reports

Figure 412: MedSurg Net Income Margins



Source: Deutsche Bank, Company reports

Figure 413: Neurotech/Spine Net Income



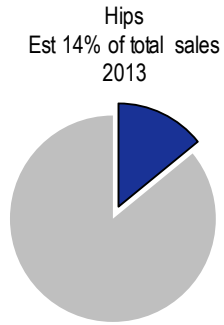
Source: Deutsche Bank, Company reports



Reconstructive Implant Trends

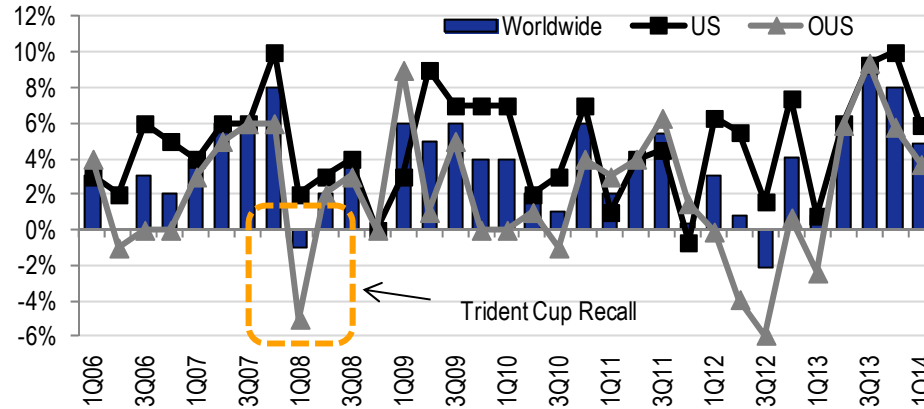
Hip Sales

Figure 414: Sales Mix



Source: Deutsche Bank, Company reports

Figure 415: Year-over-Year Percent Change in Constant Currency

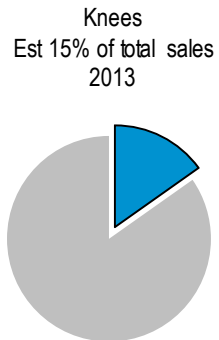


Source: Deutsche Bank, Company reports

Stryker's slower hip sales had been a function of both slower U.S. trends and weak European results, though trends have improved over the past several quarters as the US market has stabilized and the company has executed well. Going forward, the Hips franchise also includes hip sales from Mako.

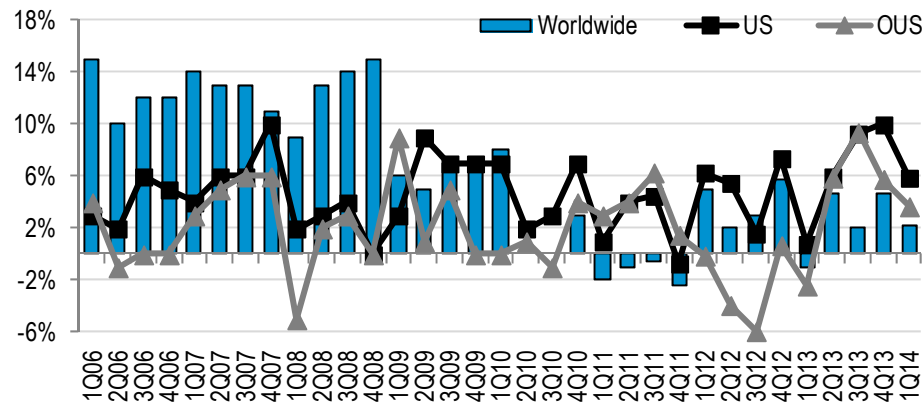
Knee Sales

Figure 416: Sales Mix



Source: Deutsche Bank, Company reports

Figure 417: Year-over-Year Percentage Change in Constant Currency



Source: Deutsche Bank, Company reports

Stryker's knees sales growth slowed along with the broader market through the 2010-2011 timeframe. The lack of a shapematching device also hurt sales. Growth has improved with the onset of the direct-to-consumer marketing program and improvement in the the underlying US market, though Europe generally remains weak. Going forward, the Knees business also includes knee sales from Mako.

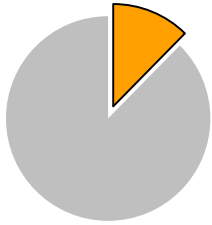


Reconstructive Implant Trends

Trauma & Extremities

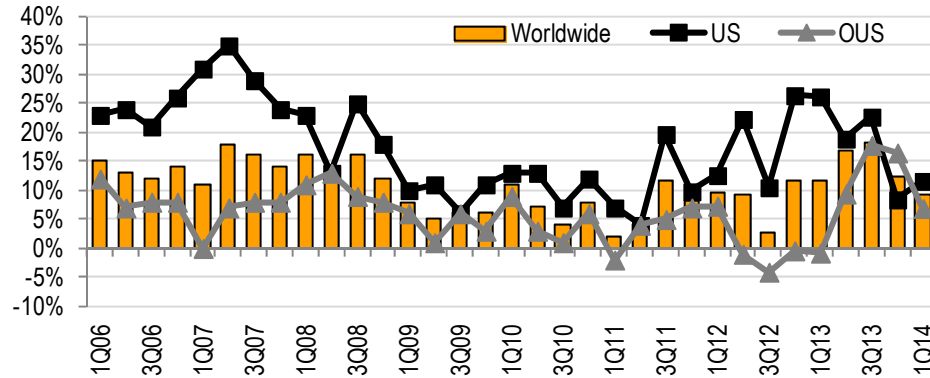
Figure 418: Sales Mix

Trauma
Est 12% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 419: Year-over-Year Percent Change in Constant Currency



Source: Deutsche Bank, Company reports

Stryker's Trauma & Extremities business includes implants, plates, screws, fixation systems, and biologics to treat the hands, arms, ankles, feet, and pelvis. The franchise has been one of the faster growing segments within the company.



MedSurg Sales Trends

Instrument Sales

Figure 420: Sales Mix

Instruments
Est 14% of total sales
2013

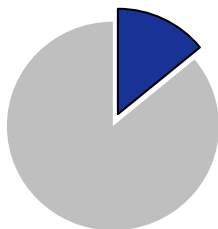
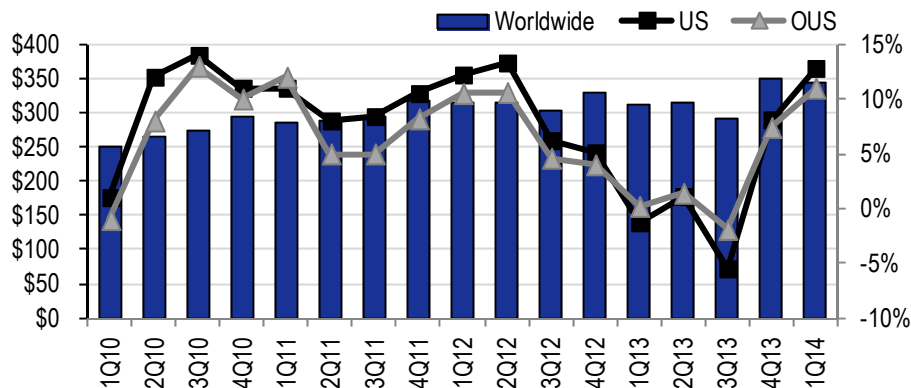


Figure 421: Sales and Y/Y % Change in Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

Endoscopy Sales

Figure 422: Sales Mix

Endoscopy
Est 13% of total sales
2013

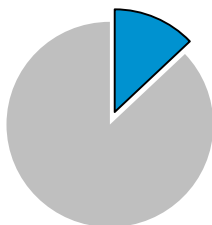
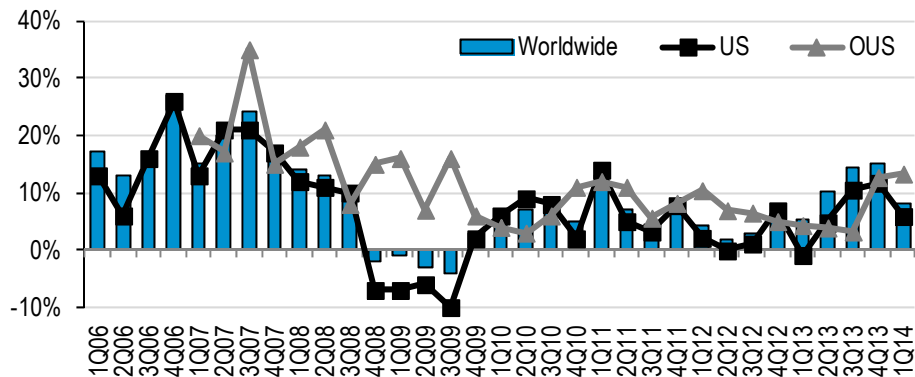


Figure 423: Year-over-Year Percentage Change in Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

The instrument business includes a variety of drilling, burring, rasping and cutting devices, surgical navigation, as well as safety and sterilization products.

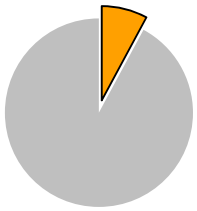
Stryker develops, manufactures and markets medical video and communications equipment and instruments for arthroscopy, general surgery and urology. Products include cameras, equipment, arthroscopes, laparoscopes, powered surgical instruments, radio frequency ablation systems, irrigation fluid management systems, and i-Suite operating room solutions.



Medical Sales

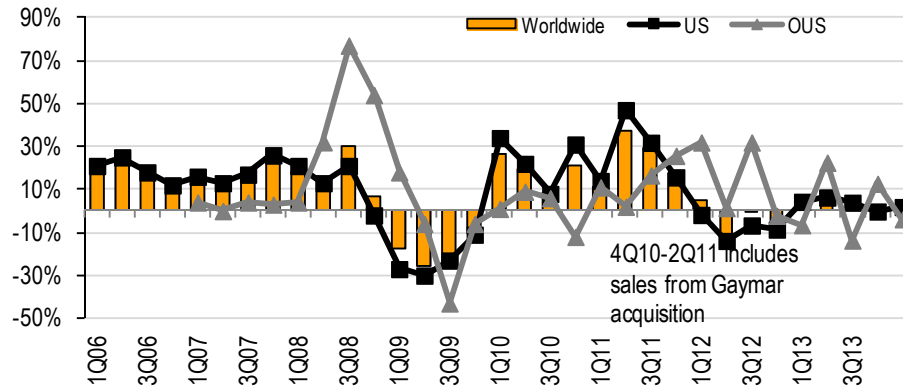
Figure 424: Sales Mix

Medical
Est 8% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 425: Year-over-Year Percentage Change in Constant Currency



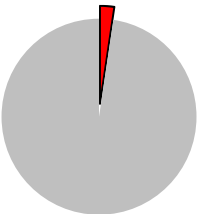
Source: Deutsche Bank, Company reports

Stryker sells medical beds and stretchers to hospitals and other healthcare facilities. Hill-Rom is Stryker's primary competitor.

Reprocessing Sales

Figure 426: Sales Mix

Reprocessing
Est 2% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 427: Estimates Sales (\$ in millions)



Source: Deutsche Bank, Company reports

Stryker completed the acquisition of Ascent Healthcare Solutions on January 4, 2010. Ascent is a leader in the US market for reprocessing and remanufacturing of single-use medical devices.

In 2009, approximately 41% of Ascent's sales were related to non-invasive devices (such as pulse oximeters), about 25% was related to cardiology, 29% related to operating room equipment (such as trocars, scalpels), and 5% from open, un-used, and expired devices.



Neurotechnology and Spine Sales Trends

Spine Sales

Figure 428: Sales Mix

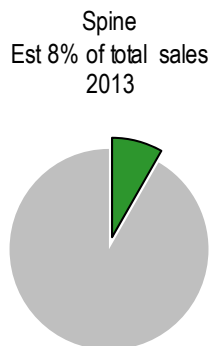
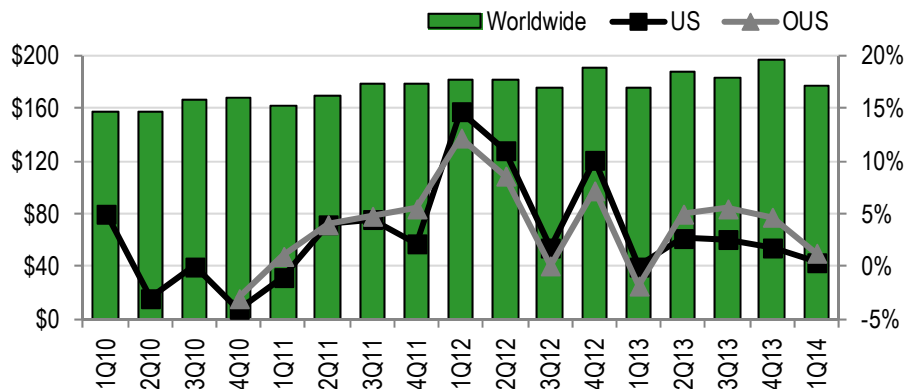


Figure 429: Sales (\$ in millions) and y/y constant currency growth



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

This segment includes the spinal implant business and the interventional spine offerings previously included in instrument segment.

Neurotechnology Sales

Figure 430: Sales Mix

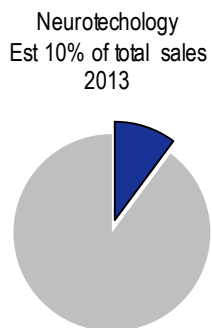
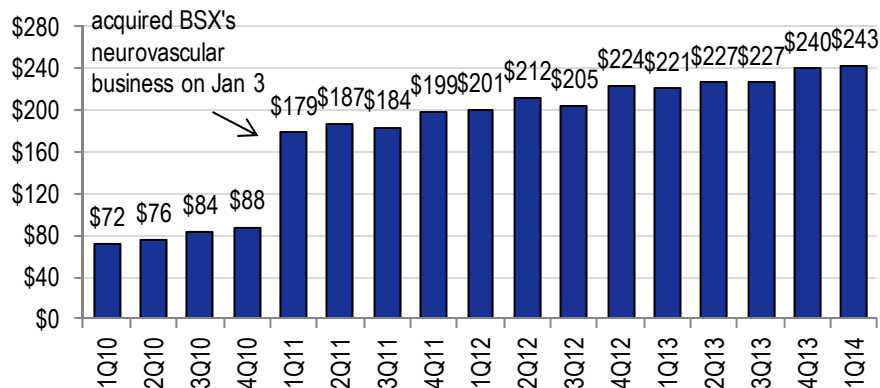


Figure 431: Year-over-Year Percentage Change in Constant Currency



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports

This segment includes the acquired Neurovascular business from BSX (completed January 3, 2012) and the NSE instruments offering previously included in the instrument segment of Medsur. CMF is also included in the segment, which was previously included in the reconstructive division.



Stryker's 1Q14 Results

Our Take on the Quarter

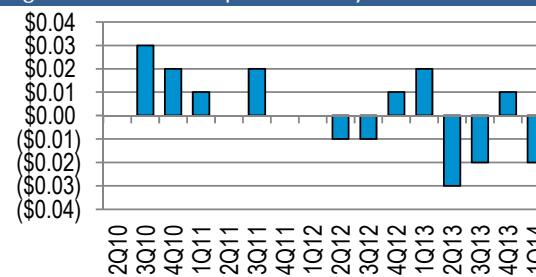
Stryker's sales came in \$2,305M, which was below TR at \$2,326M but more in line with our estimate of \$2,303M. Sales were up 5.3% on a reported basis. Excluding the impact of acquisitions, constant currency sales were up 5.0%. EPS of \$1.06 was also below both TR at \$1.08 and DBe of \$1.07. Relative to our model, the miss was more a function of higher other expense. Gross margins were slightly little lower, R&D higher, but SG&A was lower than we modeled leaving op margins relatively in line with our estimate. Other expense was higher than we modeled.

Figure 432: Quarter Variance

(\$ in mil except per share)	Actual	TR Consensus	DB Estimate
Sales	\$2,305M	\$2,326M	\$2,303M
EPS	\$1.06	\$1.08	\$1.07

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 433: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- Organic sales were still healthy, increasing 5%.
- Continued strength in the Neurotech and Spine segment (+7% constant currency).
- Extremities and trauma continue to grow nicely; the foot and ankle sub segment continues to outperform, increasing 34%

Negatives

- MAKO's performance in the quarter was disappointing so it seems given the acquisition contribution in the quarter.
- EPS missed expectations.

Quick P&L Recap

- Total sales \$2,305 million were up 5.3% reflecting the benefits of unit volume/mix (+6.9%) and acquisitions (+1.4%) partially offset by pricing (-1.8%) and FX (-1.1%). Excluding acquisitions, sales were up 5.0% on a constant currency basis.
- US sales were up 7.1% and OUS sales were up 5.2% on a constant currency basis.
- Gross margin was 66.9%, down 60 bps y/y primarily as a result of negative impact from foreign exchange due to the weakening of the Japanese Yen and Australian Dollar and pricing headwinds.
- SG&A expense was 36.3%, down 100 bps y/y reflecting greater efficiencies.
- R&D expense was 6.5% of sales, up 60 bps y/y reflecting increased spending and investments in areas that will help Stryker to drive above market sales growth.
- Operating margins were 24.1%, down 30bps y/y. Operating margins were negatively impacted primarily by pricing and foreign exchange partially offset by operational improvements and lower SG&A spend.
- Adjusted other expense was \$24 million versus \$11 million in 1Q13. Other expense increased primarily due to the impact of higher interest expense and foreign exchange translation losses in the period.
- Adjusted tax rate was 24.1%, higher than the Company's anticipated full year rate of ~23%.
- Share count of 382.6 million was relatively flat y/y. There were no share repurchases in the quarter.
- EPS of \$1.06 was down 2.8% over the prior year. EPS excludes approximately \$0.10 total impact from foreign exchange and R&D tax credits.

Figure 434: Key Product Sales Trends

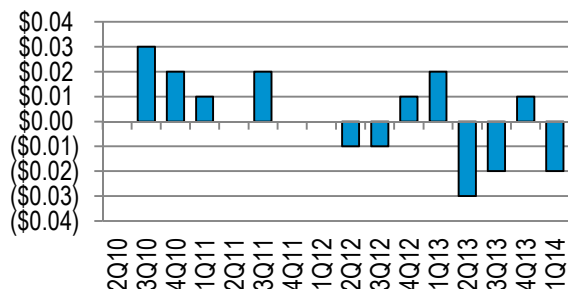
	Actual (\$ mil)	Y/Y % Change Rptd	Ex-FX
Recon	\$999	4%	6%
Hips	\$318	3%	5%
Knees	\$348	1%	2%
Trauma	\$288	8%	9%
MedSurg	\$886	6%	7%
Instruments	\$343	10%	11%
Endoscopy	\$312	7%	8%
Medical	\$181	-1%	1%
Reprocessing	\$54	3%	3%
Neurospine	\$420	6%	7%
Spine	\$177	1%	1%
Neurotech	\$243	10%	12%
Total Sales	\$2,305	5%	6%

Source: Deutsche Bank, Company reports



Stryker 2Q14 Results Preview

Figure 435: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters

Figure 438: DB versus Thomson Reuters Estimates

Revenues					
2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$2,190	\$2,305	\$2,499	\$2,457	
2Q	\$2,212	\$2,348	\$2,350	\$2,517	
3Q	\$2,151	\$2,341	\$2,313	\$2,473	
4Q	\$2,468	\$2,691	\$2,643	\$2,843	
FY	\$9,021	\$9,685	\$9,607	\$10,332	\$10,149

Guidance (4/23/14):

2014: +4.5%-6.0% organic sales growth

Earnings Per Share

2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$1.09	\$1.06	\$1.21	\$1.21	
2Q	\$1.12	\$1.08	\$1.09	\$1.23	
3Q	\$1.09	\$1.17	\$1.16	\$1.25	
4Q	\$1.35	\$1.49	\$1.49	\$1.57	
FY	\$4.64	\$4.79	\$4.80	\$5.26	\$5.28

Guidance (4/23/14):

2014: Cash EPS of \$4.75-\$4.90

Source: Deutsche Bank, Thomson Reuters

Figure 436: Earnings Release and Conference Call Information

Earnings Release Date: Thursday July 17, 2014 after market close

Conf Call Date & Info: Thursday July 17, 2014 at 4:30pm ET
Dial In: +1 866 436 9172, Code: 36096195
<http://investors.sjm.com/investors/>

Source: Company reports, Thomson Reuters

Figure 437: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change Rptd	Ex-FX
Recon	\$1,010	5%	6%
Hips	\$328	3%	4%
Knees	\$350	3%	4%
Trauma	\$285	7%	8%
MedSurg	\$904	8%	9%
Instruments	\$350	11%	11%
Endoscopy	\$333	15%	16%
Medical	\$163	-5%	-5%
Reprocessing	\$58	0%	0%
Neurospine	\$434	5%	5%
Spine	\$189	1%	1%
Neurotech	\$245	8%	9%
Total Sales	\$2,348	6%	7%

What to focus on:

- Commentary around industry M&A activity.
- 2014 guidance updates
- Quarterly organic growth trends
- Trends in the orthopedics markets, most notably in the hip and knee reconstructive markets
- Update on the MAKO acquisition, as well as the other acquisitions announced over the past quarter
- MedSurg markets capital expenditure trends
- Update on M&A outlook
- Pricing trends

Source: Deutsche Bank



2014 Guidance Update

Stryker reiterated its 2014 financial guidance, indicating that it continues to expect organic sales growth in the range of 4.5% to 6.0%. Management has not disclosed guidance for incremental revenue associated with acquisitions. Recall, Stryker acquired MAKO Surgical in December 2013, Patient Safety Technologies in March 2014, Pivot Medical in March 2014, and Berchtold Holdings in April 2014.

Adjusted cash EPS is expected to be \$4.75 - \$4.90, which is up 6%-9% y/y. We note, intangible amortization is expected to increase to \$0.35 reflecting the incremental amortization related to recent acquisitions. On June 30, 2014, Stryker announced it had reached an agreement to acquire assets of Small Bone Innovations. The total purchase price is to be finalized at transaction close, but management anticipates that the acquisition will be \$0.02 dilutive to 2014 cash EPS.

Management expects foreign exchange will negatively impact results by \$0.10 (an increase from \$0.07 prior), with the majority of this headwind to be seen in the first half of the year. We note Stryker will have an extra selling day in 3Q14, and one less selling day in both 2Q and 4Q 2014.



Figure 439: Stryker's Earnings Model (\$ in millions, except per share data)

	2010R	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	+1 day 1Q14	-1 day 2Q14E	+1 day 3Q14E	-1 day 4Q14E	2014E	2015E
Reconstructive																		
Hips	\$1,154	\$1,228	\$312	\$308	\$288	\$325	\$1,233	\$308	\$319	\$304	\$341	\$1,272	\$318	\$328	\$319	\$361	\$1,325	\$1,384
WW Y/Y% Chg	5%	6%	3%	-1%	-4%	4%	0%	-1%	4%	6%	5%	3%	3%	3%	5%	6%	4%	4%
WW Y/Y% Chg (ex-FX)	3%	3%	3%	1%	-2%	4%	2%	1%	6%	9%	8%	6%	5%	4%	5%	6%	5%	4%
Knees	\$1,306	\$1,316	\$352	\$329	\$315	\$360	\$1,356	\$345	\$340	\$315	\$371	\$1,371	\$348	\$350	\$340	\$408	\$1,445	\$1,523
WW Y/Y% Chg	4%	1%	5%	0%	1%	6%	3%	-2%	3%	0%	3%	1%	1%	3%	8%	10%	5%	5%
WW Y/Y% Chg (ex-FX)	3%	-2%	5%	2%	3%	6%	4%	-1%	5%	2%	5%	3%	2%	4%	8%	9%	6%	5%
Trauma & Extremities	\$845	\$931	\$243	\$233	\$235	\$278	\$989	\$266	\$266	\$277	\$307	\$1,116	\$288	\$285	\$298	\$328	\$1,199	\$1,283
WW Y/Y% Chg	8%	10%	9%	6%	0%	10%	6%	9%	14%	18%	10%	13%	8%	7%	8%	7%	7%	7%
WW Y/Y% Chg (ex-FX)	7%	7%	10%	9%	3%	12%	8%	12%	17%	18%	12%	15%	9%	8%	8%	7%	8%	7%
Other Recon	\$244	\$234	\$51	\$57	\$53	\$83	\$244	\$37	\$39	\$38	\$73	\$187	\$45	\$48	\$48	\$84	\$225	\$236
WW Y/Y% Chg		-4%	0%	2%	-2%	14%	4%	-27%	-32%	-28%	-12%	-23%	22%	23%	26%	15%	20%	5%
WW Y/Y% Chg (ex-FX)		0%					0%						22%	23%	26%	15%	20%	5%
Reconstructive	\$3,549	\$3,709	\$958	\$927	\$891	\$1,046	\$3,823	\$956	\$964	\$934	\$1,092	\$3,946	\$999	\$1,010	\$1,004	\$1,181	\$4,194	\$4,425
WW Y/Y% Chg	5%	5%	5.1%	1.2%	-1.1%	6.6%	3%	-0.2%	4.0%	4.8%	4.4%	3%	4%	5%	8%	8%	6%	6%
WW Y/Y% Chg (ex-FX)		1.5%	5%	4%	1%	7.4%	4%	3%	8%	9%	8%	6.9%	6%	6%	8%	8%	7%	6%
FX Impact		3%	0%	-2%	-2%	-1%	-1%	-3%	-4%	-4%	-4%	-3.7%	-1%	-1%	0%	0%	-1%	0%
MedSurg																		
Instruments	\$1,085	\$1,187	\$314	\$314	\$303	\$330	\$1,261	\$312	\$315	\$292	\$350	\$1,269	\$343	\$350	\$326	\$390	\$1,409	\$1,525
WW Y/Y% Chg	8%	9%	10%	9%	3%	3.4%	6%	-1%	0%	-4%	6%	1%	10%	11%	12%	11%	11%	8%
WW Y/Y% Chg (ex-FX)	8%	7%	11%	11%	5%	4%	7%	0%	1%	-2%	7%	2%	11%	11%	12%	11%	11%	8%
Endoscopy	\$985	\$1,081	\$279	\$264	\$259	\$309	\$1,111	\$291	\$289	\$294	\$351	\$1,225	\$312	\$333	\$346	\$407	\$1,398	\$1,531
WW Y/Y% Chg	7%	10%	4%	0%	1%	6%	3%	4%	9%	14%	14%	10%	7%	15%	18%	16%	14%	10%
WW Y/Y% Growth	6%	8%	4%	2%	3%	6%	4%	5%	10%	14%	15%	11%	8%	16%	18%	16%	14%	10%
Medical	\$583	\$722	\$179	\$158	\$169	\$185	\$691	\$182	\$172	\$168	\$188	\$710	\$181	\$163	\$168	\$188	\$700	\$714
WW Y/Y% Chg	20%	24%	4%	-12%	-1%	-8%	-4%	2%	9%	-1%	2%	3%	-1%	-5%	0%	0%	-1%	2%
WW Y/Y% Chg (ex-FX)	18%	23%	5%	-11%	0%	-7%	-4%	2%	9%	0%	2%	3%	1%	-5%	0%	0%	-1%	2%
Reprocessing	\$150	\$171	\$49	\$50	\$50	\$53	\$202	\$52	\$58	\$53	\$50	\$213	\$54	\$58	\$57	\$54	\$223	\$241
WW Y/Y% Chg		14%	25%	23%	11%	15%	18%	6%	16%	6%	-6%	5%	3%	0%	8%	8%	5%	8%
WW Y/Y% Chg (ex-FX)		14%	25%	23%	11%	15%	18%	6%	16%	6%	-6%	5%	3%	0%	8%	8%	5%	8%
MedSurg	\$2,803	\$3,161	\$821	\$786	\$781	\$877	\$3,265	\$837	\$834	\$807	\$939	\$3,417	\$886	\$904	\$897	\$1,039	\$3,726	\$4,012
WW Y/Y% Chg	15%	13%	7%	2%	2%	2%	3%	2%	6%	3%	7%	5%	6%	8%	11%	11%	9%	8%
WW Y/Y% Chg (ex-FX)		11%	8%	3%	3%	2.7%	4.2%	1.0%	5%	3%	7%	3.8%	7%	9%	11%	11%	9.4%	8%
FX Impact		2%	0%	-2%	-1%	0%	-1%	1%	1%	1%	0%	1%	-1%	0%	0%	0%	0%	0%

Source: Deutsche Bank, Company reports



Figure 439 (cont'd): Stryker's Earnings Model (\$ in millions, except per share data)

	2010R	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	+1 day 1Q14	-1 day 2Q14E	+1 day 3Q14E	-1 day 4Q14E	2014E	2015E
Neurotech & Spine																		
Spine	\$649	\$688	\$181	\$181	\$175	\$190	\$727	\$176	\$187	\$183	\$197	\$743	\$177	\$189	\$188	\$203	\$757	\$788
WW Y/Y% Chg	2%	6%	12%	7%	-2%	7%	6%	-3%	3%	5%	4%	2%	1%	1%	3%	3%	2%	4%
WW Y/Y% Chg (ex-FX)	1%	4%	12%	9%	0%	7%	7%	-2%	5%	6%	5%	3%	1%	1%	3%	3%	2%	4%
Neurotechnology	\$320	\$749	\$201	\$212	\$205	\$224	\$842	\$221	\$227	\$227	\$240	\$915	\$243	\$245	\$245	\$259	\$993	\$1,072
WW Y/Y% Chg		134%	12%	13%	11%	13%	12%	10%	7%	11%	7%	9%	10%	8%	8%	8%	8%	8%
WW Y/Y% Chg (ex-FX)		132%	12%	16%	14%	14%	14%	13%	10%	14%	10%	11%	12%	9%	8%	8%	9%	8%
Total Neurotech & Spine	\$969	\$1,437	\$382	\$393	\$380	\$414	\$1,569	\$397	\$414	\$410	\$437	\$1,658	\$420	\$434	\$434	\$462	\$1,750	\$1,859
WW Y/Y% Chg	6%	48%	12%	10%	5%	10%	9%	4%	5%	8%	6%	6%	6%	5%	6%	6%	6%	6%
WW Y/Y% Chg (ex-FX)		46%	12%	12%	7%	10.8%	11%	6%	8%	10%	8%	8%	7%	5%	6%	6%	6%	6%
FX Impact		2%	0%	-2%	-2%	-1%	-1%	-2%	-2%	-2%	-2%	-2%	-1%	-1%	0%	0%	0%	0%
Stryker Total Sales																		
Total Sales	\$7,320	\$8,307	\$2,161	\$2,106	\$2,052	\$2,337	\$8,657	\$2,190	\$2,212	\$2,151	\$2,468	\$9,021	\$2,305	\$2,348	\$2,336	\$2,681	\$9,670	\$10,297
WW Y/Y% Chg	9%	13%	7%	3%	1.0%	5.5%	4.2%	1%	5%	5%	6%	4%	5%	6%	9%	9%	7%	6%
WW Y/Y% Chg (ex-FX)	8%	11%	7%	5%	3%	6%	5%	3%	7%	7%	7%	6%	6%	7%	9%	9%	8%	6%
FX Effect (\$)	\$0	\$178	(\$3)	(\$42)	(\$38)	(\$13)	(\$96)	(\$27)	(\$31)	(\$41)	(\$42)	(\$141)	(\$25)	(\$17)	(\$5)	\$0	(\$47)	\$0
FX effect (%)	0%	2%	0%	-2%	-2%	-1%	-1%	-1%	-1%	-2%	-2%	-2%	-1%	-1%	0%	0%	-1%	0%
Mako Sales \$													\$21	\$25	\$27	\$34	\$107	\$135
Mako Sales Impact													1.0%	1.1%	1.3%	1.4%	1.2%	
Total Acquisition Sales													\$30	\$55	\$66	\$74	\$225	
Acquisition Impact													1.4%	2.5%	3.1%	3.0%	2.5%	
Organic Sales Growth													5.1%	4.4%	5.7%	5.7%	5.2%	

Source: Deutsche Bank, Company reports



Figure 439 (cont'd): Stryker's Earnings Model (\$ in millions, except per share data)

	2011	1Q12	2Q12	3Q12	4Q12	2012	Cash EPS Basis				Cash	1Q14	2Q14E	3Q14E	4Q14E	Cash	Cash
							1Q13	2Q13	3Q13	4Q13	2013				2014E	2015E	
Adjusted Income Statement																	
Sales	\$8,307	\$2,161	\$2,106	\$2,052	\$2,337	\$8,656	\$2,190	\$2,212	\$2,151	\$2,468	\$9,021	\$2,305	\$2,348	\$2,336	\$2,681	\$9,670	\$10,297
COGS	\$2,667	\$695	\$669	\$653	\$741	\$2,758	\$713	\$715	\$672	\$831	\$2,931	\$763	\$775	\$747	\$861	\$3,147	\$3,337
Gross Profit	\$5,640	\$1,466	\$1,437	\$1,399	\$1,596	\$5,898	\$1,477	\$1,497	\$1,479	\$1,637	\$6,090	\$1,542	\$1,573	\$1,588	\$1,820	\$6,523	\$6,960
Gross Profit Margin	67.9%	67.8%	68.2%	68.2%	68.3%	68.1%	67.4%	67.7%	68.8%	66.3%	67.5%	66.9%	67.0%	68.0%	67.9%	67.5%	67.6%
SG&A Expenses	\$3,083	\$810	\$782	\$784	\$846	\$3,222	\$814	\$813	\$818	\$838	\$3,283	\$836	\$859	\$846	\$912	\$3,453	\$3,645
% of Sales	37.1%	37.5%	37.1%	38.2%	36.2%	37.2%	37.2%	36.8%	38.0%	34.0%	36.4%	36.3%	36.6%	36.2%	34.0%	35.7%	35.4%
R&D Expense	\$462	\$112	\$116	\$114	\$129	\$471	\$129	\$132	\$136	\$139	\$536	\$150	\$152	\$143	\$157	\$603	\$644
% of Sales	5.6%	5.2%	5.5%	5.6%	5.5%	5.4%	5.9%	6.0%	6.3%	5.6%	5.9%	6.5%	6.5%	6.1%	5.9%	6.2%	6.3%
Operating Income	\$1,972	\$513	\$508	\$472	\$590	\$2,083	\$534	\$552	\$525	\$660	\$2,271	\$556	\$562	\$599	\$751	\$2,468	\$2,671
Op Income Margin	23.7%	23.7%	24.1%	23.0%	25.2%	24.1%	24.4%	25.0%	24.4%	26.7%	25.2%	24.1%	23.9%	25.6%	28.0%	25.5%	25.9%
Op income ex-amort	25.2%	25.2%	25.6%	24.4%	26.6%	25.5%	24.4%	25.0%	24.4%	26.7%	25.2%	24.1%	23.9%	25.6%	28.0%	25.5%	25.9%
Net Interest Exp & Other	\$26	\$8	\$10	\$6	\$12	\$36	\$11	\$21	\$13	\$10	\$55	\$24	\$15	\$19	\$18	\$77	\$71
Pretax income	\$1,946	\$505	\$498	\$466	\$578	\$2,047	\$523	\$531	\$512	\$650	\$2,216	\$532	\$547	\$580	\$732	\$2,391	\$2,600
Pretax Income Margin	23.4%	23.4%	23.6%	22.7%	24.7%	23.6%	23.9%	24.0%	23.8%	26.3%	24.6%	23.1%	23.3%	24.8%	27.3%	24.7%	25.3%
Tax Expense	\$499	\$126	\$123	\$96	\$142	\$487	\$106	\$105	\$96	\$135	\$442	\$128	\$132	\$132	\$157	\$549	\$590
Tax rate	25.6%	25.0%	24.7%	20.5%	24.6%	23.8%	20.3%	19.8%	18.7%	20.8%	19.9%	24.1%	24.1%	22.8%	21.5%	23.0%	22.7%
Adjusted Net Income	\$1,448	\$379	\$375	\$370	\$436	\$1,560	\$417	\$426	\$416	\$515	\$1,774	\$404	\$415	\$448	\$575	\$1,842	\$2,011
Net Income Margin	17.4%	17.5%	17.8%	18.0%	18.7%	18.0%	19.0%	19.3%	19.4%	20.9%	19.7%	17.5%	17.7%	19.2%	21.4%	19.0%	19.5%
Diluted Shares	389.4	383.8	383.3	382.5	382.7	383.1	383.0	381.0	381.7	382.3	382.1	382.6	383.3	383.3	383.2	383.1	382.3
Adj. "Cash" EPS							\$1.09	\$1.12	\$1.09	\$1.35	\$4.64	\$1.06	\$1.08	\$1.17	\$1.50	\$4.81	\$5.26
Amort per share							\$0.06	\$0.07	\$0.06	\$0.07	\$0.26	\$0.08	\$0.09	\$0.09	\$0.09	\$0.34	\$0.34
Adjusted EPS	\$3.72	\$0.99	\$0.98	\$0.97	\$1.14	\$4.07	\$1.03	\$1.05	\$1.03	\$1.28	\$4.38	\$0.97	\$1.00	\$1.08	\$1.41	\$4.47	\$4.92
Growth Analysis																	
Sales	13.5%	7.2%	3.0%	1.0%	5.5%	4.2%	1.3%	5.0%	4.8%	5.6%	4.2%	5.3%	6.2%	8.6%	8.6%	7.2%	6.5%
Gross Profits	12.0%	6.2%	3.6%	1.3%	7.0%	4.6%	0.8%	4.2%	5.7%	2.6%	3.3%	4.4%	5.1%	7.4%	11.2%	7.1%	6.7%
SG&A	12.9%	7.6%	0.8%	5.2%	4.4%	4.5%	0.5%	4.0%	4.4%	-0.9%	1.9%	2.7%	5.6%	3.5%	8.9%	5.2%	5.6%
R&D	17.4%	1.0%	1.3%	-6.6%	12.2%	1.9%	15.2%	13.8%	19.3%	7.8%	13.8%	16.3%	15.5%	5.3%	12.9%	12.4%	6.8%
Operating Income	6.6%	4.6%	9.2%	-2.3%	10.5%	5.6%	4.1%	8.7%	11.3%	11.9%	9.1%	4.1%	1.8%	14.1%	13.8%	8.7%	8.2%
Pretax Income	6.4%	5.5%	4.8%	-0.9%	10.5%	5.1%	3.6%	6.6%	10.0%	12.5%	8.3%	1.7%	3.0%	13.3%	12.7%	7.9%	8.7%
Net Income	8.9%	7.2%	6.4%	5.1%	11.8%	7.8%	10.0%	13.6%	12.5%	18.1%	13.7%	-3.1%	-2.5%	7.5%	11.6%	3.8%	9.2%
Diluted Share Count	-2.4%	-2.6%	-2.2%	-1.4%	-0.2%	-1.6%	-0.2%	-0.6%	-0.2%	-0.1%	-0.3%	-0.1%	0.6%	0.4%	0.2%	0.3%	-0.2%
Adj. "Cash" EPS																3.5%	9.4%
Adjusted EPS	11.5%	10.1%	8.9%	6.7%	12.0%	9.5%	4.1%	7.3%	6.1%	12.2%	7.6%	-5.2%	-5.0%	5.3%	10.5%	1.9%	10.1%
Adjusted w/o Device Tax							7%	11%	10%	16%	11.3%						

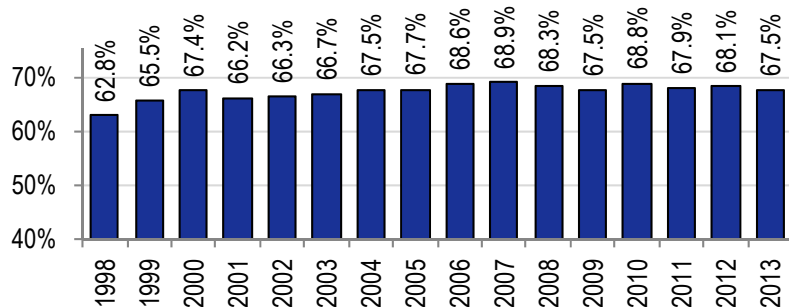
Source: Deutsche Bank, Company reports



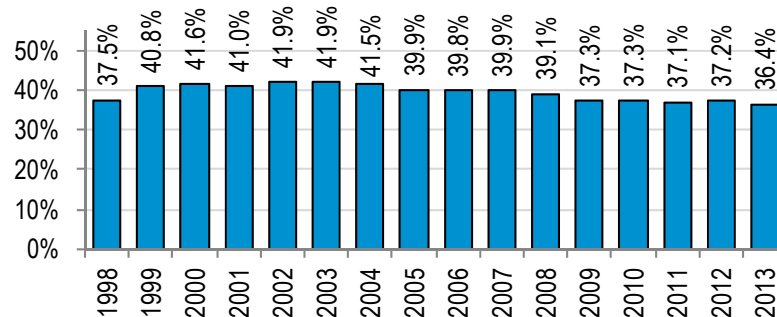
Stryker Historical Margin Trends

Figure 440: Historical Margin Trends

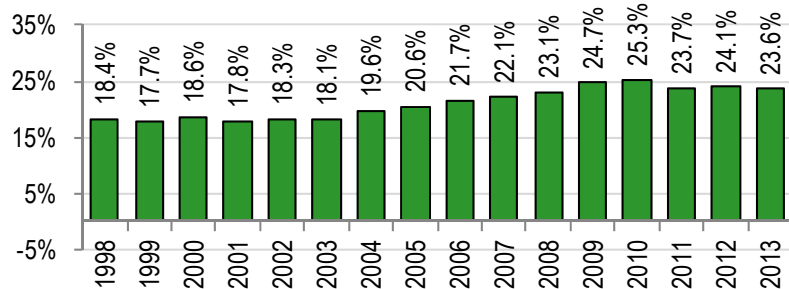
Gross margins



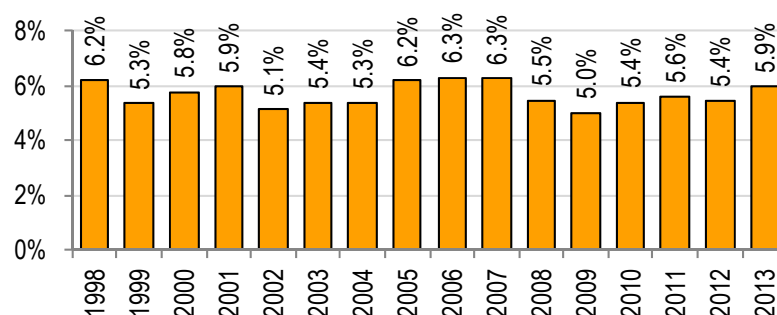
SG&A as % of sales



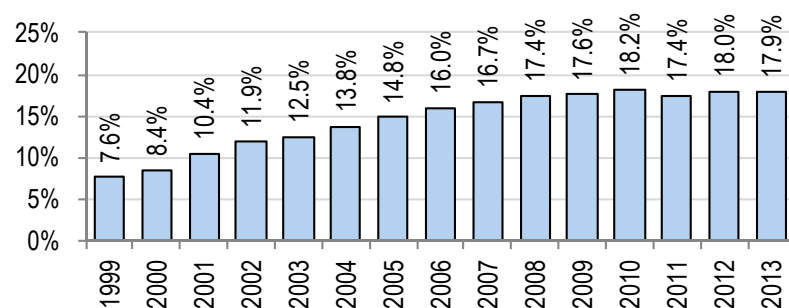
Operating Margin



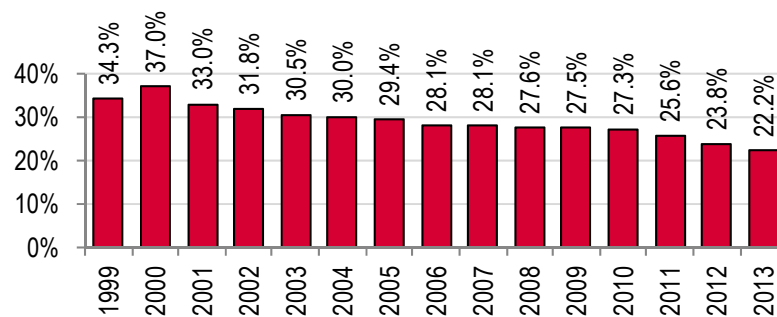
R&D as % of sales



Net Margin



Tax Rate

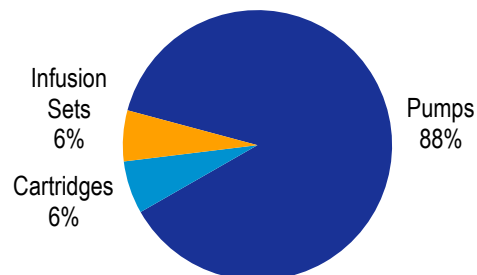


Source: Deutsche Bank, Company reports



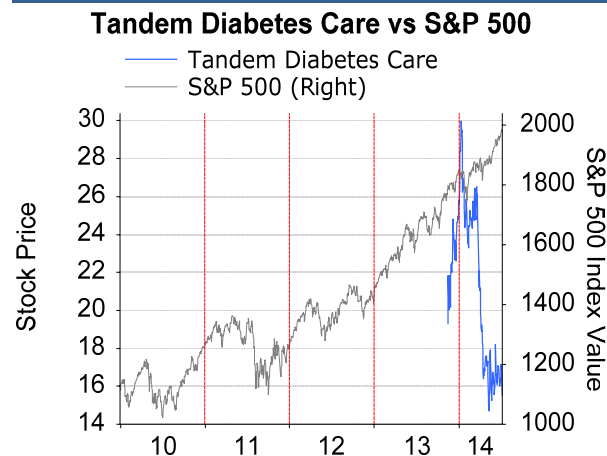
Tandem Diabetes (TNDM-Buy)

Figure 441: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 443: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 442: Rating and Valuation Summary

TNDM	TNDM.OQ	DB Rating:	Buy
Mkt cap (\$M):	\$327	DB Target Price:	\$25.00
Price 07/09/14:	\$14.23	implied % chg:	76%
52 Wk Range: \$13.50-\$30.25		Dividend Yield:	0.0%
IPO 2013 Price Perf: 33.8%		Target P/S (C15E)	7.4x
YTD 2014 Price Perf: -44.8%			

FY Sales Projections (\$M)			Price/Sales	
	DB	TR Cons	CY	Abs PE
2013A	\$29		2014E	6.4x
2014E	\$51	\$51	2015E	3.9x
2015E	\$84	\$82		

Source: Deutsche Bank, Company reports, Thomson Reuters

Our Take on the Stock

We see Tandem as an exciting story within the diabetes management space and believe the company is poised to capture share with its t:slim insulin pumps and next-generation products. We believe there is upside from current levels driven by the companies increased revenue outlook which turns on increased sales rep productivity, expanded managed care contracts, and new product introductions. We rate TNDM a Buy.

Upcoming Potential Catalysts

- **Any Day:** PMA filing for t:sensor
- **2H14:** 510K filing for t:flex
- **July 31:** TNDM's earnings results

Valuation and Risks

Given the early stage of the company, we believe the most appropriate valuation metric to use for Tandem is an enterprise value-to-sales basis. We have incorporated a number of higher growth small cap medical device companies with the two closest business (and we believe valuation) peers being Dexcom and Insulet. As shown, the peer EV/sales average multiple is 6.2x using the Thomson Reuters Consensus calendar 2014 estimates with most stocks trading within a range of 5-7x. DXCM is the one notable exception trading at 10.4x. In valuing TNDM, we have used an EV/sales multiple of 7x to incorporate the peer group range as well as skewing more towards the average of DXCM and PODD. We have applied this multiple to our 2015 sales estimate of \$82M to arrive at an enterprise value of \$572 million. After adjusting for our forecasted change in cash position we arrive at our target price. Downside risk factors include revenue short falls (slower ramp of the pump, inability to secure managed care contracts, pipeline product delays, product quality issues, competitive launches), higher costs (inability to expand margins), and additional capital raises.



Historical Stock Price Performance

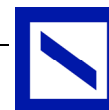
Figure 444: Stock Price Performance and Company News Events



Performance Commentary

TNDM priced its initial public offering at \$15.00 per share on November 13, 2013. Since its inception, the stock significantly appreciated, which we attribute to the attractiveness of the diabetes market overall and the company's positive fundamentals and growth prospects. In early 2014, Tandem recalled certain lots of insulin cartridges for its insulin pumps. The more recent pullback we attribute to the broader shift away from small and mid cap stocks that are perceived to have high valuations and/or have had significant increases in the past.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
TNDM	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2013 Performance since IPO -->				33.8%	-44.8%
S&P 600	5.7%	-15.3%	37.5%	21.6%	6.7%	14.1%	-1.2%	-32.0%	23.8%	25.0%	-0.2%	14.8%	39.7%	1.6%
S&P 600 HC	1.4%	-18.5%	31.3%	22.4%	11.0%	8.5%	18.7%	-28.4%	22.2%	22.2%	13.5%	13.0%	55.5%	2.1%
SP6 HC E&S	13.7%	-11.5%	37.3%	25.2%	10.9%	10.3%	20.4%	-26.9%	25.2%	17.2%	-0.3%	32.0%	48.3%	-4.9%



Tandem's t:slim insulin pump received 510(k) clearance in November 2011 and was one of the first insulin pumps under the FDA's Infusion Pump Improvement Initiative. The FDA approved label indication for t:slim states: *"The t:slim Insulin Delivery System is intended for the subcutaneous delivery of insulin, at set and variable rates, for the management of diabetes mellitus in persons requiring insulin, for individuals 12 years of age and greater."*

Tandem's t:slim insulin delivery system consists of the t:slim pump, disposable cartridge and insulin infusion set. Some of the attractive features of the pump include:

- **Color touch screen design.** The t:slim user interface was designed to resemble a smartphone and has a color touch screen that patients can use to access and/or enter information. The glass is shatter resistant.
- **Intuitive interface.** Tandem developed the user interface to be easier to use and intuitive, providing the patient with quick access to commonly used features. On the home screen, the person can view insulin on board (IOB), insulin cartridge volume, battery status, bolus status, and pump status. The t:slim pump has an integrated bolus calculator and offers standard and extended bolus options.
- **Small size.** The t:slim pump is smaller than traditional insulin pumps t:slim's design is no thicker than dime. The device measurements are 3.13" x 2.0" x 0.6" (L x W x H) and the device weighs (with full disposables) 3.95 ounces.
- **Large insulin capacity.** Despite its small size, the t:slim pump cartridge capacity is 300 units of rapid-acting insulin. The instructions for use specify the use only of Humalog or NovoLog U-100 insulin. Insulin is inserted into the cartridge by the individual with a syringe needle.
- **Micro-Delivery Technology.** The t:slim's Micro-Delivery Technology is designed to provide precise insulin dosing. Small amounts of insulin are drawn from the reservoir into the micro-delivery chamber before being delivered in increments as small as 0.001 u/hr, at rates above 0.1 u/hr. The design also helps to prevent unintentional insulin delivery from the reservoir.
- **Rechargeable battery:** t:slim has a rechargeable lithium battery with a charge that typically lasts up to seven days. Charging is done through a micro-USB port.
- **Watertight:** t:slim is watertight tested to 3 feet for 30 minutes (IPX7 rating).

Figure 445: t:slim insulin delivery system



Source: Image courtesy of Tandem Diabetes



Product Pipeline

- **t:sensor: Integrating continuous glucose monitoring.** In February 2012, Tandem and DexCom announced a continuous glucose monitoring development and commercialization agreement. t:sensor combines Tandem's t:slim pump platform with the DexCom G4 PLATINUM continuous glucose monitoring technology. Data from the CGM will be displayed on the pump, removing the need for an additional device. Along with t:sensor, Tandem plans to release an updated version of t:connect, so that the software effectively shows CGM data and is compatible with additional features of t:sensor.

Tandem finished development work and entered discussions with the FDA in 4Q13 and now expects to submit a PMA filing to occur shortly. We anticipate approval roughly one year following submission, which would pin launch sometime in the mid-2015 timeframe. This product will be of importance for Tandem as it will allow them to more effectively compete in the space with others who have (in the case of Medtronic) or are anticipating approval of (as in the case of J&J/Animas) integrated pumps and continuous glucose monitoring systems. J&J is likely to receive FDA approval prior to Tandem as it is preparing their responses back to the agency on questions from their PMA filing. Close Concerns estimates that today 5%-10% of insulin pump patients use CGM, while registry data from T1D Exchange suggests US penetration is around 10%, up from around 5%-6% roughly two years ago.

Under the terms of the agreement, Tandem will pay DexCom a technology license fee of \$3 million, reimburse DexCom's development, clinical, and regulatory expenses and upon commercialization, Tandem will pay a royalty of \$100 for each CGM-enabled insulin pump sold. The agreement is nonexclusive and limited to the US market.

- **t:flex.** t:flex is Tandem's pipeline product furthest along in development. t:flex is created for individuals that require more than 300 units of insulin over a three-day cycle, and instead can hold up to 480 units of insulin. While the t:flex's body extends a bit more than t:slim due to its larger reservoir capacity, it maintains the sleekness and intuitive features that patients receive with t:slim. Often, doctors are prevented from prescribing insulin pump therapy to their patients because of the limited cartridge size. With a larger reservoir, t:flex should be accessible for patients who have a need for large doses for insulin, such as type 2 diabetic patients or teenage boys with type 1 diabetes.

Tandem expects to submit the 510(k) to the FDA in 2H14, once resources used for the development of t-sensor are freed up to advance t:flex. We would expect clearance following roughly six months later.

- **t:sport:** Tandem plans to design t:sport as an insulin pump smaller than the t:slim and designed for individuals who want greater flexibility with the use of their insulin pump. The company hopes that the system will include a wireless, touch screen controller and a waterproof insulin pump. It also expects that the controller will communicate wirelessly to the pump, and receive / display continuous glucose monitoring information.

- **t:dual:** The t:dual infusion system, a partnership with the Juvenile Diabetes Research Foundation, is being designed as a dual-chamber infusion pump for the management of diabetes. Recall that a healthy pancreas releases insulin, as well as several additional hormones. Because of this, many do not believe that an artificial pancreas with only insulin control is sufficient. It is hoped that this agreement will help to accelerate the creation of a fully automated artificial pancreas that has the capability of delivering other hormones (more specifically, glucagon) in addition to insulin. The JDRF is supporting a portion of the development costs through performance based milestones.



Tandem's 2014 Results Preview

Figure 446: DB versus Thomason Reuters Estimates

Revenues

	2013A	2014E		2015E	
		DB est	TR Est	DB est	TR Est
1Q	\$5.5	\$8.1		\$15.3	\$15.5
2Q	\$5.5	\$9.4	\$10.8	\$17.2	\$18.9
3Q	\$7.8	\$12.8	\$13.8	\$22.3	\$21.2
4Q	\$10.2	\$20.8	\$18.7	\$29.5	\$25.9
FY	\$29.0	\$51.1	\$51.4	\$84.3	\$82.4

Guidance (05/06/14):

F2014: \$48-\$54 million

Source: Deutsche Bank, Thomson Reuters

Figure 447: Earnings Release and Conference Call Information

Earnings Release Date: Thursday July 31, 2014 after market close

Conf Call Date & Info: Thursday July 31, 2014 at 4:30pm
<http://investor.tandemdiabetes.com/>

Source: Company reports

Figure 448: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
Pumps	\$7.6	52%	52%
Cartridges	\$0.9	225%	225%
Infusion Sets	\$0.9	312%	312%
Total sales	\$9.4	71%	71%

What to focus on:

- Pump shipments and revenue ramp
- Number of sales reps and productivity levels
- 2014 guidance update
- PMA filing for t:sensor
- Timing for filing for t:flex

Source: Deutsche Bank, Thomson Reuters

Source: Deutsche Bank



Figure 449: Tandem Sales and Earnings Model (\$ in millions, except per share data)

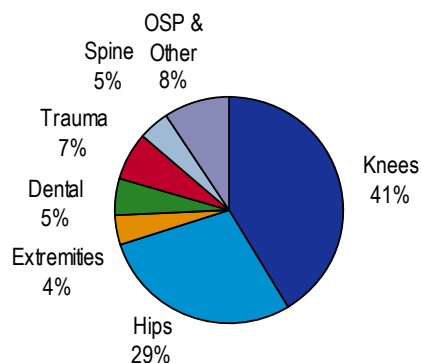
	2011	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Pumps						\$9.1	\$9.1	\$6.9	\$7.6	\$10.5	\$17.5	\$42.6	\$63.7	\$76.2
Cartridges						\$0.5	\$0.5	\$0.7	\$0.9	\$1.1	\$1.4	\$4.1	\$8.5	\$13.9
Infusion Sets						\$0.6	\$0.6	\$0.4	\$0.9	\$1.2	\$1.8	\$4.4	\$12.0	\$23.2
P&L														
Total Revenues	\$0.0	\$2.5	\$5.5	\$5.5	\$7.8	\$10.2	\$29.0	\$8.1	\$9.4	\$12.8	\$20.8	\$51.1	\$84.3	\$113.2
Cost of revenues	\$0.0	\$3.8	\$3.4	\$5.1	\$5.2	\$9.1	\$22.8	\$7.2	\$7.1	\$7.7	\$10.8	\$32.8	\$48.0	\$61.3
Gross Profits	\$0.0	-\$1.3	\$2.0	\$0.4	\$2.5	\$1.2	\$6.2	\$0.9	\$2.3	\$5.1	\$10.0	\$18.3	\$36.3	\$51.9
<i>gross margin</i>	NA	-54.5%	37.4%	7.3%	32.5%	11.6%	21.2%	10.8%	24.8%	39.9%	48.1%	35.9%	43.0%	45.9%
SG&A expenses	\$16.0	\$22.7	\$6.9	\$11.3	\$12.0	\$14.3	\$44.5	\$18.0	\$19.6	\$19.6	\$18.6	\$75.8	\$87.0	\$104.2
<i>% of sales</i>	NA	916.9%	126.2%	204.9%	154.6%	139.6%	153.5%	223.7%	207.6%	153.0%	89.5%	148.4%	103.2%	92.1%
R&D expenses	\$8.3	\$9.0	\$2.3	\$2.8	\$2.7	\$3.3	\$11.1	\$3.7	\$3.4	\$4.5	\$3.3	\$14.9	\$15.1	\$16.7
<i>% of sales</i>	NA	364.0%	42.6%	49.9%	34.1%	32.7%	38.2%	45.4%	36.0%	35.1%	15.9%	29.1%	17.9%	14.8%
Operating Loss	(\$24.2)	(\$33.0)	(\$7.2)	(\$13.7)	(\$12.1)	(\$16.5)	(\$49.4)	(\$20.8)	(\$20.7)	(\$19.0)	(\$11.9)	(\$72.4)	(\$65.8)	(\$69.0)
<i>operating margin</i>	NA	nm	-131.3%	-247.5%	-156.2%	-160.7%	-170.5%	-258.4%	-218.8%	-148.2%	-57.3%	-141.6%	-78.1%	-60.9%
Interest expense (income) / other, net	\$1.3	(\$0.0)	\$4.0	\$1.6	\$0.9	\$7.2	\$13.7	\$1.1	\$0.9	\$1.0	\$1.0	\$3.9	\$4.9	\$7.5
Pretax income	(\$22.9)	(\$33.0)	(\$11.2)	(\$15.3)	(\$13.1)	(\$23.6)	(\$63.1)	(\$22.0)	(\$21.5)	(\$19.9)	(\$12.9)	(\$76.3)	(\$70.7)	(\$76.5)
<i>pretax margin</i>	NA	nm	-204.6%	-276.9%	-168.2%	-230.5%	-217.8%	-272.3%	-228.2%	-155.6%	-62.0%	-149.4%	-83.9%	-67.5%
Taxes	\$0	\$0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net loss and comprehensive loss	(\$22.9)	(\$33.0)	(\$11.2)	(\$15.3)	(\$13.1)	(\$23.6)	(\$63.1)	(\$22.0)	(\$21.5)	(\$19.9)	(\$12.9)	(\$76.3)	(\$70.7)	(\$76.5)
<i>net income margin</i>	NA	nm	-204.6%	-276.9%	-168.2%	-230.5%	-217.8%	-272.3%	-228.2%	-155.6%	-62.0%	-149.4%	-83.9%	-67.5%
Dilutive average shares	0.3	0.3	0.2			11.0	2.9	22.9	23.2	23.5	23.8	23.4	24.6	25.8
Net loss per share			(\$53.68)			(\$2.14)	(\$21.46)	(\$0.96)	(\$0.93)	(\$0.85)	(\$0.54)	(\$3.26)	(\$2.88)	(\$2.97)

Source: Deutsche Bank, Company reports



Zimmer Holdings (ZMH-Hold)

Figure 450: Sales Mix, 2013



Source: Deutsche Bank, Company reports

Figure 452: Recent stock price performance



Source: Deutsche Bank, Thomson Reuters

Figure 451: Rating and Valuation Summary

Mkt cap (\$M):	\$17,418	DB Rating:	Hold	FY EPS Projections		PE Valuation		
Price 07/09/14:	\$103.79	DB Target Price:	\$107.00	DB	TR Cons	CY	Abs PE	
		<i>implied % chg:</i>	3%	2013A	\$5.75	NTM	17.0x	
		Dividend Yield:	0.9%	2014E	\$6.10	\$6.12	2014E	17.0x
52 Wk Range: \$76.68-\$108.33				2015E	\$6.43	\$6.56	2015E	16.1x
2013 Price Perf: 39.8%				EPS estimates include intangible amort				
YTD 2014 Price Perf:	11.4%	Target PE (C15E):	16.6x					

Source: Deutsche Bank, Company reports, Thomson Reuters

Our Take on the Stock

Excluding the Biomet merger, we expect sales growth to remain modest (i.e. low single digits). We believe new products are likely to take time to have an impact and the mix shift benefit may not be that significant given the cost containment environment. While there are opportunities to reduce costs through the restructuring program, we believe the bottom line growth rate will likely be high single digits at best. The merger of Biomet does bring some potential upside factors though it also brings in some risks as well. We maintain our Hold rating.

Upcoming Potential Catalysts

- **Ongoing:** Updates on Zimmer-Biomet merger
- **July 15:** Johnson & Johnson's earnings results (read-thrus of ortho markets)
- **July 17:** Stryker's earnings results (read-thrus of ortho markets)
- **July 24:** Zimmer's earnings results
- **1Q15:** Close of Biomet merger

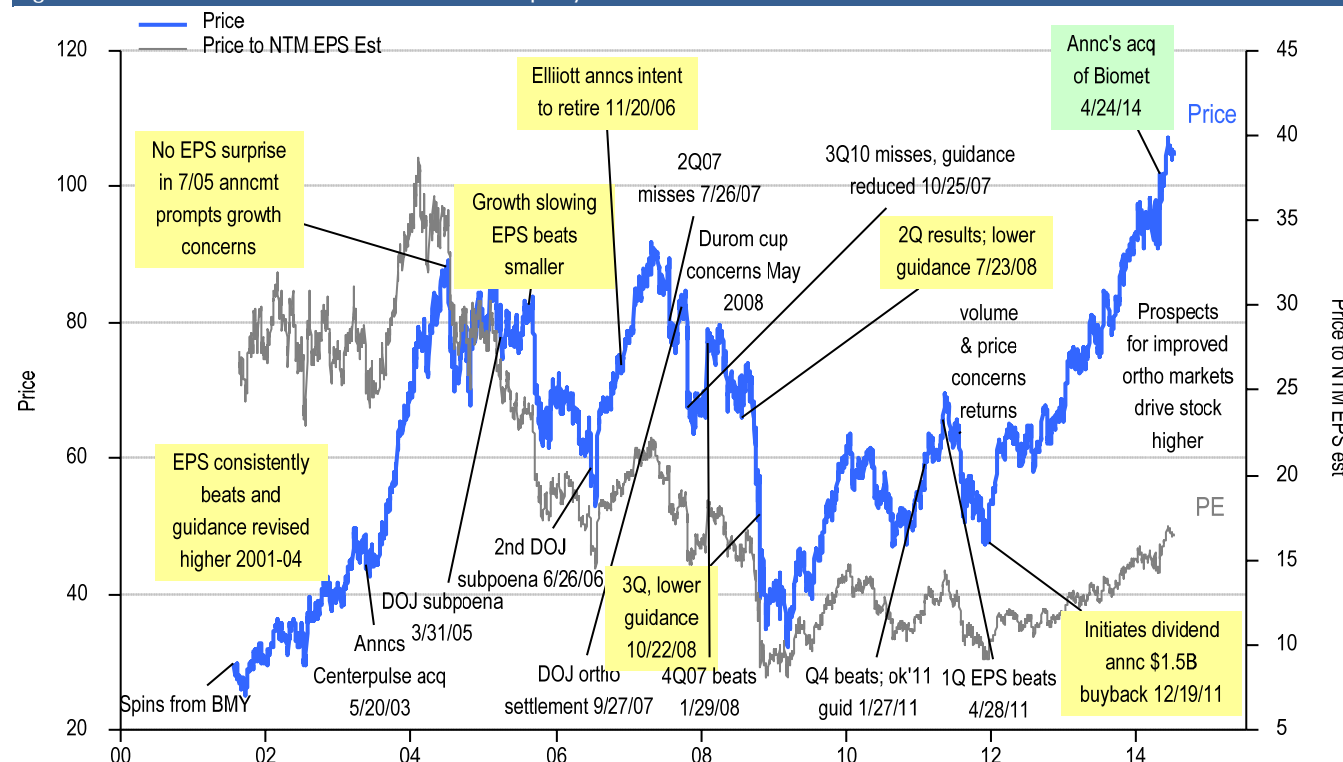
Valuation and Risks

Our price target, prior to the Biomet merger, had assumed a target PE of 15x our 2015 EPS estimate. Our current price target applies a 17x multiple on our adjusted EPS (16x on a cash basis), which is in line with our coverage universe (on 2014E EPS). Upside risks include improvements in industry volume/mix, greater restructuring savings, more traction (and mix) from the Persona launch, and synergies from Biomet acquisition. Downside risks include increased pricing pressure, austerity measures in Europe, a lack of traction with the Persona launch, risks associated with Biomet acquisition, FDA and/or product quality issues.



Historical Price Performance

Figure 453: Stock Price Performance and Company News Events



Performance Commentary

ZMH shares trade predominantly on company (as well as competitor) earnings releases and expectations. The stock appreciated post-spin as the company consistently beat expectations and raised guidance. Beginning in 2004, there were growing concerns regarding the sustainability of growth. The stock price was also impacted by concerns around the DOJ investigations as well as the retirement of its CEO Ray Elliott. In 2007, the stock price declined as the company missed its guidance and had to reduce its forecast. Shares continued to pull back in 2008 on elective procedure concerns and pricing concerns. Through the early part of 2009 shares increased on the hopes that volumes would improve in 2H09, which they did not and the shares pulled back. Similarly, shares increased in 1H10 and 1H11 on the volume return hopes, but results and economic data again prompted pullbacks in the stock in 2H10 and again in 2H11. In 2012 and 2013, the stock rebounded as investors anticipated a recovery in volumes, in our view and later on hopes that new products (Persona knee and Gel-One) can accelerate sales. Thus far in 2014, shares have appreciated on more favorable market trends and with the announcement of the Biomet merger.

Price Perf	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 07/09
ZMH	2.6%	36.0%	69.6%	13.8%	-15.8%	16.2%	-15.6%	-38.9%	46.2%	-9.2%	-0.5%	24.8%	39.8%	11.4%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	6.7%
S&P 500 HC	-12.9%	-20.0%	13.3%	0.2%	4.9%	5.8%	5.4%	-24.5%	17.1%	0.7%	10.2%	15.2%	38.7%	10.9%
SP5 HC E&S	-5.6%	-13.1%	31.4%	12.3%	-0.1%	3.2%	4.7%	-28.3%	27.2%	-3.9%	-2.1%	15.1%	25.7%	11.7%

Source: Deutsche Bank, Thomson Reuters, Company Reports



Zimmer Product Portfolio Overview

Figure 454: Product overview

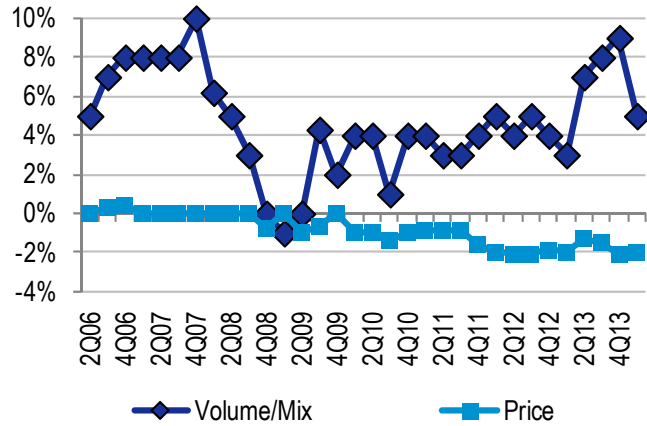
Product	% sales	Description	DB Commentary
Knee implants	41%	In 2013, sales totaled \$1.9 billion. Products include the <i>Persona</i> knee, as well as Zimmer's <i>NexGen</i> includes gender specific models (launched in 2008), highly crosslinked polyethylene models, revisions systems, and mobile-bearing total knee replacement systems. Zimmer also offers its Patient Specific Instruments system (approved late 2009), which produces a preoperative computer generated guide to simplify surgery and enhance placement in knee surgery.	Zimmer's main competitors include J&J DePuy, Stryker, Biomet, and Smith & Nephew.
Hips	29%	In 2013, sales totaled \$1.3 billion. Zimmer's hip portfolio includes the M/L Taper Hip prosthesis, which is a series of modular stem and neck components designed to allow the surgeon match appropriate length, center, and offset intraoperatively, metal-on-metal acetabular and femoral head systems, highly cross-linked polyethylene bearings, trabecular metal acetabular systems, and the <i>MMC</i> cup (launched 2009) for use with metal-on-metal large diameters heads.	Primary competitors in hip implants include J&J DePuy, Stryker, Biomet, and Smith & Nephew.
Extremities	4%	In 2013, sales totaled \$194 million. Zimmer's extremities portfolio comprises predominantly shoulder and elbow implants used to treat injuries and fractures, arthritic conditions, as well as for use in revision surgery.	Competitors in the extremities market include, J&J, Biomet, Stryker, and Wright Medical.
Dental	5%	In 2013, sales totaled \$239 million. Zimmer's dental segment consists of dental reconstructive implants used to replace entire sets of teeth as well as individual teeth, restorative implants for the aesthetic market, and regenerative products such as bone and soft tissue grafts and dressings.	Primary competitors in the dental segment include Nobel Biocare, Straumann, and Biomet.
Trauma	7%	In 2013, sales totaled \$316 million. Zimmer's trauma portfolio consist of nails, thigh and knee based plates, locking plate systems for use in deficient bone stock and poor quality fractures, universal locking plates, and systems for use in fractures occurring around previously implanted devices. The company does not have an external fixation line.	Zimmer's main competitors in the trauma segment include J&J, Stryker, Smith & Nephew.
Spine	5%	In 2013, sales totaled \$202 million. Zimmer's portfolio of spinal devices includes the Dynesys stabilization system for use as an adjunct to spinal fusion, minimally invasive screws for use in fusion, spinal fixation systems, interbody systems, cervical plating systems, as well as biological spinal products such as demineralized bone matrix.	Zimmer's primary competitors include Medtronic, Stryker, NuVasive, J&J, and Globus.
Orthopedic Surgical Products	8%	In 2013, Zimmer recorded OSP sales of \$432 million. Zimmer's Orthopedic Surgical Products (OSP) manufactures products which support the company's reconstructive, trauma, spine, and dental implant procedures, with a concentration on bone cements, surgical wound management, and blood management.	

Source: Deutsche Bank, Company reports



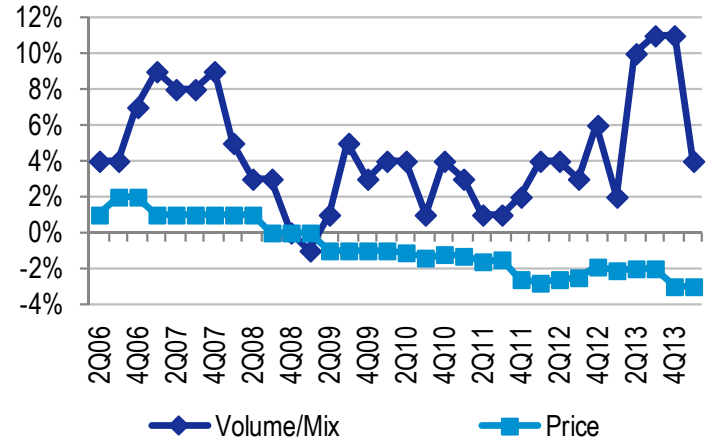
Zimmer Pricing, Volume, Mix Trends

Figure 455: Total Company Pricing, Volume/Mix



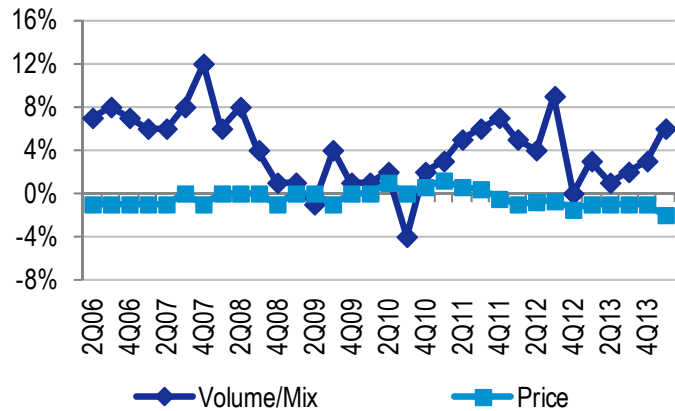
Source: Deutsche Bank, Company reports

Figure 456: Americas Pricing, Volume/Mix Trends



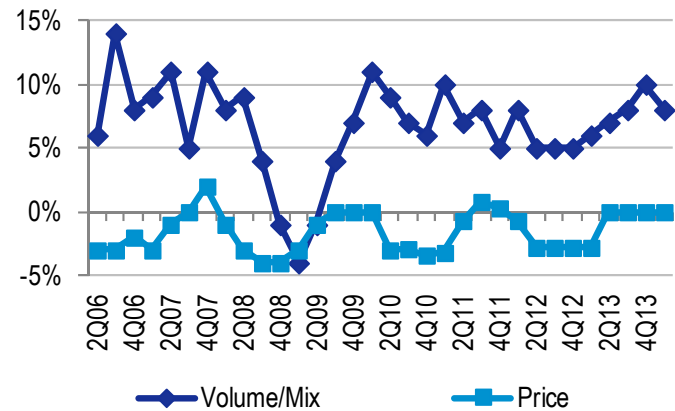
Source: Deutsche Bank, Company reports

Figure 457: Europe Pricing, Volume/Mix Trends



Source: Deutsche Bank, Company reports

Figure 458: Asia-Pacific Pricing, Volume/Mix Trends



Source: Deutsche Bank, Company reports

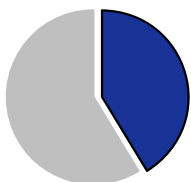


Product Sales Trends

Knees Sales

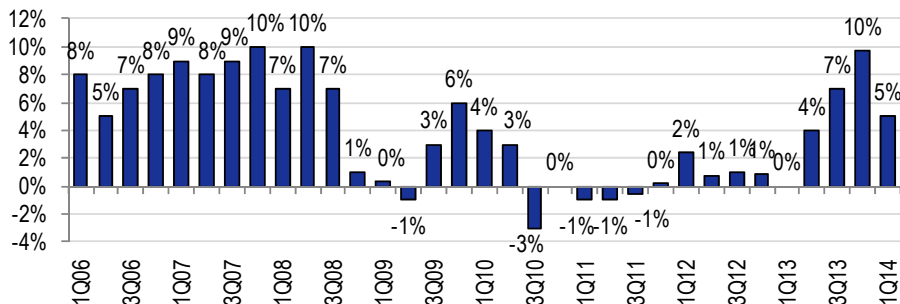
Figure 459: Sales Mix

Knees
41% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 460: Year-over-Year Percent Change in Constant Currency



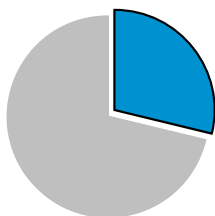
Source: Deutsche Bank, Company reports

Zimmer's knee sales include knee implants for primary or revision procedures, as well as early intervention and joint preservation products. Knee growth in recent quarters has been driven by demand for the Persona personalized knee introduced in March 2013, as well as sales of the NexGen Complete Knee Solution.

Hip Sales

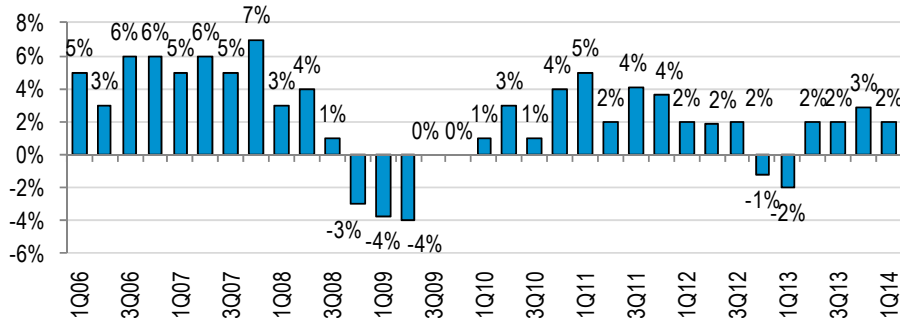
Figure 461: Sales Mix

Hips
29% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 462: Year-over-Year Percent Change in Constant Currency



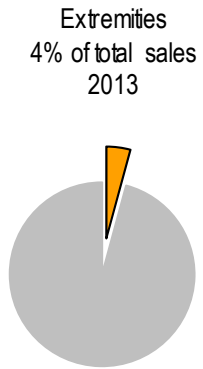
Source: Deutsche Bank, Company reports

Hip sales include hip implants for primary or revision procedures. Key brands include the Zimmer M/L Taper hip prosthesis, the CLS Spotorno Stem from the CLS hip system, and the Alloclassic Zweymüller hip stem.



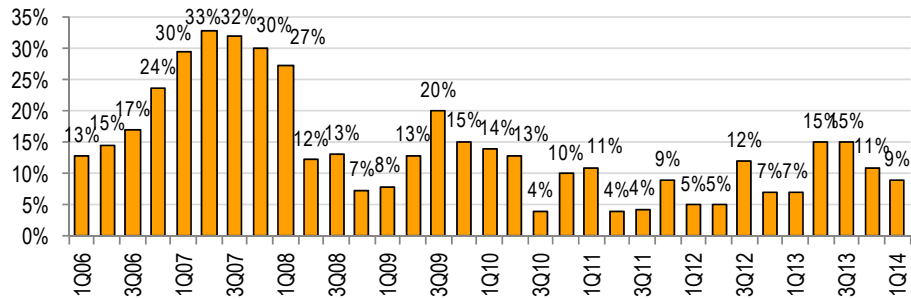
Extremities Sales

Figure 463: Sales Mix



Source: Deutsche Bank, Company reports

Figure 464: Year-over-Year Percent Change in Constant Currency

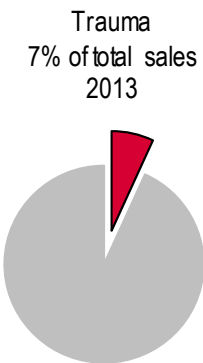


Source: Deutsche Bank, Company reports

The extremities segment consists mainly of elbow and shoulder products used to treat arthritis, soft tissue injuries and fractures.

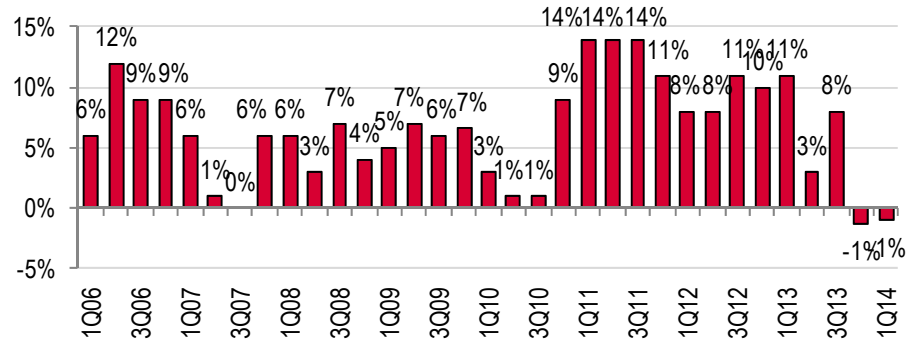
Trauma Sales

Figure 465: Sales Mix



Source: Deutsche Bank, Company reports

Figure 466: Year-over-Year Percent Change in Constant Currency



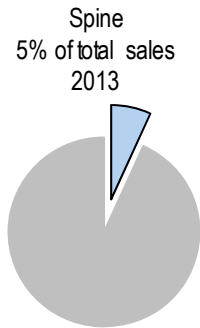
Source: Deutsche Bank, Company reports

Zimmer's trauma business includes stabilization products used for damaged or broken bones, including both internal (plates, screws, nails, wires, and pins) and external fixation devices. Key brands include Zimmer natural nail system, and NCB polyaxial locking plate system.



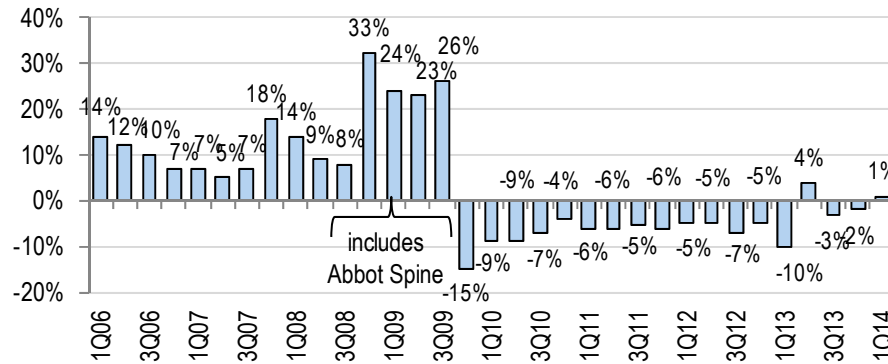
Spine Sales

Figure 467: Sales Mix



Source: Deutsche Bank, Company reports

Figure 468: Year-over-Year Percent Change in Constant Currency

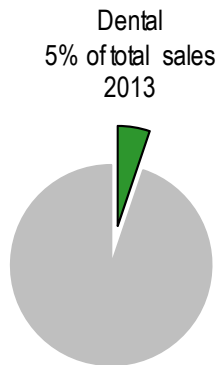


Source: Deutsche Bank, Company reports

Zimmer's spine business includes products used for back or neck pain due to injuries or deformities of the spine. Key products include PathFinder NXT minimally invasive pedicle screw system and trabecular metal implants.

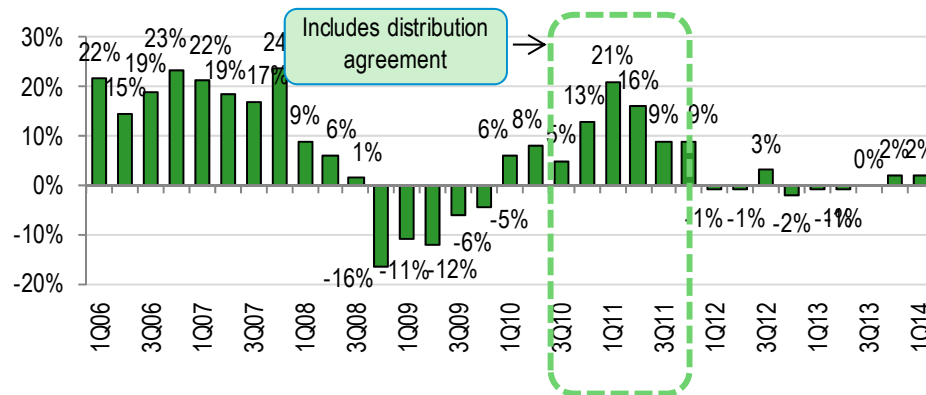
Dental Sales

Figure 469: Sales Mix



Source: Deutsche Bank, Company reports

Figure 470: Year-over-Year Percent Change in Constant Currency



Source: Deutsche Bank, Company reports

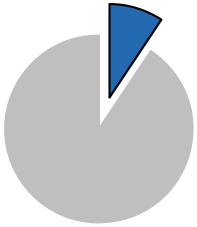
Zimmer's dental segment includes sales from both the manufacture and distribution of dental implants, prosthetics, and regenerative products.



Surgical Product Sales

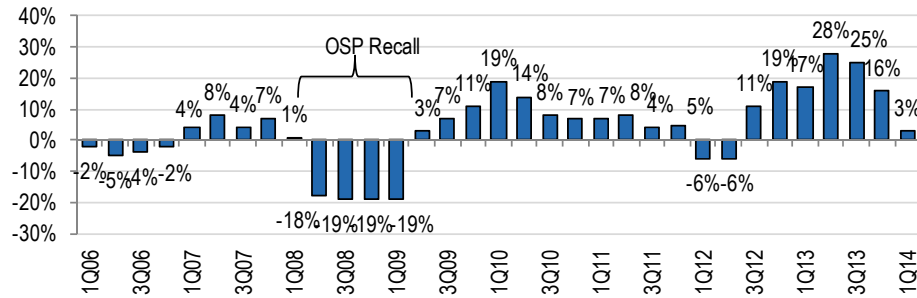
Figure 471: Sales Mix

Surgical & Other
8% of total sales
2013



Source: Deutsche Bank, Company reports

Figure 472: Year-over-Year Percent Change in Constant Currency



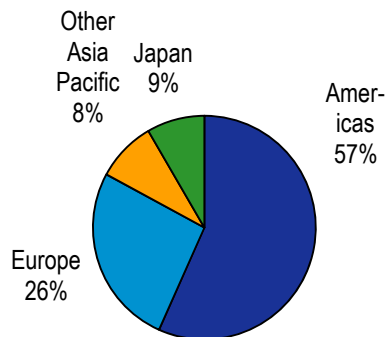
Source: Deutsche Bank, Company reports

Surgical & Other sales primarily include bone cement, surgical wound management, blood management, and fluid waste management products.



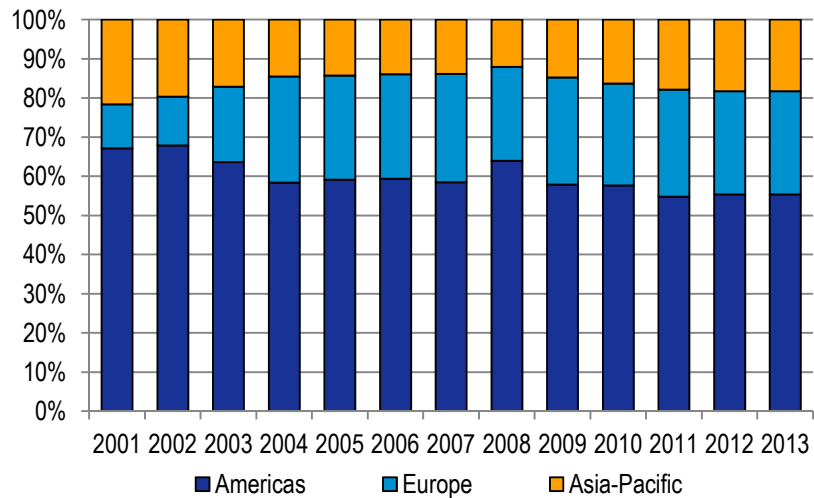
Geographic Division Breakouts

Figure 473: Total Company Sales, 2013



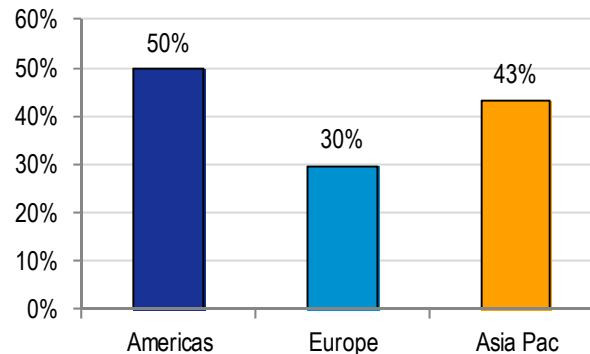
Source: Deutsche Bank, Company reports

Figure 475: Total Company Sales By Region



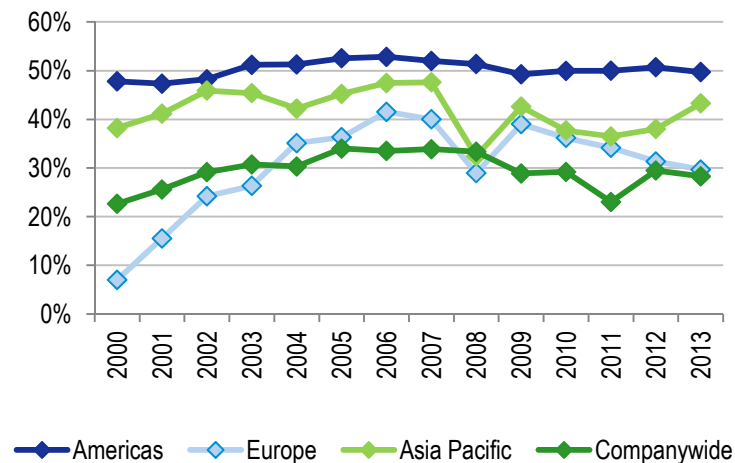
Source: Deutsche Bank, Company reports

Figure 474: Operating Margins by Segment, 2013



Source: Deutsche Bank, Company reports

Figure 476: Operating Margins by Segment



Source: Deutsche Bank, Company reports



Zimmer's 1Q14 Results

Our Take on the Quarter

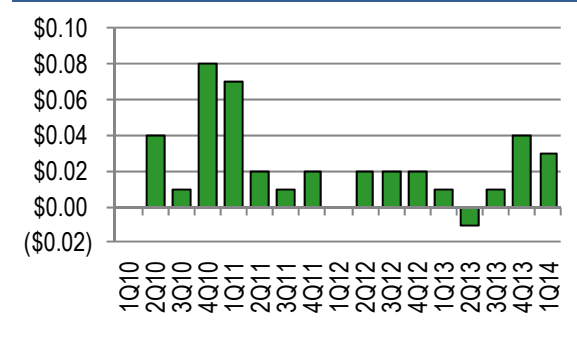
Admittedly, 1Q14 earnings results were completely overshadowed by Zimmer's purchase of Biomet. Nonetheless, we review the results here. 1Q14 sales of \$1,162M were below both Thomson Reuters of \$1,179M and DBE of \$1,173M. Sales were up 3% on a constant currency (CC) basis with Americas sales up 1%. Adjusted EPS of \$1.50 was above TR and DBE of \$1.47.

Figure 477: Quarter Variance

	Actual	TR Consensus	DB Estimate
Sales	\$1,162M	\$1,179M	\$1,173M
EPS	\$1.50	\$1.47	\$1.47

Source: Deutsche Bank, Thomson Reuters, Company reports

Figure 478: EPS Surprise History



Source: Deutsche Bank, Thomson Reuters, Company reports

Additional details on the quarter

\$ in millions, except per share data. All % changes in constant currency unless noted

Positives

- The announced acquisition of Biomet should create enhanced value for shareholders if Zimmer is able to deliver on its double digit accretion goals.

Negatives

- Sales came in below Street and our expectations, which does not come as much of a surprise given other orthopedic company results.
- Pricing continues to be a drag on sales.

Quick P&L Recap

- Zimmer sales of \$1,162 million were up 2.0% on a reported basis and up 3.2% excluding currency. Currency decreased revenues by approximately 1%. Americas sales were up 1%, EMEA sales were up 4%, and Asia Pacific sales were up 8% ex-FX. Pricing was down 2% in the quarter.
 - Knee** sales were +4% reported and +5% CC, with Americas +3%, Europe +5%, and APAC +10%.
 - Hips** sales were flat reported and +2% CC, with Americas flat, Europe +1%, and APAC +7%.
 - Extremities** sales were +9% on a reported and CC basis.
 - Dental** sales were +2% on a reported and CC basis.
 - Trauma** sales were -3% reported and -1% on a CC basis.
 - Spine** sales were +1% on both a reported and a CC basis.
 - Surgical and Other** sales were +1% on a reported basis and +3% on a CC basis.
- Gross margin was 74.4%, down just 10 bps y/y. Favorable product mix, cost savings initiatives, foreign exchange gains, and reduced excess / obsolescence contributed to the trend.
- SG&A expense was 40.0% of sales; down 50 bps y/y. We estimate savings were due to savings from transformation initiatives offset by increased costs associated with new products and direct sales integration.
- R&D expense was 4.1% of sales, down 60 bps y/y.
- Operating margin was 30.3%, up 100 bps y/y.
- Adjusted interest and other expense was \$13M vs. \$15M in 1Q13.
- Tax rate was 24.1%, 70bps favorable y/y.
- Share count of 171.8M was up 0.6% y/y.
- Adjusted EPS of \$1.50 was up 6.5% y/y. Adjusted EPS excludes \$0.21 of net after-tax items.

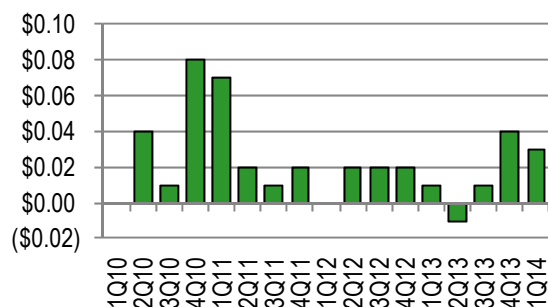
Figure 479: Key Product Sales Trends

	Actual (\$ mil)	Y/Y % Change Rptd	Ex-FX
Knees	\$488	4%	5%
Hips	\$332	0%	2%
Extremities	\$52	9%	9%
Dental	\$61	2%	2%
Trauma	\$80	-3%	-1%
Spine	\$48	1%	1%
Surgical & Other	\$101	1%	3%
Total sales	\$1,162	2%	3%

Source: Deutsche Bank, Company reports



Zimmer's 2Q14 Results Preview

Figure 480: EPS Surprise History


Source: Deutsche Bank, Thomson Reuters

Figure 483: DB versus Thomson Reuters Estimates

Revenues					
2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$1,139	\$1,162	\$1,201	\$1,213	
2Q	\$1,170	\$1,206	\$1,206	\$1,255	\$1,260
3Q	\$1,074	\$1,131	\$1,117	\$1,181	\$1,167
4Q	\$1,241	\$1,303	\$1,294	\$1,365	\$1,332
FY	\$4,623	\$4,802	\$4,779	\$5,002	\$4,979

Guidance (4/24/14):

2Q14: 2%-3% ex-FX

F2014: 3%-5% ex-FX

Earnings Per Share

2013A	2014E		2015E		
	DB est	TR Est	DB est	TR Est	
1Q	\$1.41	\$1.50	\$1.51	\$1.56	
2Q	\$1.43	\$1.48	\$1.49	\$1.59	\$1.64
3Q	\$1.25	\$1.36	\$1.36	\$1.46	\$1.47
4Q	\$1.66	\$1.75	\$1.75	\$1.87	\$1.90
FY	\$5.75	\$6.10	\$6.12	\$6.43	\$6.56

Guidance (4/24/14):

2Q14: \$1.46-\$1.49

2014 EPS: \$6.00 - \$6.20

Source: Deutsche Bank, Thomson Reuters

Figure 481: Earnings Release and Conference Call Information

Earnings Release Date: Thursday July 24, 2014 before market open

Conf Call Date & Info: Thursday July 24, 2014 at 8:00am
 Dial In: +1 888 878 3901, Code: 59090489
<http://investor.zimmer.com/>

Source: Company reports

Figure 482: DB Expectation Summary

	DB Est. (\$ mil)	Y/Y % Change	
		Rptd	Ex-FX
Knees	\$502	4%	4%
Hips	\$343	1%	1%
Extrem-ities	\$51	4%	4%
Dental	\$63	3%	2%
Trauma	\$75	1%	2%
Spine	\$56	3%	3%
Surgical & Other	\$116	4%	4%
Total sales	\$1,206	3%	3%

What to focus on:

- Updates on Zimmer-Biomet merger
- 2014 guidance update
- General orthopedic market trends
- Knee product update: Persona and Gel-One
- Pricing trends
- M&A outlook

Source: Deutsche Bank



2014 Guidance

Zimmer reiterated its 2014 guidance and expects sales to increase 3%-5% on a constant currency basis. Guidance assumes global market conditions remain relatively stable in 2014 and price declines at a stable rate. Also, beginning in 2014, management continues to anticipate the biannual Japanese price cuts to take effect, as well as moderately weaker pricing in Europe and the Americas. Altogether, pricing is anticipated to be down 2%-3% which is slightly worse than the ~2% headwind in 2014. FX is expected to be a headwind of approximately 50bps, thus making reported growth between 2.5%-4.5%.

In looking at the P&L, Zimmer expects:

- Gross margin to be between 73%-74%. Guidance takes into account anticipated gains on FX hedges (primarily from the Japanese Yen), as well as full year impact of the medical device tax.
- SG&A at 38.5%-39%, as ZMH continues to realize benefits from its global operational excellence initiatives and leverage sales growth.
- R&D is expected to be between 4%-4.5%.
- Interest expense roughly \$50 million.
- The tax rate is expected to be about 25.5%, a slight increase from 2013's tax rate of 25%.
- Diluted shares are now expected to be roughly 172 million, as Zimmer has suspended its share repurchase program due to the pending acquisition of Biomet.

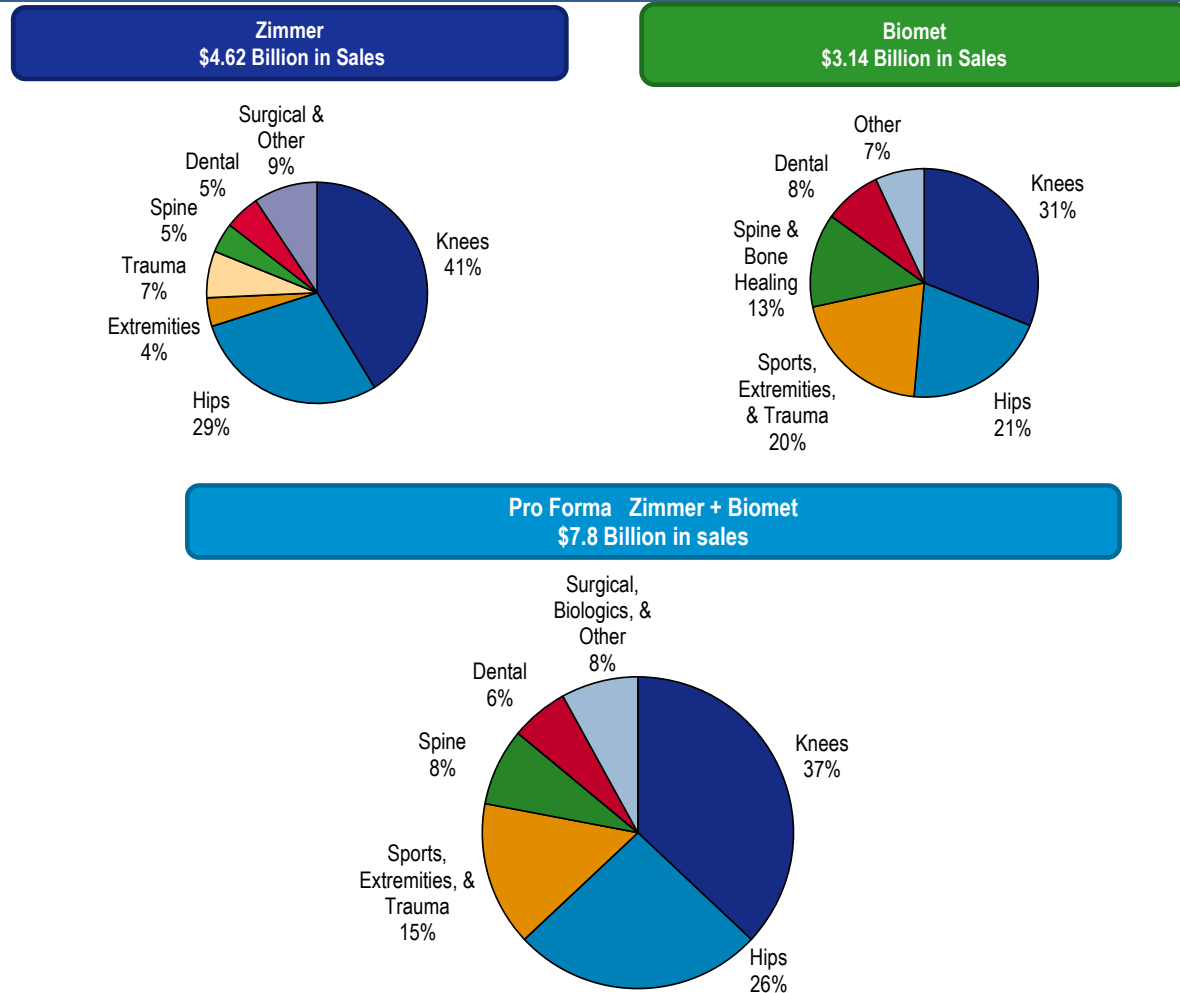
In sum and inclusive of the changes to share count, Zimmer now projects 2014 adjusted EPS in the range of \$6.00-\$6.20 (vs prior \$6.10-\$6.30). This excludes pre-tax charges of approximately \$250 million (or \$1.10 per share after tax) in 2014 relating to its global restructuring and operational improvement program and recent acquisitions. Once the acquisition closes, Zimmer will exclude amortization from its EPS (thus, "cash" EPS like many other companies in the universe). For 2014, Zimmer anticipates amortization to amount to approximately \$0.40 per share.



The Acquisition of Biomet

On April 24, Zimmer announced its intention to acquire rival, Biomet for approximately \$13.35 billion--\$10.35 billion in cash and approximately \$3 billion in Zimmer stock. The deal values Biomet at approximately 4.2x EV/LTM sales and 12.6x EV/LTM adjusted EBITDA. These valuation metrics are premiums to our MedTech coverage universe average (3.3x 2013 sales, 11.3x 2013 adjusted EBITDA). The transaction is anticipated to close in the first quarter of 2015, upon which Biomet shareholders will own approximately 16% of the combined entity. Zimmer plans to maintain its investment grade credit rating, and anticipates a total debt ratio of 3.7x when including synergies (4.0x excluding synergies).

Figure 484: Pro forma Zimmer – Biomet 2013 sales



Source: Deutsche Bank, Company Reports



Management anticipates that acquiring Biomet will deliver double digit accretion in year 1, though this is on a cash earnings basis. To be more specific, management commented the accretion would be in the range of \$1.15-\$1.25 per share. This would put 2015 cash EPS on a combined basis around the \$8.00 level using our 2015 standalone EPS estimate of \$6.43 (which includes amortization expense of about \$0.40 per share) plus the \$1.20 in “cash accretion” from the deal.

By the end of year 1, management anticipates that it will realize net synergies of approximately \$135 million and by year 3, net synergies totaling \$270 million. Total synergies represent approximately 8% of Biomet’s calendarized 2013 sales, which is a similar level of synergies seen in Zimmer’s acquisition of Centerpulse back in 2003. The realization of synergies will be driven primarily by expense management, manufacturing, and logistics/supply chain optimization. Management also believes there are opportunities for cross selling initiatives within hospitals.

For the Biomet acquisition, management did not specifically comment on the impact of sales dis-synergies. It also noted that while some disruption in the business may occur, the impact will be offset by the increased cross selling opportunity. Thus, before the Biomet acquisition closes, Zimmer anticipates that each of its respective products will grow in line with its overall markets, and has the potential for above market growth once the acquisition is complete.



Figure 485: Zimmer Holdings Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Knees																		
Sales																		
Americas	\$1,111	\$1,068	\$283	\$269	\$248	\$279	\$1,078	\$276	\$282	\$270	\$308	\$1,135	\$284	\$293	\$292	\$336	\$1,204	\$1,277
Europe	\$419	\$463	\$118	\$117	\$88	\$124	\$447	\$123	\$118	\$92	\$136	\$468	\$131	\$125	\$98	\$143	\$497	\$510
Asia Pacific	\$261	\$295	\$74	\$79	\$75	\$80	\$309	\$73	\$82	\$73	\$79	\$306	\$73	\$84	\$76	\$83	\$316	\$333
Total Knees	\$1,790	\$1,825	\$475	\$465	\$412	\$483	\$1,834	\$471	\$481	\$435	\$523	\$1,910	\$488	\$502	\$465	\$562	\$2,017	\$2,120
YY % Change, Reported																		
Americas	1%	-4%	2%	1%	-2%	3%	1%	-2%	5%	9%	10%	5%	3%	4%	8%	9%	6%	6%
Europe	-3%	10%	1%	-9%	-2%	-3%	-3%	4%	1%	4%	10%	5%	7%	6%	7%	5%	6%	2%
Asia Pacific	13%	13%	10%	4%	2%	4%	5%	-1%	3%	-3%	-1%	-1%	0%	3%	4%	5%	3%	6%
Total Knees	2%	2%	3%	-1%	-1%	2%	0%	-1%	4%	6%	8%	4%	4%	4%	7%	7%	6%	5%
YY % Change, Constant Currency																		
Americas	0%	-4%	0%	0%	-4%	0%	-1%	-2%	5%	9%	11%	5%	3%	4%	8%	9%	6%	6%
Europe	1%	6%	5%	0%	9%	0%	3%	3%	0%	1%	7%	3%	5%	4%	5%	5%	5%	2%
Asia Pacific	4%	4%	7%	6%	4%	4%	5%	4%	7%	9%	10%	8%	10%	6%	5%	5%	6%	6%
Total Knees	1%	0%	2%	1%	1%	1%	1%	0%	4%	7%	10%	5%	5%	4%	7%	7%	6%	5%
FX Impact																		
Volume/Mix	3%	1%	5%	4%	3%	1%	4%	2%	6%	9%	12%	7%	8%	0%	0%	0%	0%	0%
Price	-2%	-2%	-3%	-3%	-3%	-2%	-3%	-2%	-1%	-2%	-2%	-2%	-3%					
Hips																		
Sales																		
Americas	\$590	\$601	\$154	\$152	\$145	\$156	\$607	\$152	\$157	\$151	\$162	\$621	\$150	\$158	\$157	\$168	\$634	\$653
Europe	\$433	\$471	\$114	\$116	\$96	\$120	\$446	\$112	\$114	\$97	\$123	\$445	\$116	\$117	\$99	\$124	\$456	\$469
Asia Pacific	\$239	\$284	\$77	\$72	\$67	\$73	\$289	\$67	\$68	\$61	\$68	\$265	\$66	\$68	\$62	\$69	\$265	\$276
Total Hips	\$1,262	\$1,356	\$345	\$340	\$309	\$349	\$1,342	\$331	\$338	\$308	\$353	\$1,331	\$332	\$343	\$318	\$362	\$1,355	\$1,398
YY % Change, Reported																		
Americas	4%	2%	0%	0%	2%	2%	1%	-1%	3%	4%	4%	2%	-1%	1%	4%	4%	2%	3%
Europe	-4%	9%	0%	-5%	-8%	-8%	-5%	-2%	-2%	1%	2%	0%	3%	3%	3%	1%	3%	3%
Asia Pacific	12%	19%	12%	0%	-4%	-2%	2%	-12%	-6%	-9%	-7%	-8%	-2%	0%	1%	2%	0%	4%
Total Hips	3%	7%	2%	-1%	-2%	-2%	-1%	-4%	0%	0%	1%	-1%	0%	1%	3%	3%	2%	3%
YY % Change, Constant Currency																		
Americas	4%	2%	0%	1%	2%	2%	1%	-1%	3%	4%	5%	2%	0%	1%	4%	4%	2%	3%
Europe	-2%	3%	3%	4%	3%	-5%	1%	-2%	-2%	-2%	-1%	-2%	1%	1%	1%	1%	1%	3%
Asia Pacific	6%	9%	8%	1%	-2%	0%	2%	-5%	4%	5%	6%	2%	7%	3%	2%	2%	4%	4%
Total Hips	2%	4%	2%	2%	2%	-1%	1%	-2%	2%	2%	3%	1%	2%	1%	3%	3%	2%	3%
FX Impact																		
Volume/Mix	4%	6%	5%	5%	4%	2%	4%	1%	4%	4%	5%	3%	4%	0%	0%	0%	0%	0%
Price	-2%	-2%	-2%	-3%	-3%	-3%	-3%	-3%	-2%	-2%	-2%	-2%	-2%					

Source: Deutsche Bank, Company reports



Figure 485 (cont'd): Zimmer Holdings Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Extremities																		
Sales																		
Americas	\$116	\$125	\$35	\$32	\$31	\$36	\$134	\$37	\$37	\$35	\$39	\$148	\$39	\$39	\$37	\$41	\$156	\$166
Europe	\$24	\$27	\$7	\$8	\$7	\$8	\$29	\$8	\$8	\$8	\$10	\$34	\$10	\$10	\$9	\$11	\$40	\$42
Asia Pacific	\$10	\$11	\$3	\$3	\$3	\$3	\$11	\$3	\$3	\$3	\$3	\$12	\$3	\$3	\$3	\$4	\$13	\$13
Total Extremities	\$150	\$163	\$45	\$43	\$40	\$47	\$174	\$48	\$49	\$46	\$52	\$194	\$52	\$51	\$49	\$56	\$208	\$221
YY % Change, Reported																		
Americas	12%	8%	6%	4%	11%	8%	7%	6%	16%	14%	8%	11%	4%	3%	7%	7%	5%	6%
Europe	2%	11%	8%	10%	8%	1%	7%	11%	11%	20%	27%	17%	27%	14%	14%	12%	16%	6%
Asia Pacific	23%	11%	-10%	-4%	4%	14%	1%	4%	8%	8%	6%	6%	22%	2%	4%	5%	8%	6%
Total Extremities	11%	9%	4%	4%	10%	7%	6%	7%	15%	15%	11%	12%	9%	4%	8%	8%	7%	6%
YY % Change, Constant Currency																		
Americas	12%	8%	6%	4%	12%	8%	7%	6%	16%	15%	8%	11%	4%	3%	7%	7%	5%	6%
Europe	7%	7%	11%	19%	18%	4%	13%	11%	10%	17%	23%	15%	25%	12%	12%	12%	15%	6%
Asia Pacific	12%	2%	-13%	-3%	5%	13%	0%	11%	16%	21%	18%	17%	30%	5%	5%	5%	11%	6%
Total Extremities	11%	7%	5%	5%	12%	7%	8%	7%	15%	15%	11%	12%	9%	4%	8%	8%	7%	6%
FX Impact																		
Volume/Mix	10%	8%	6%	7%	13%	8%	9%	9%	16%	17%	13%	14%	7%	0%	0%	0%	0%	0%
Price	0%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-2%	-2%	-2%	-3%	0%	0%	0%	0%	0%
Dental																		
Sales																		
Americas	\$114	\$135	\$35	\$35	\$34	\$34	\$138	\$36	\$35	\$36	\$35	\$142	\$35	\$36	\$37	\$37	\$145	\$150
Europe	\$80	\$85	\$20	\$21	\$16	\$23	\$80	\$20	\$21	\$14	\$23	\$79	\$20	\$22	\$17	\$24	\$83	\$85
Asia Pacific	\$25	\$28	\$5	\$6	\$5	\$5	\$20	\$5	\$5	\$5	\$5	\$19	\$6	\$5	\$5	\$5	\$21	\$22
Total Dental	\$220	\$248	\$60.20	\$62	\$55	\$61	\$238	\$60	\$61	\$55	\$63	\$239	\$61	\$63	\$59	\$65	\$249	\$256
YY % Change, Reported																		
Americas	11%	18%	2%	4%	2%	1%	2%	1%	1%	6%	4%	3%	-1%	1%	4%	5%	2%	4%
Europe	2%	6%	-2%	-16%	1%	-5%	-6%	-2%	1%	-10%	3%	-2%	3%	3%	20%	1%	6%	2%
Asia Pacific	6%	12%	-31%	-34%	-20%	-26%	-28%	-4%	-16%	2%	0%	-5%	26%	12%	0%	5%	10%	2%
Total Dental	7%	13%	-4%	-8%	-1%	-3%	-4%	-0.8%	0%	1%	3%	1%	2%	3%	8%	4%	4%	3%
YY % Change, Constant Currency																		
Americas	11%	18%	2%	4%	3%	1%	3%	1%	2%	7%	4%	3%	-1%	1%	4%	5%	2%	4%
Europe	1%	2%	1%	-7%	11%	-2%	0%	-3%	1%	-13%	-1%	-3%	1%	1%	18%	1%	4%	2%
Asia Pacific	-1%	2%	-34%	-33%	-19%	-27%	-29%	3%	-7%	15%	12%	5%	34%	15%	0%	5%	13%	2%
Total Dental	6%	10%	-1%	-1%	3%	-2%	-2%	-1%	-1%	0%	2%	0%	2%	2%	7%	4%	4%	3%
FX Impact																		
Volume/Mix	4%	5%	-3%	-6%	0%	-5%	-4%	-2%	-1%	-1%	0%	-1%	2%	0%	1%	0%	0%	0%
Price	4%	7%	1%	1%	3%	3%	2%	1%	0%	1%	-1%	0%	0%	0%	0%	0%	0%	0%

Source: Deutsche Bank, Company reports



Figure 485 (cont'd): Zimmer Holdings Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Trauma																		
Sales																		
Americas	\$130	\$146	\$37	\$38	\$39	\$42	\$155	\$41	\$37	\$40	\$38	\$156	\$38	\$36	\$41	\$39	\$154	\$160
Europe	\$50	\$63	\$16	\$17	\$16	\$20	\$70	\$19	\$18	\$19	\$20	\$76	\$21	\$20	\$21	\$21	\$82	\$87
Asia Pacific	\$65	\$77	\$22	\$19	\$19	\$22	\$83	\$22	\$19	\$19	\$23	\$84	\$22	\$19	\$20	\$24	\$85	\$89
Total Trauma	\$245	\$286	\$76	\$74	\$75	\$84	\$308	\$82	\$74	\$79	\$81	\$316	\$80	\$75	\$81	\$85	\$321	\$336
Y/Y % Change, Reported																		
Americas	3%	12%	1%	7%	7%	13%	7%	11%	-1%	2%	-9%	0%	-9%	-2%	3%	4%	-1%	4%
Europe	-5%	26%	17%	7%	12%	7%	10%	18%	7%	19%	-1%	10%	10%	9%	6%	7%	8%	5%
Asia Pacific	16%	18%	17%	7%	6%	3%	8%	-1%	-3%	1%	4%	0%	-2%	1%	3%	4%	1%	5%
Total Trauma	4%	16%	8%	7%	8%	9%	8%	9%	0%	5%	-4%	3%	-3%	1%	4%	5%	2%	5%
Y/Y % Change, Constant Currency																		
Americas	3%	12%	1%	7%	8%	13%	7%	11%	-1%	2%	-9%	1%	-9%	-2%	3%	4%	-1%	4%
Europe	-5%	21%	20%	16%	22%	10%	16%	17%	6%	16%	-4%	8%	8%	7%	4%	7%	6%	5%
Asia Pacific	14%	8%	14%	8%	7%	2%	8%	6%	6%	12%	15%	10%	15%	4%	4%	4%	7%	5%
Total Trauma	4%	13%	8%	8%	11%	10%	9%	11%	3%	8%	-1%	5%	-1%	2%	3%	5%	3%	5%
FX Impact	2%	4%	0%	-1%	-3%	-1%	-1%	-2%	-3%	-3%	-3%	-3%	-2%	0%	0%	0%	0%	0%
Volume/Mix	1%	13%	9%	10%	12%	11%	10%	12%	3%	8%	0%	6%	0%	0%	0%	0%	0%	0%
Price	2%	0%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%	-1%	-1%	-1%	0%	0%	0%	0%	0%
Spine																		
Sales																		
Americas	\$167	\$151	\$37	\$35	\$34	\$34	\$140	\$31	\$35	\$31	\$33	\$130	\$30	\$35	\$32	\$33	\$131	\$134
Europe	\$52	\$53	\$12	\$13	\$10	\$14	\$49	\$12	\$14	\$11	\$13	\$50	\$13	\$15	\$12	\$13	\$52	\$54
Asia Pacific	\$16	\$21	\$4	\$4	\$6	\$6	\$20	\$5	\$6	\$5	\$7	\$23	\$6	\$6	\$6	\$8	\$26	\$28
Total Spine	\$234	\$225	\$53	\$52	\$50	\$54	\$209	\$48	\$54	\$48	\$52	\$202	\$48	\$56	\$50	\$55	\$210	\$216
Y/Y % Change, Reported																		
Americas	-14%	-9%	-6%	-5%	-10%	-8%	-7%	-16%	-1%	-8%	-5%	-8%	-2%	1%	3%	3%	1%	2%
Europe	11%	3%	-8%	-12%	-15%	1%	-8%	-2%	8%	13%	-8%	2%	2%	6%	6%	4%	5%	3%
Asia Pacific	24%	26%	-2%	-9%	-3%	-5%	-5%	14%	28%	-5%	33%	17%	19%	11%	14%	15%	15%	8%
Total Spine	-8%	-4%	-6%	-7%	-10%	-5%	-7%	-10%	3%	-3%	-2%	-3%	1%	3%	5%	5%	4%	3%
Y/Y % Change, Constant Currency																		
Americas	-14%	-10%	-5%	-5%	-9%	-8%	-7%	-16%	-1%	-7%	-5%	-7%	-2%	1%	3%	3%	1%	2%
Europe	6%	-2%	-5%	-3%	-5%	4%	-2%	-2%	7%	10%	-11%	0%	0%	4%	4%	4%	3%	3%
Asia Pacific	23%	16%	-5%	-8%	-2%	-6%	-5%	22%	37%	8%	45%	27%	27%	15%	15%	15%	17%	8%
Total Spine	-8%	-6%	-5%	-5%	-7%	-5%	-5%	-10%	4%	-3%	-2%	-3%	1%	3%	5%	5%	4%	3%
FX Impact	0%	2%	-1%	-2%	-3%	0%	-2%	0%	-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%
Volume/Mix	-6%	-4%	-2%	-1%	-3%	-1%	-2%	-7%	6%	-1%	0%	-1%	3%	0%	0%	0%	0%	0%
Price	-1%	-2%	-4%	-3%	-4%	4%	-4%	-3%	-2%	-2%	-2%	-2%	-2%	0%	0%	0%	0%	0%

Source: Deutsche Bank, Company reports



Figure 485 (cont'd): Zimmer Holdings Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Surgical & other																		
Sales																		
Americas	\$205	\$217	\$54	\$54	\$53	\$64	\$225	\$63	\$77	\$71	\$78	\$289	\$63	\$81	\$73	\$79	\$296	\$301
Europe	\$42	\$53	\$13	\$14	\$12	\$17	\$57	\$15	\$15	\$14	\$17	\$61	\$17	\$16	\$15	\$18	\$65	\$69
Asia Pacific	\$73	\$81	\$21	\$22	\$21	\$22	\$86	\$23	\$20	\$20	\$20	\$83	\$21	\$20	\$20	\$21	\$81	\$84
Total Surgical & other	\$319	\$350	\$88	\$90	\$87	\$103	\$368	\$100	\$112	\$104	\$116	\$432	\$101	\$116	\$108	\$118	\$443	\$454
Y/Y % Change, Reported																		
Americas	15%	6%	0%	1%	1%	13%	4%	17%	42%	33%	22%	28%	1%	5%	3%	1%	3%	2%
Europe	3%	27%	-2%	9%	13%	10%	7%	12%	4%	13%	2%	7%	16%	7%	7%	4%	8%	5%
Asia Pacific	24%	11%	18%	1%	6%	4%	7%	7%	-8%	-7%	-7%	-4%	-9%	-4%	2%	3%	-2%	4%
Total Surgical & other	15%	10%	-7%	2%	3%	10%	5%	14%	24%	20%	13%	18%	1%	4%	3%	2%	2%	3%
Y/Y % Change, Constant Currency																		
Americas	12%	3%	0%	1%	2%	13%	4%	17%	43%	36%	23%	29%	23%	5%	3%	1%	7%	2%
Europe	-2%	23%	1%	18%	23%	13%	13%	12%	3%	10%	-1%	5%	14%	5%	5%	4%	7%	5%
Asia Pacific	18%	8%	19%	-7%	13%	13%	9%	10%	-4%	-3%	-5%	0%	-7%	0%	3%	3%	0%	4%
Total Surgical & other	11%	7%	-6%	-6%	11%	19%	7%	17%	28%	25%	16%	21%	3%	4%	3%	2%	6%	3%
Worldwide																		
Sales																		
Americas	\$2,431	\$2,441	\$634	\$615	\$584	\$644	\$2,477	\$635	\$660	\$633	\$692	\$2,620	\$639	\$678	\$669	\$734	\$2,719	\$2,840
Europe	\$1,100	\$1,215	\$301	\$305	\$245	\$326	\$1,177	\$308	\$308	\$255	\$343	\$1,213	\$327	\$323	\$271	\$355	\$1,276	\$1,314
Asia Pacific	\$689	\$797	\$206	\$205	\$196	\$211	\$818	\$197	\$202	\$186	\$206	\$791	\$196	\$205	\$192	\$214	\$807	\$847
Worldwide Sales	\$4,220	\$4,452	\$1,141	\$1,125	\$1,025	\$1,181	\$4,472	\$1,139	\$1,170	\$1,074	\$1,241	\$4,623	\$1,162	\$1,206	\$1,131	\$1,303	\$4,802	\$5,002
Y/Y % Change, Reported																		
Americas	3%	0%	1%	1%	0%	4%	1%	0%	7%	8%	7%	6%	1%	3%	6%	6%	4%	4%
Europe	-2%	10%	1%	-6%	-3%	-4%	-3%	2%	1%	4%	5%	3%	6%	5%	6%	4%	5%	3%
Asia Pacific	14%	16%	10%	1%	0%	1%	3%	-4%	-2%	-5%	-2%	-3%	0%	2%	3%	4%	2%	5%
WW Sales Reporte	3%	5%	2%	-1%	-1%	1%	0%	0%	4.0%	5%	5%	3%	2%	3%	5%	5%	4%	4%
Y/Y % Change, Constant Currency																		
Americas	2%	0%	1%	1%	0%	4%	2%	0%	8%	9%	8%	6%	1%	3%	6%	6%	4%	4%
Europe	3%	5%	4%	3%	8%	-1%	3%	2%	0%	1%	2%	1%	4%	3%	4%	4%	4%	3%
Asia Pacific	3%	6%	7%	2%	2%	2%	3%	3%	7%	8%	10%	7%	8%	5%	4%	4%	5%	5%
WW Sales Ex-FX	2%	3%	3%	2%	3%	2%	2%	1%	6%	7%	7%	5%	3%	3%	5%	5%	4%	4%
Volume/Mix																		
Americas	3%	2%	4%	4%	3%	6%	4.0%	2%	10%	11%	11%	8%	4%					
Europe	1%	5%	5%	4%	9%	0%	4.0%	3%	1%	2%	3%	2%	6%					
Asia Pacific	8%	7%	8%	5%	5%	5%	5.0%	6%	7%	8%	10%	8%	8%					
WW Vol/Mix	3%	4%	5%	4%	5%	4%	4%	3%	7%	8%	9%	7%	5%					
Price																		
Americas	-1%	-2%	-3%	-3%	-3%	-2%	-2.0%	-2%	-2%	-2%	-3%	-2%	-3%					
Europe	0%	0%	-1%	-1%	-1%	-2%	-1.0%	-1%	-1%	-1%	-1%	-1%	-2%					
Asia Pacific	-2%	-1%	-1%	-3%	-3%	-3%	-2.0%	-3%	0%	0%	0%	-1%	0%					
WW Price	-1%	-1%	-2.0%	-2.1%	-2.1%	-1.9%	-2.0%	-2%	-1%	-2%	-2%	-2%	-2%					

Source: Deutsche Bank, Company reports



Figure 485 (cont'd): Zimmer Holdings Earnings Model (\$ in millions, except per share data)

	2010	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Adjusted Income Statement																		
Total Sales	\$4,220	\$4,452	\$1,141	\$1,125	\$1,026	\$1,181	\$4,472	\$1,139	\$1,170	\$1,074	\$1,241	\$4,623	\$1,162	\$1,206	\$1,131	\$1,303	\$4,802	\$5,002
Cost of Goods Sold	\$1,011	\$1,111	\$288	\$281	\$255	\$297	\$1,120	\$291	\$312	\$285	\$328	\$1,216	\$298	\$322	\$302	\$343	\$1,265	\$1,308
Gross Profit	\$3,209	\$3,341	\$853	\$844	\$770	\$884	\$3,351	\$848	\$858	\$789	\$913	\$3,408	\$864	\$884	\$829	\$960	\$3,538	\$3,694
Gross Profit Margin	76.0%	75.1%	74.8%	75.0%	75.1%	74.9%	74.9%	74.5%	73.3%	73.5%	73.6%	73.7%	74.4%	73.3%	73.3%	73.7%	73.7%	73.9%
SG&A Expense	\$1,757	\$1,834	\$463	\$453	\$430	\$461	\$1,807	\$461	\$458	\$438	\$477	\$1,834	\$464	\$476	\$454	\$486	\$1,880	\$1,923
% of Sales	41.6%	41.2%	40.6%	40.3%	41.9%	39.0%	40.4%	40.5%	39.2%	40.8%	38.4%	39.7%	40.0%	39.5%	40.1%	37.3%	39.2%	38.5%
R&D expenses	\$221	\$239	\$60	\$57	\$54	\$55	\$226	\$54	\$55	\$49	\$46	\$204	\$48	\$52	\$48	\$53	\$201	\$209
% of Sales	5.2%	5.4%	5.2%	5.1%	5.2%	4.7%	5.0%	4.7%	4.7%	4.6%	3.7%	4.4%	4.1%	4.3%	4.3%	4.1%	4.2%	4.2%
Operating Income	\$1,232	\$1,269	\$330	\$334	\$287	\$368	\$1,319	\$334	\$345	\$302	\$389	\$1,370	\$352	\$356	\$327	\$421	\$1,456	\$1,561
Op Income Margin	29.2%	28.5%	28.9%	29.7%	28.0%	31.2%	29.5%	29.3%	29.5%	28.1%	31.4%	29.6%	30.3%	29.5%	28.9%	32.3%	30.3%	31.2%
Net Interest Expense	\$57	\$45	\$15	\$14	\$15	\$14	\$57	\$15	\$14	\$13	\$12	\$55	\$13	\$14	\$12	\$11	\$49	\$44
Pretax Income	\$1,175	\$1,223	\$316	\$319	\$272	\$354	\$1,261	\$319	\$330	\$289	\$377	\$1,315	\$340	\$342	\$316	\$410	\$1,407	\$1,517
Pretax Inc Margin	27.8%	27.5%	27.7%	28.4%	26.6%	30.0%	28.2%	28.0%	28.2%	26.9%	30.4%	28.4%	29.2%	28.4%	27.9%	31.4%	29.3%	30.3%
Taxes Paid	\$304	\$319	\$81	\$84	\$71	\$91	\$327	\$79	\$87	\$73	\$89	\$329	\$82	\$89	\$80	\$104	\$356	\$387
Tax rate	25.8%	26.0%	25.7%	26.4%	25.9%	25.7%	25.9%	24.8%	26.4%	25.4%	23.6%	25.0%	24.1%	26.0%	25.5%	25.5%	25.3%	25.5%
Minority Interest	\$0	\$0	(\$1)	(\$1)	(\$0)	(\$1)	(\$2)	(\$1)	(\$0)	(\$0)	(\$1)	(\$2)	(\$0)	(\$0)	(\$0)	(\$0)	(\$2)	(\$2)
Net Income	\$872	\$906	\$235	\$236	\$202	\$264	\$937	\$240.8	\$243	\$216	\$288.6	\$988	\$258.1	\$254	\$236	\$306	\$1,053	\$1,132
Net Margin	20.7%	20.3%	20.6%	20.9%	19.7%	22.3%	20.9%	21.1%	20.8%	20.1%	23.3%	21.4%	22.2%	21.0%	20.8%	23.5%	21.9%	22.6%
Diluted Shares	201.1	188.7	178.5	176.2	175.3	174.1	176.0	170.7	170.7	172.2	173.5	171.8	171.8	171.4	173.1	174.3	172.6	176.1
Diluted Adj EPS	\$4.33	\$4.80	\$1.32	\$1.34	\$1.15	\$1.51	\$5.32	\$1.41	\$1.43	\$1.25	\$1.66	\$5.75	\$1.50	\$1.48	\$1.36	\$1.75	\$6.10	\$6.43
Growth Analysis																		
Total Sales	3.0%	5.5%	2.2%	-1.1%	-0.6%	1.1%	0.4%	-0.2%	4.0%	4.8%	5.1%	3.4%	2.0%	3.1%	5.3%	5.0%	3.9%	4.2%
Gross Profit	2.8%	4.1%	1.4%	-1.0%	-1.4%	2.1%	0.3%	-0.6%	1.6%	2.5%	3.3%	1.7%	1.8%	3.1%	5.0%	5.2%	3.8%	4.4%
SG&A Expense	1.6%	4.4%	1.1%	-3.5%	-3.2%	-0.3%	-1.5%	-0.5%	1.0%	1.9%	3.6%	1.5%	0.8%	4.0%	3.6%	1.9%	2.5%	2.3%
R&D expenses	7.4%	8.2%	7.2%	0.4%	-12.3%	-14.9%	-5.4%	-10.2%	-4.0%	-7.7%	-16.1%	-9.5%	-11.2%	-5.5%	-2.7%	15.1%	-1.6%	4.2%
Operating Income	3.9%	3.0%	0.9%	2.3%	3.8%	8.6%	3.9%	1.2%	3.3%	5.3%	5.8%	3.9%	5.4%	3.3%	8.4%	8.2%	6.3%	7.2%
Pretax Income	0.9%	4.1%	-0.2%	1.0%	2.9%	8.5%	3.1%	1.2%	3.4%	6.0%	6.5%	4.3%	6.3%	3.7%	9.4%	8.7%	7.0%	7.8%
Net Income	2.2%	3.9%	1.9%	1.3%	2.5%	7.6%	3.4%	2.3%	3.3%	6.7%	9.5%	5.5%	7.2%	4.3%	9.3%	5.9%	6.5%	7.5%
Diluted Shares	-6.8%	-6.1%	-7.9%	-8.6%	-7.2%	-3.1%	-6.7%	-4.4%	-3.1%	-1.8%	-0.3%	-2.4%	0.6%	0.4%	0.5%	0.5%	0.5%	2.0%
Diluted Adj EPS	9.7%	10.7%	10.6%	10.8%	10.4%	10.9%	10.9%	7.0%	6.6%	8.6%	9.9%	8.2%	6.5%	3.9%	8.7%	5.4%	6.0%	5.4%

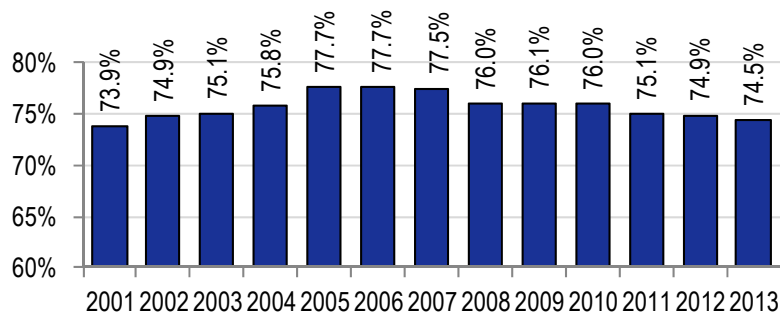
Source: Deutsche Bank, Company reports



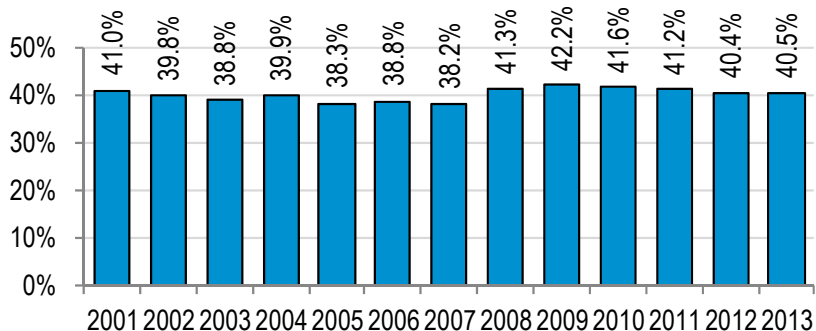
Zimmer Historical Margin Trends

Figure 486: Historical Margin Trends

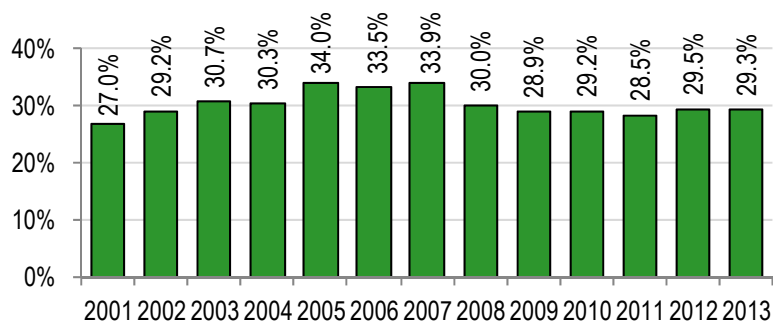
Gross margins



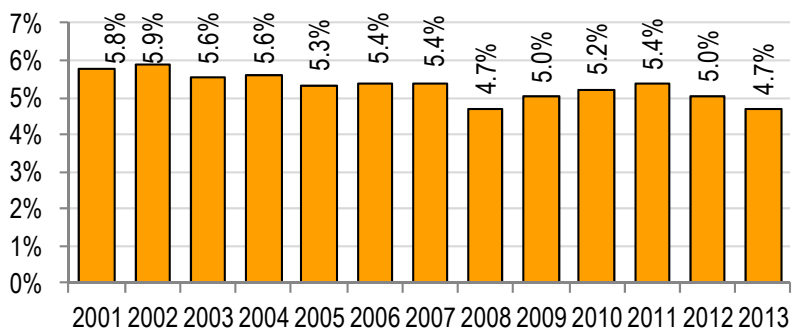
SG&A as % of sales



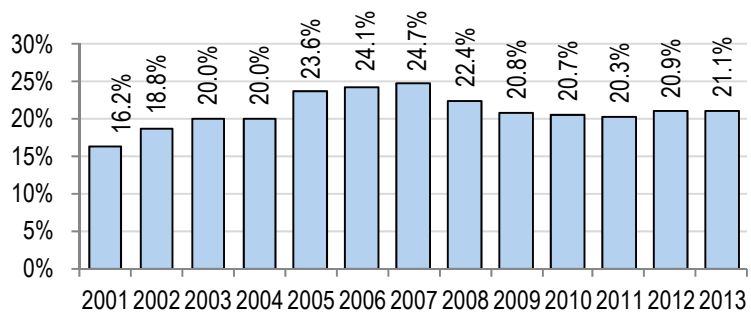
Operating Margin



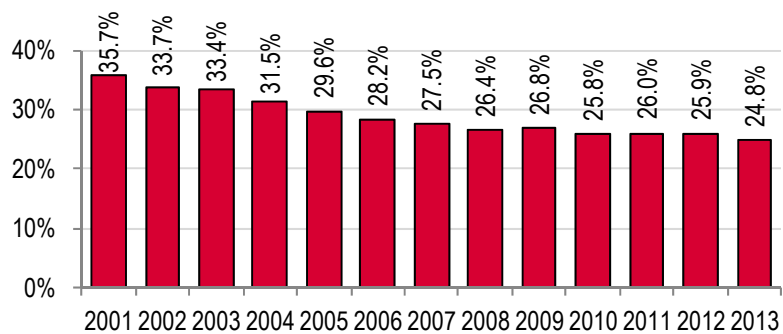
R&D as % of sales



Net Margin



Tax Rate



Source: Deutsche Bank, Company reports





Major Market Overviews

Cardiac Rhythm Management

In 2013, we estimate the pacemaker market* was approximately \$3.5 billion while the ICD market* was \$5.9 billion. (*We define the market as sales from the three principal players—Medtronic, Boston Scientific, and St. Jude Medical—which we estimate represent over 90% of the global CRM market. Smaller, more regional players include Biotronik (private) and Sorin).

In the early 2000s, the ICD market was a growth market driven by the launch of new products, positive clinical trial results, and indication expansions. However, after several recalls, government investigations, and journal articles raising the issue of overuse, the market slowed and has since become a mature market.

The pacemaker market has been a more mature market for some time though in recent years has come under some more pressure owing to slightly worse pricing.

Figure 487: Medtronic Revo Pacemaker
Revo MRI SureScan Pacemaker



Source: Courtesy of Medtronic, Inc

Figure 488: Boston Scientific's COGNIS CRT-D and TELIGEN ICD



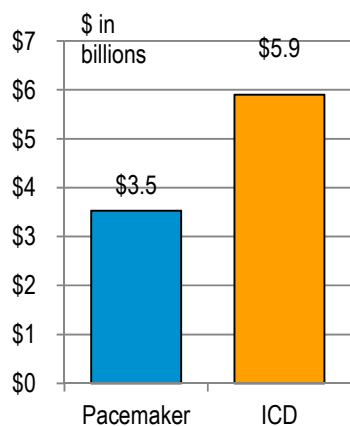
Source: © 2012 Boston Scientific Corporation or its affiliates. All rights reserved. Used with permission of Boston Scientific Corporation.

Figure 489: St. Jude Unify Quadra CRT-D



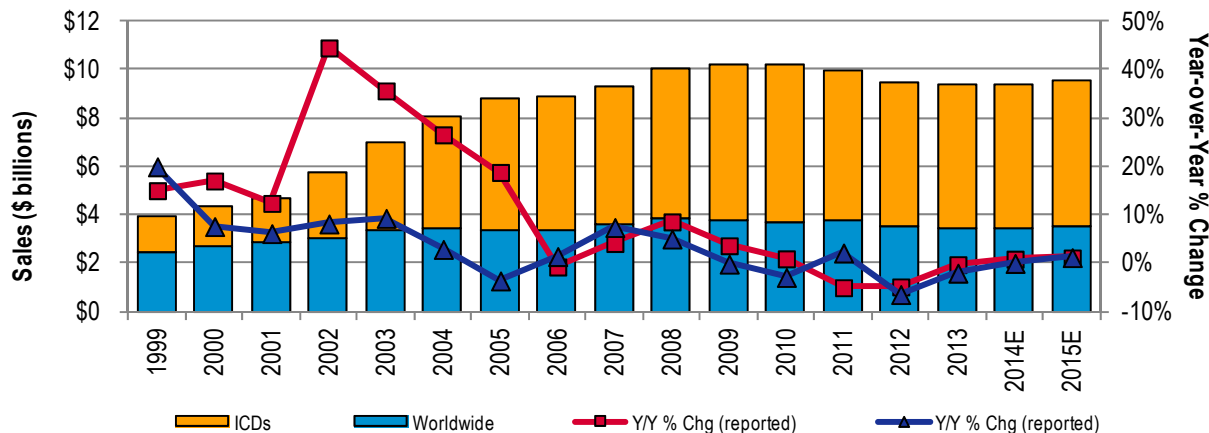
Source: Courtesy of St. Jude Medical

Figure 490: Market Size, 2013



Source: Deutsche Bank, Company reports

Figure 491: Year-over-year percent change in annual sales



Source: Deutsche Bank, Company reports



Subcutaneous ICD (S-ICD)

The S-ICD has two key components—a pulse generator (similar to a traditional ICD) and a subcutaneous electrode that delivers the shocks (unlike a traditional ICD that has a transvenous lead).

Cameron Health was a developer of a subcutaneous implantable defibrillator. In 2004, Boston Scientific made an equity investment in Cameron Health and acquired an exclusive option to acquire the company. In early 2012, Boston Scientific acquired the remaining interest in Cameron for an upfront fee of \$150 million with an additional \$150 million upon FDA approval of the S-ICD system and up to \$1,050 million in revenue-based milestone payments over 6 years. The Cameron Health S-ICD had received a CE Mark (European approval) in 2009 and FDA approval in September 2012. In 2013, the S-ICD system showed strong safety and efficacy data and was implanted in approximately 3,000 patients. Additionally, the Gen 1.5 device completed development and was subsequently launched thereafter.

At its analyst day in February 2013, Boston Scientific said it saw S-ICDs as a \$750+ million opportunity, based on a \$6.5 billion global ICD market, 55% of which is core ICD (excluding CRT-D segment), leading to \$3.5 billion of which 70% would be considered de novo and eligible patients, with 30% of that \$2.5 billion opportunity being best suited for S-ICD. While management did not comment on the exact sales of its S-ICD product in 1Q14, it did reference that it continues to see strong uptake of the device and that the device will contribute more than \$75 million in 2014 sales, up from the 2013 levels, which management described as just above the low end of its original guidance (\$25-\$45 million).

Leadless Pacemakers

Today's pacemakers include a pulse generator and leads. St. Jude Medical and Medtronic are both working on miniature sized leadless pacemaker technologies.

In October 2013, St. Jude acquired leadless pacemaker developer **Nanostim**. Nanostim's device is a minimally invasive VVI pacing device. Nanostim is much smaller than current pacemakers at 1cc and 2 grams and can be easily implanted by an interventional cardiologist as its minimally invasive and does not require the traditional surgically created pacemaker pocket. The device is repositionable, retrievable, and is inherently MRI-safe. St. Jude estimates the longevity at approximately 8-10 years. The device has received CE Mark approval. St. Jude has initiated its LEADLESS II US IDE Study with the first implant in the US occurring February 6, 2014. The study will enroll a total of 670 patients. St. Jude expects to file its PMA application for Nanostim once it has six-month follow-up data on 300 patients. St. Jude sees the single-chamber segment of the pacemaker market to be approximately \$680M WW, with share gain opportunities in developed market and increased penetration in emerging markets. The company also views the device as a possible platform for other pacing systems (DDDR and CRT).

Figure 492: S-ICD



Source: Courtesy of Boston Scientific

Figure 493: St. Jude's Nanostim

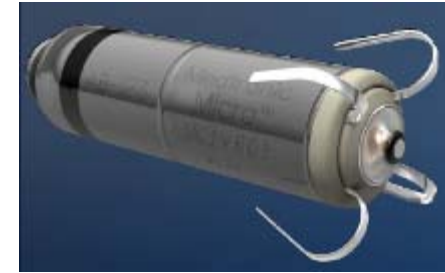


Source: Courtesy of St. Jude Medical



Medtronic is also working on a leadless pacemaker platform, the **Micra Pacemaker**. Medtronic's Micra pacemaker is a miniaturized pacing system that is repositionable, allows for shorter procedural times, and is inherently MRI-compatible. In December 2013, Medtronic announced its first-in-man experience as part of the global pivotal clinical trial, which will enroll up to 780 patients at 50 sites. The trial is currently enrolling and initial results from the first 60 patients, followed-up to three months, are anticipated in the 2H14. The US portion of the trial is currently enrolling and will enroll 300 patients and with a follow up period of six months. To date, no safety events have been reported and Medtronic anticipates it will receive CE Mark (European) approval by the end of fiscal 2015 and launch in US and Japan markets in fiscal 2017.

Figure 494: Medtronic's Micra



Source: Courtesy of St. Jude Medical

Quadripolar Technologies

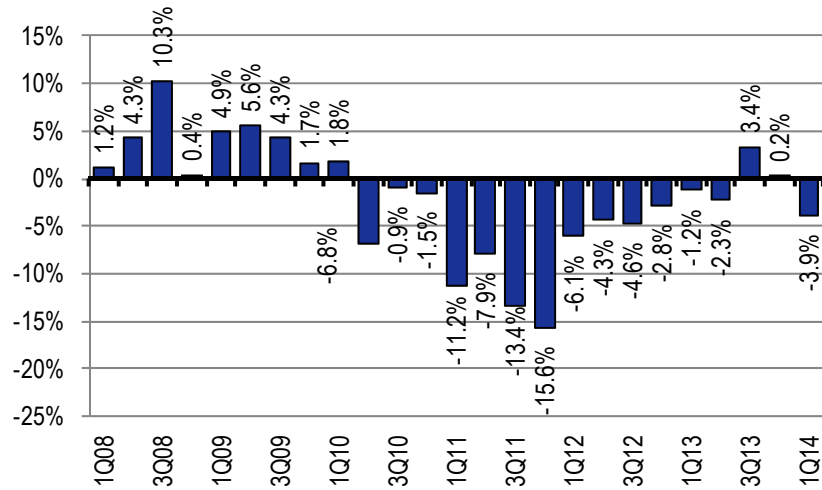
Quadripolar technologies have four electrodes as opposed to the conventional two electrodes and combine multiple pacing configurations so that a physician can better control the patient's system. St. Jude remains the only company to provide a full quadripolar system (generator and leads). More recently, however, Boston Scientific received FDA approval of its quadripolar generator that can be used with St. Jude's leads and anticipates its full quadripolar system will be released in 2016. Medtronic also anticipates launching its full quadripolar system (generator and leads) in fiscal 2015 which could be as early as the end of this calendar year.

At 2014 HRS meeting, data was presented that showcased St. Jude Medical's quadripolar leads have better survival rates in comparison to traditional bipolar leads. The study was a comparative effectiveness study and compiled data from approximately 23,200 patients in a St. Jude managed registry. Data revealed that mortality in quadripolar patients was 5.84% while mortality in the bipolar group was 7.14%.



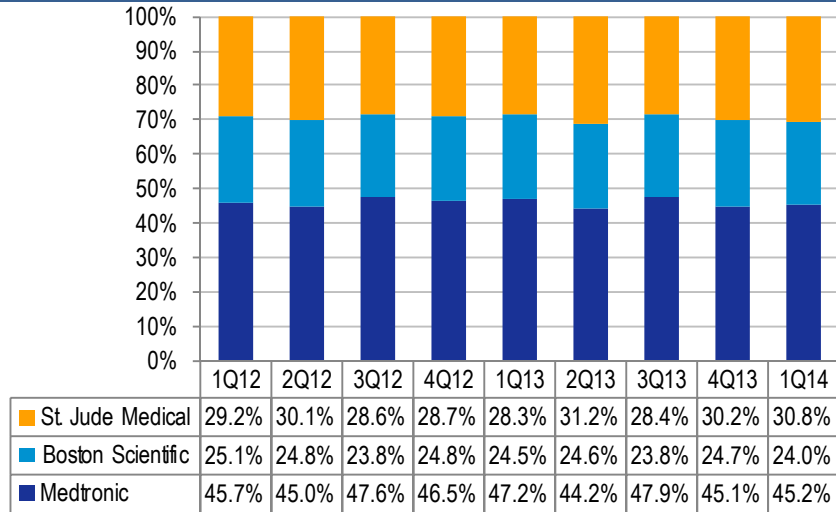
Implantable Defibrillators (three major players)

Figure 495: US ICD Sales (Y/Y % chg)



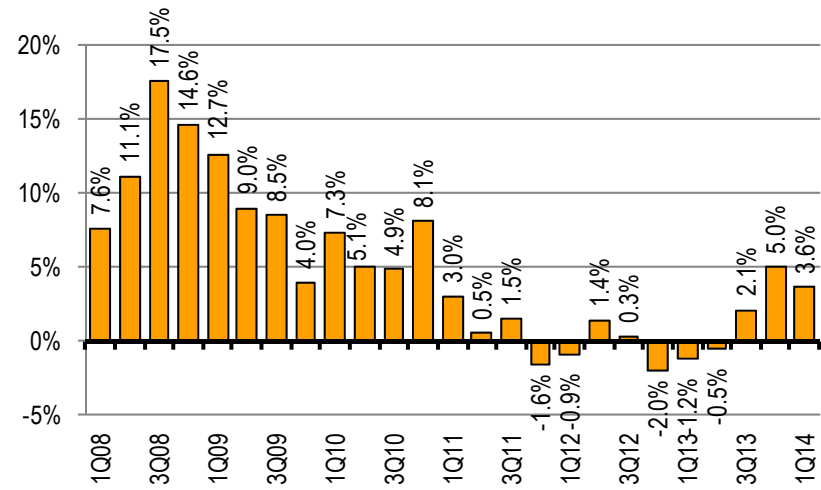
Source: Deutsche Bank, Company reports

Figure 497: US ICD Market Share



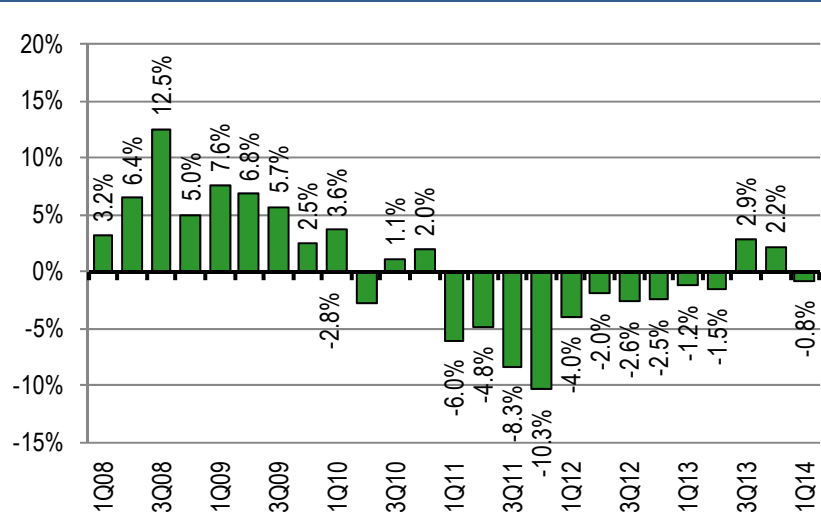
Source: Deutsche Bank, Company reports

Figure 496: OUS ICD Sales (Y/Y % chg ex-FX)



Source: Deutsche Bank, Company reports

Figure 498: WW ICD sales (Y/Y % chg ex-FX)



Source: Deutsche Bank, Company reports



Figure 499: Implantable Defibrillator market

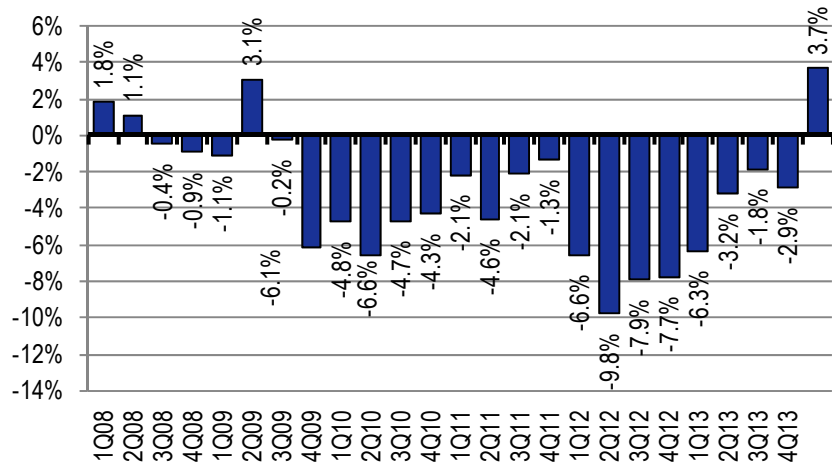
ICDs																		
Worldwide																		
Sales \$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Medtronic	\$505	\$735	\$867	\$948	\$1,389	\$1,761	\$2,293	\$2,858	\$2,906	\$2,861	\$2,988	\$3,065	\$3,083	\$2,839	\$2,762	\$2,778	\$2,758	\$2,774
Boston Scientific	\$595	\$556	\$667	\$719	\$1,007	\$1,489	\$1,764	\$1,651	\$1,473	\$1,543	\$1,681	\$1,792	\$1,598	\$1,518	\$1,380	\$1,355	\$1,375	\$1,412
St. Jude Medical	\$131	\$127	\$126	\$200	\$304	\$414	\$584	\$1,007	\$1,100	\$1,305	\$1,535	\$1,578	\$1,820	\$1,823	\$1,743	\$1,741	\$1,783	\$1,811
Worldwide	\$1,231	\$1,417	\$1,660	\$1,867	\$2,700	\$3,664	\$4,640	\$5,516	\$5,479	\$5,709	\$6,204	\$6,435	\$6,501	\$6,180	\$5,885	\$5,874	\$5,916	\$5,997
Y/Y % Chg (reported)		15.1%	17.1%	12.5%	44.6%	35.7%	26.6%	18.9%	-0.7%	4.2%	8.7%	3.7%	1.0%	-4.9%	-4.8%	-0.2%	0.7%	1.4%
Market Shares																		
Medtronic	41.0%	51.9%	52.2%	50.8%	51.5%	48.1%	49.4%	51.8%	53.0%	50.1%	48.2%	47.6%	47.4%	45.9%	46.9%	47.3%	46.6%	46.3%
Boston Scientific	48.3%	39.2%	40.2%	38.5%	37.3%	40.6%	38.0%	29.9%	26.9%	27.0%	27.1%	27.8%	24.6%	24.6%	23.4%	23.1%	23.2%	23.6%
St. Jude Medical	10.7%	8.9%	7.6%	10.7%	11.3%	11.3%	12.6%	18.3%	20.1%	22.9%	24.7%	24.5%	28.0%	29.5%	29.6%	29.6%	30.1%	30.2%
United States																		
Sales \$ millions	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic <i>est</i>	\$588	\$694	\$758	\$1,111	\$1,407	\$1,807	\$2,260	\$2,125	\$1,965	\$1,933	\$1,980	\$1,973	\$1,655	\$1,610	\$1,607	\$1,558	\$1,567	
Boston Scientific	\$441	\$534	\$573	\$822	\$1,211	\$1,395	\$1,232	\$1,053	\$1,053	\$1,140	\$1,248	\$1,037	\$948	\$858	\$850	\$853	\$876	
St. Jude Medical	\$101	\$97	\$160	\$244	\$317	\$427	\$783	\$798	\$889	\$986	\$998	\$1,138	\$1,046	\$1,016	\$1,027	\$1,055	\$1,067	
Worldwide	\$1,130	\$1,325	\$1,492	\$2,177	\$2,935	\$3,629	\$4,275	\$3,976	\$3,907	\$4,059	\$4,226	\$4,148	\$3,649	\$3,484	\$3,484	\$3,466	\$3,509	
Y/Y % Chg (reported)		17.3%	12.6%	45.9%	34.8%	23.7%	17.8%	-7.0%	-1.7%	3.9%	4.1%	-1.8%	-12.0%	-4.5%	0.0%	-0.5%	1.2%	
US Market Share																		
Medtronic	52.1%	52.3%	50.8%	51.0%	47.9%	49.8%	52.9%	53.4%	50.3%	47.6%	46.9%	47.6%	45.4%	46.2%	46.1%	44.9%	44.6%	
Boston Scientific	39.0%	40.3%	38.4%	37.7%	41.3%	38.4%	28.8%	26.5%	27.0%	28.1%	29.5%	25.0%	26.0%	24.6%	24.4%	24.6%	25.0%	
St. Jude Medical	8.9%	7.3%	10.7%	11.2%	10.8%	11.8%	18.3%	20.1%	22.8%	24.3%	23.6%	27.4%	28.7%	29.2%	29.5%	30.4%	30.4%	
International Sales																		
Sales \$ millions	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic <i>est</i>	\$147	\$173	\$190	\$278	\$354	\$486	\$598	\$781	\$896	\$1,055	\$1,085	\$1,110	\$1,184	\$1,152	\$1,171	\$1,201	\$1,208	
Boston Scientific	\$115	\$132	\$145	\$185	\$278	\$368	\$419	\$420	\$490	\$541	\$544	\$561	\$570	\$522	\$505	\$522	\$536	
St. Jude Medical	\$26	\$29	\$40	\$60	\$97	\$156	\$224	\$302	\$416	\$549	\$580	\$682	\$777	\$727	\$714	\$728	\$744	
Worldwide	\$288	\$335	\$375	\$523	\$729	\$1,011	\$1,241	\$1,503	\$1,802	\$2,145	\$2,209	\$2,353	\$2,531	\$2,401	\$2,390	\$2,450	\$2,488	
Y/Y % Chg (reported)		16.4%	12.1%	39.3%	39.4%	38.7%	22.8%	21.1%	19.9%	19.0%	3.0%	6.5%	7.6%	-5.1%	-0.5%	2.5%	1.5%	
International Market Share																		
Medtronic	51.1%	51.8%	50.5%	53.1%	48.5%	48.1%	48.2%	52.0%	49.7%	49.2%	49.1%	47.2%	46.8%	48.0%	49.0%	49.0%	48.5%	
Boston Scientific	39.8%	39.5%	38.7%	35.4%	38.1%	36.5%	33.8%	27.9%	27.2%	25.2%	24.6%	23.8%	22.5%	21.7%	21.1%	21.3%	21.6%	
St. Jude Medical	9.0%	8.7%	10.7%	11.5%	13.3%	15.5%	18.0%	20.1%	23.1%	25.6%	26.3%	29.0%	30.7%	30.3%	29.9%	29.7%	29.9%	

Note: Medtronic's results are calendarized
 Source: Deutsche Bank, Company reports



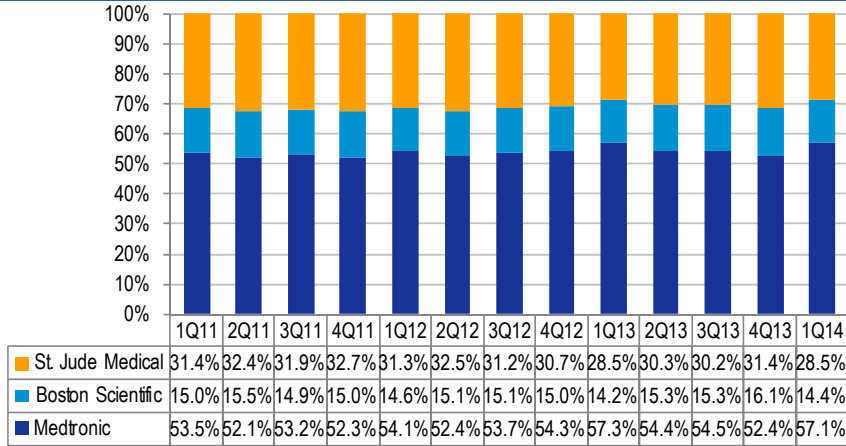
Pacemakers (three major players)

Figure 500: US Pacemaker Sales (YY % chg)



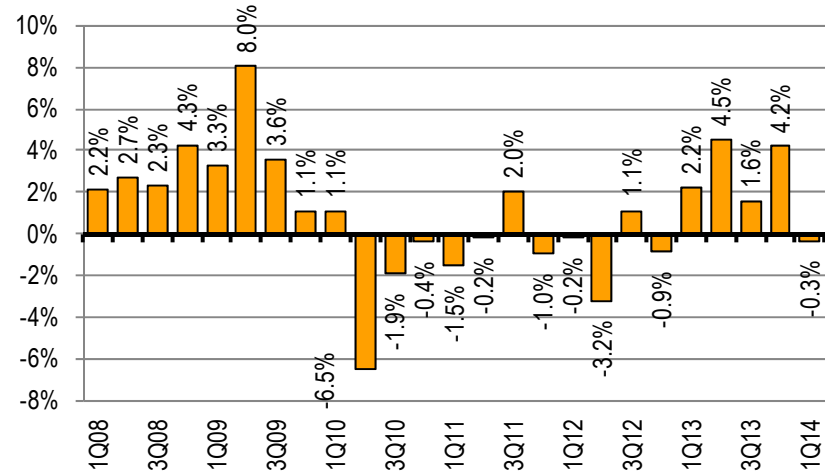
Source: Deutsche Bank, Company reports

Figure 502: US Pacemaker Market Share



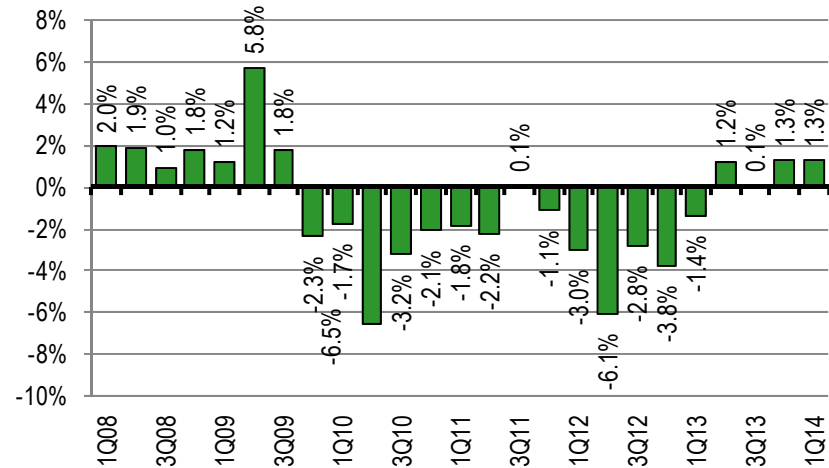
Source: Deutsche Bank, Company reports

Figure 501: OUS Pacemaker Sales (YY % chg ex-FX)



Source: Deutsche Bank, Company reports

Figure 503: WW Pacemaker sales (YY % chg ex-FX)



Source: Deutsche Bank, Company reports



Figure 504: Pacemaker market

Pacemakers																		
Worldwide																		
Global Sales (\$ in millions)																		
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Medtronic	\$1,260	\$1,379	\$1,483	\$1,540	\$1,662	\$1,827	\$1,826	\$1,767	\$1,855	\$1,971	\$2,029	\$1,987	\$1,890	\$1,992	\$1,894	\$1,895	\$1,916	\$1,945
Boston Scientific	\$260	\$493	\$540	\$590	\$637	\$684	\$720	\$629	\$553	\$581	\$605	\$621	\$581	\$570	\$528	\$528	\$537	\$544
St. Jude Medical	\$534	\$593	\$631	\$690	\$752	\$827	\$891	\$918	\$956	\$1,064	\$1,167	\$1,190	\$1,220	\$1,211	\$1,111	\$1,042	\$1,062	\$1,090
Worldwide	\$2,053	\$2,465	\$2,654	\$2,819	\$3,051	\$3,337	\$3,436	\$3,314	\$3,364	\$3,616	\$3,801	\$3,798	\$3,691	\$3,773	\$3,533	\$3,465	\$3,515	\$3,578
Y/Y % Chg (reported)		20.0%	7.7%	6.2%	8.2%	9.4%	3.0%	-3.5%	1.5%	7.5%	5.1%	-0.1%	-2.8%	2.2%	-6.4%	-1.9%	1.5%	1.8%
Global Market Shares																		
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Medtronic	61.4%	56.0%	55.9%	54.6%	54.5%	54.7%	53.1%	53.3%	55.1%	54.5%	53.4%	52.3%	51.2%	52.8%	53.6%	54.7%	54.5%	54.3%
Boston Scientific	12.6%	20.0%	20.4%	20.9%	20.9%	20.5%	20.9%	19.0%	16.4%	16.1%	15.9%	16.4%	15.7%	15.1%	14.9%	15.2%	15.3%	15.2%
St. Jude Medical	26.0%	24.1%	23.8%	24.5%	24.7%	24.8%	25.9%	27.7%	28.4%	29.4%	30.7%	31.3%	33.1%	32.1%	31.4%	30.1%	30.2%	30.4%
United States																		
Sales \$ millions																		
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic				\$831	\$898	\$888	\$889	\$919	\$939	\$909	\$889	\$818	\$841	\$785	\$750	\$780	\$779	
Boston Scientific				\$414	\$432	\$426	\$346	\$309	\$318	\$340	\$346	\$320	\$280	\$256	\$264	\$260	\$264	
St. Jude Medical				\$467	\$456	\$450	\$445	\$465	\$508	\$523	\$519	\$526	\$500	\$450	\$424	\$420	\$425	
Worldwide				\$1,712	\$1,786	\$1,764	\$1,680	\$1,693	\$1,765	\$1,772	\$1,754	\$1,664	\$1,621	\$1,491	\$1,438	\$1,460	\$1,467	
Y/Y % Chg (reported)					4.3%	-1.2%	-4.8%	0.8%	4.3%	0.4%	-1.0%	-5.1%	-2.6%	-8.0%	-3.6%	1.5%	0.5%	
US Market Share																		
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic				48.6%	50.3%	50.3%	52.9%	54.3%	53.2%	51.3%	50.7%	49.2%	51.9%	52.6%	52.2%	53.4%	53.1%	
Boston Scientific				24.2%	24.2%	24.1%	20.6%	18.3%	18.0%	19.2%	19.7%	19.2%	17.3%	17.2%	18.3%	17.8%	18.0%	
St. Jude Medical				27.3%	25.5%	25.5%	26.5%	27.5%	28.8%	29.5%	29.6%	31.6%	30.8%	30.2%	29.5%	28.8%	28.9%	
International Sales																		
Sales \$ millions																		
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic				\$831	\$929	\$938	\$878	\$936	\$1,032	\$1,120	\$1,098	\$1,072	\$1,151	\$1,109	\$1,145	\$1,136	\$1,166	
Boston Scientific				\$223	\$252	\$294	\$283	\$244	\$263	\$265	\$275	\$261	\$290	\$272	\$264	\$276	\$280	
St. Jude Medical				\$286	\$371	\$441	\$473	\$491	\$556	\$644	\$671	\$694	\$711	\$661	\$618	\$642	\$665	
Worldwide				\$1,339	\$1,551	\$1,672	\$1,634	\$1,671	\$1,851	\$2,029	\$2,044	\$2,027	\$2,152	\$2,042	\$2,027	\$2,055	\$2,112	
Y/Y % Chg (reported)					15.8%	7.8%	-2.3%	2.2%	10.8%	9.6%	0.7%	-0.8%	6.2%	-5.1%	-0.7%	1.4%	2.8%	
International Market Share																		
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	
Medtronic				62.0%	59.9%	56.1%	53.7%	56.0%	55.8%	55.2%	53.7%	52.9%	53.5%	54.3%	56.5%	55.3%	55.2%	
Boston Scientific				16.6%	16.2%	17.6%	17.3%	14.6%	14.2%	13.1%	13.5%	12.9%	13.5%	13.3%	13.0%	13.5%	13.3%	
St. Jude Medical				21.3%	23.9%	26.4%	28.9%	29.4%	30.0%	31.7%	32.8%	34.2%	33.0%	32.4%	30.5%	31.3%	31.5%	

Note: Medtronic's results are calendarized
 Source: Deutsche Bank, Company reports



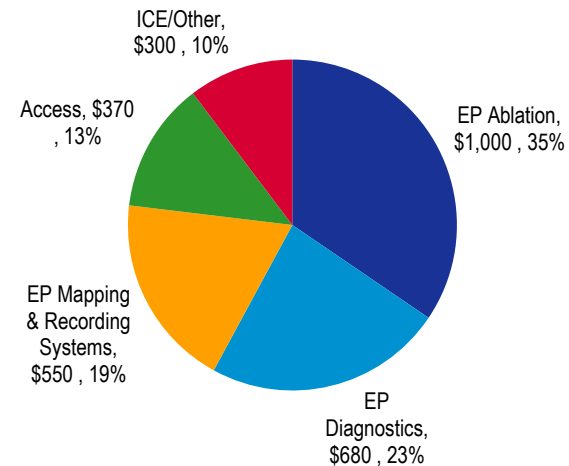
Atrial Fibrillation

Atrial fibrillation is a common cardiac arrhythmia characterized by irregular quivering of the heart muscles in the upper two chambers of the heart. While the condition itself is not life-threatening, it has been shown to significantly increase the risk of stroke and can also lead to heart failure due to inefficient hemodynamics. The incidence of atrial fib increases significantly with age.

St. Jude estimates the atrial fibrillation market in 2014 will be approximately \$2.9 billion and includes sales of EP ablation catheters, EP diagnostic catheters, advanced mapping systems and other related products. We expect the market to grow in the high single digits driven by demographic trends and as new technologies are introduced into the marketplace.

The leading companies in the atrial fibrillation market today are Johnson & Johnson's BioSense Webster and St. Jude Medical. There are several other companies with electrophysiology business units including Boston Scientific and Medtronic.

Figure 505: Atrial Fibrillation Market, 2014E



Source: St. Jude Medical 2014 analyst meeting



Coronary Stents

Coronary stents are metal scaffolds that are placed in the coronary arteries to keep the arteries open after a percutaneous coronary intervention (whereby as balloon is inserted and inflated where the artery was clogged). Coronary stents can be bare metal or be drug-eluting. We estimate the coronary stent market (defined as the primary market players) was \$4.3 billion in size in 2013.


Figure 506: Medtronic's RESOLUTE	<u>Medtronic</u>	<u>Boston Scientific</u>	<u>Abbott Laboratories</u>
 <p>Source: Courtesy of Medtronic, Inc</p>	<p>Medtronic has two stent families. Its first drug-eluting stent was ENDEAVOR, which stent platform uses zotarolimus. ENDEAVOR was approved in Europe in July 2005 and approved in the US in February 2008. Medtronic launched its RESOLUTE platform, which also uses zotarolimus but incorporates a different release profile, in Europe in July 2007 and in the US in February 2012.</p>	<p>The company has two stent families. The TAXUS stent eludes paclitaxel and was first approved in the US in March 2004. The PROMUS family eludes everolimus and was obtained through the Guidant acquisition and by agreement with Abbott. Boston's current PROMUS stents include PROMUS ELEMENT in the US and PROMUS Premiere in Europe. Boston next generation program is SYNERGY which uses a bioabsorbable polymer. SYNERGY is approved in Europe and in clinical trials in the US.</p>	<p>Abbott's drug-eluting stent is called XIENCE and it is an everolimus-eluting stent. Abbott obtained this stent through the Guidant acquisition. Abbott next-generation product is the ABSORB bioabsorbable vascular scaffold (BVS), which is approved in Europe and under clinical investigation in the US.</p>

Figure 507: U.S. Market Shares, 2013

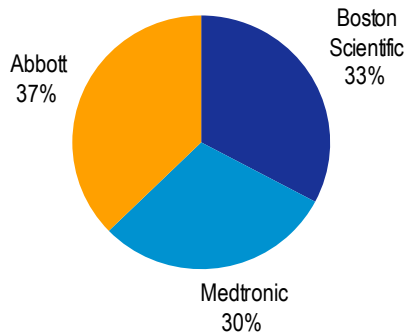
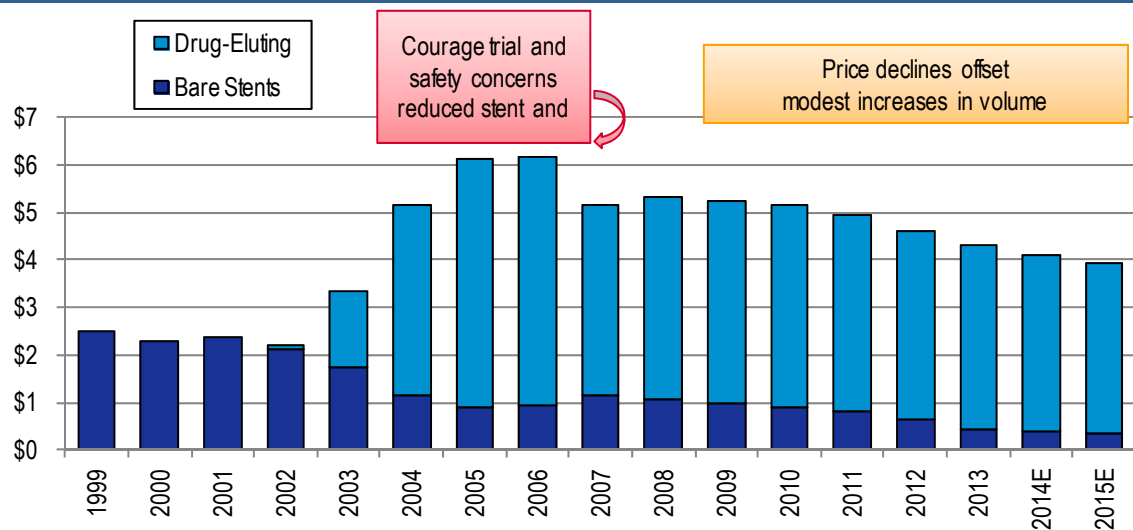


Figure 508: Annual Coronary Stent Sales (\$ billions)



Source: Deutsche Bank, Company reports

Source: Deutsche Bank, Company reports



Abbott's ABSORB

Abbott's Bioresorbable Vascular Scaffold (BVS) is made of polylactide, a dissolvable material. The device resembles a small mesh tube that, unlike a traditional coronary stent, the device is designed to dissolve into the blood vessel over a 36 to 42 month period. Similar to the XIENCE platform, BVS also eludes the drug everolimus to reduce neointimal growth in the coronary vessels following implantation. The scaffold is intended to last between 36 and 42 months. The product has already received CE Mark and is available in Europe, Middle East, parts of Latin America, Hong Kong, Malaysia and New Zealand. Abbott has several trials underway to support approval in the United States, Japan as well as China:

ABSORB III and IV Trials

The ABSORB III trial is a non-inferiority trial that started in December, 2012 will recruit 2,250 patients at 220 US and international sites. The primary endpoint is one year Target Lesion Failure (TLF) compared to the control (a XIENCE stent). The trial's main purpose is to evaluate the safety and effectiveness of ABSORB in the treatment of ischemic heart disease caused by up to two de novo native coronary artery lesions in separate epicardial vessels. ABSORB IV is the second part of the ABSORB III trial which will recruit up to an additional 3,000 patients. The primary endpoint of this study will be to evaluate if patient reported angina (1 year timeframe) and reduction in TLF (between 1-5 year timeframe). Typically, angina recurrence after 1 year with traditional angioplasty is high, however ABSORB has shown less recurrence (16%) over time compared to the XIENCE DES (28%). Traditional DES treatments have risks including: a) incidence of angina after a coronary angioplasty is high in the first year after the procedure and b) long term negative effects may cause neoatherosclerosis, strut fracture, polymer hypersensitivity among others may cause thrombosis. ABSORB data won't be available until later in 2015 given that Abbott completed enrollment of the three clinical trials to support approvals of ABSORB in the US, Japan and China in April 2014.

Japanese Trial

In April 2013 Absorb initiated a randomized controlled clinical trial to evaluate its potential in 400 patients with coronary artery diseases. The market for this type of disease is large in Japan as it represents nearly one third of all the deaths in Japan.

Boston Scientific's SYNERGY Drug-eluting Stent

SYNERGY is a drug-eluting stent based on the ELEMENT platform but features a very thin layer of a bioabsorbable polymer coating which is only applied to the abluminal side of the stent and absorbed within 90 days. The aforementioned capability was designed to improve post-implant healing, reduce DAP therapy as well as to potentially provide freedom from late events e.g. stent thrombosis. SYNERGY received CE Mark in October 2012. Boston Scientific expects to fully launch SYNERGY in Europe in 2014 while approval in the US and Japan is anticipated in early 2016. The US trial results for SYNERGY won't be available until late 2014 (with data presentation likely in early 2015).

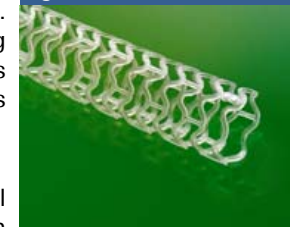
EVOLVE study

EVOLVE is a prospective, randomized, single-blind, first-in-human use study comparing the SYNERGY Stent System to the PROMUS Element Stent System, which uses a durable polymer coating. Two-year outcomes with the SYNERGY stent in EVOLVE were presented at the 2013 EuroPCR Scientific Program and showed low rates of target lesion revascularization (1.1 %) and a stent thrombosis (ST) rate of 0.0 % throughout two years. Similarly, at EuroPCR 2014, positive three-year follow-up data for the EVOLVE clinical trial was presented. The results showed that target revascularization remains low at a rate of 1.1% while there is no stent thrombosis in the SYNERGY full-dose arm at three years.

EVOLVE II study

It is a randomized; controlled clinical designed to further assess the safety and effectiveness of the SYNERGY Stent System and support FDA and Japanese regulatory approvals for the treatment of atherosclerotic coronary lesions. The EVOLVE II trial includes 1,684 patients at 125 sites worldwide, including the US, Canada, Europe, Australia, New Zealand, Japan and Singapore. The trial completed enrollment in September 2013, thus data could be available later this year.

Figure 509: ABSORB



Source: Courtesy of Abbott Labs

Figure 510: BSX's SYNERGY Stent



Source: Courtesy of Boston Scientific



Technologies for Peripheral Artery Disease (PAD)

Background on PAD

Peripheral artery disease, or PAD, occurs when arteries in the leg become clogged or narrowed due to the presence of plaque. The process of plaque buildup is commonly referred to as atherosclerosis. Plaque is typically comprised of cholesterol, fat, fibrous tissues, and other blood constituents.

PAD commonly occurs in the lower extremities, such as the leg, however it can also take place in other arteries that carry blood outside the heart, such as the aorta, brain, arms, kidneys, and stomach. Other conditions, like vasculitis (inflammation of blood vessels), connective tissue diseases (lupus), and accidents injuring blood vessels can also cause PAD.

It is estimated that 5% of Americans 50 years of age and older, have PAD. As the population ages, it is believed that the prevalence of PAD could reach 9.6-16 million in those over age 65. More than half of those people experience no symptoms. Individuals that have high blood pressure, high cholesterol, chronic renal failure, obesity, and are smokers have an increased risk of developing PAD, while individuals with diabetes are at an extreme risk of developing PAD.

In its early stages, PAD can be successfully treated by simply changing one's diet, exercising, and quitting tobacco. Often, the symptoms associated with complications of peripheral artery disease do not occur until much later in life. This is due to the fact that the human body has a way to "correct" the disease by forming smaller peripheral arteries around the clogged area, resulting in increased blood flow around the clogged or narrowed artery.

Current PAD Treatments

Peripheral artery disease treatment requires two things- management of symptoms and the regression of atherosclerosis throughout the body. There are both medical and surgical ways to treat PAD. Here, we will focus on the interventional treatments.

- **Balloon Angioplasty:** Angioplasty is a surgical procedure where a catheter is inserted into the blocked artery. From there, the small balloon located on the tip of the catheter is inflated helping the artery to reopen and lay the blockage against the artery wall, while also stretching the artery to increase blood flow.
- **Stenting:** During angioplasty, stents may also be placed in an effort to keep the artery open longer term.
- **Atherectomy:** Atherectomy occurs when a physician inserts a catheter into the artery of the leg where the blockage has occurred. A device, delivered through the catheter, then removes plaque to restore blood flow.
- **Bypass Surgery / Grafts:** In bypass surgery, the physician creates a graft utilizing either a synthetic blood vessel or a vessel from another area of the body.
- **Thrombolytic Therapy:** If a blood clot is the culprit of the blocked artery, a physician may choose to inject a clot dissolving drug into the artery in order to break it up.



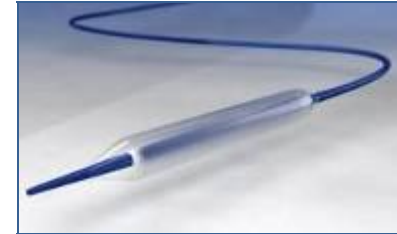
Drug-Coated / Eluting Balloons

Several companies have drug-coated/eluting balloons approved for use in Europe for peripheral applications and are also seeking approval in the US. In the US, C.R. Bard is farthest along with its LUTONIX drug-coated balloon having submitted its PMA filing and now receiving a unanimous panel recommendation paving the way, in our view, to FDA approval in early 2015. Medtronic is not too far behind having recently submitted its PMA for its IN.PACT Admiral Balloon. There are several other companies with programs under development including Boston Scientific (who is planning to launch a product in Europe in 2H14) as well as Covidien (planning to launch in Europe in 2015 and in the United States in 2017).

Bard's Moxy Drug-Coated Balloon

In December 2011, Bard acquired LUTONIX for approximately \$225 million upfront, with an additional \$100 million to be paid upon US approval of the company's peripheral drug-coated angioplasty balloon (DCB), Moxy. Moxy is a drug-coated balloon catheter that delivers paclitaxel to the arterial wall to prevent arterial restenosis. Moxy is similar to a standard angioplasty balloon, but contains a special coating consisting of paclitaxel and a proprietary carrier that allows the drug's transfer to the arterial wall upon inflation. Because of this, the DCB can deliver a therapeutic dose to the artery wall, while keeping the dose of paclitaxel on the balloon as low as possible. A lower balloon drug load minimizes systemic drug exposure and maximizes safety.

Figure 511: C.R. Bard's Moxy



Source: Courtesy of C.R. Bard

Moxy received a CE mark (European approval) in June 2011. Moxy is currently an investigational device in the United States. Bard will use data from the LEVANT I and LEVANT II trials to support US approval.

- The LEVANT I clinical trial was as a prospective, multicenter, randomized controlled trial with 101 patients that were divided to receive either the balloon catheter (n=75) or stent (n=26). The primary endpoint was angiographic late lumen loss at 6-month follow-up. In patients observed, late lumen loss and target lesion revascularization rates were significantly reduced in the Moxy group.
- Bard's LEVANT II study included 476 patients randomized 2:1. The primary safety endpoint was composite of freedom from all-cause peri-operative death and freedom at 1 year from amputation, re-intervention and death. The primary efficacy endpoint of primary patency of 1 year. Interim data (6 months) was presented at the TCT conference in October 2013. Bard disclosed the trial met its primary endpoint and 1-year results will be published in 1H14 in a major medical journal. In April, 2014, Bard indicated that the FDA asked for a revision to its statistical analysis of Levant II data, which is why the data has not yet been presented. The 12-month data was released along with the June 12 FDA Advisory Panel documents.

On June 12, Bard went before an FDA Advisory Panel for its LUTONIX drug coated balloon and the panel voted unanimously in favor of the device. This approval aligns with the previous expectations of an early 2015 FDA approval. We note, the FDA's ultimate approval decision is typically in-line with the panel decision. Bard views the global DCB opportunity growing from \$80 million at present to \$1,450 million by 2020. Within the peripheral sub-segments, Bard sees the SFA and popliteal opportunity growing from \$60 million to \$850 million, below-the-knee growing from \$20 million to \$350M, and other indications growing to \$250 million by 2020. In the US, Bard believes there could be around 300-400 thousand procedures annually in the SFA/popliteal space where DCB could be used. Bard believes drug-coated balloons could be a \$100 million market opportunity in the first year, and that it would have a portion of that market.

While much of the DCB growth is likely to come from the femoropopliteal arteries (SFA/POP), Bard is also enrolling a drug-coated balloon clinical trial evaluating lesions below the knee, which are generally more difficult lesions to access. Management has commented that there have been no negative safety signals to date seen with its program. Note, Medtronic did have some negative outcomes in its program and had recalled a product specific to BTK. Bard is also working to expand geographies with the Japan LEVANT II trial having completed enrollment last week. The company is also looking to launch a coronary DCB in Europe in the coming weeks.



Medtronic's IN.PACT Admiral Drug-Coated Balloon

Medtronic obtained the IN.PACT drug-eluting balloon (DEB) family through its April 2010 acquisition of Invatec for an initial payment of \$350M and up to \$150M in milestone payments. The IN.PACT DEB family includes Admiral, Pacific, Falcon, and Amphirion across both coronary and peripheral applications. All balloons feature a proprietary coating called FreePac that consists of paclitaxel and urea, which enables quick absorption of the drug into the vessel wall. The first IN.PACT DEB received CE Mark in 2008.

IN.PACT SFA primary outcomes show DCB tops PTA

IN.PACT SFA I and II was a prospective, multicenter EU and US, randomized, single blinded study enrolling 331 patients across 57 sites in Europe and the U.S. The primary efficacy endpoint was primary patency through 12 months. While primary patency can take on a number of definitions, within IN.PACT SFA I and II, primary patency was defined as freedom from clinically driven target lesion revascularization (TLR) and duplex ultrasound-derived restenosis (PSVR \leq 2.4). The trial's primary safety endpoint was freedom from device and procedure related death at 30 days and freedom from target limb amputation and clinically driven target vessel revascularization at 12 months.

MDT released the results of its IN.PACT Admiral SFA clinical trials at the 2014 Charing Cross meeting. The primary efficacy endpoint was primary patency at 12 months, where primary patency was defined as freedom from clinically-driven TLR and DUS-derived restenosis (PSVR \leq 2.4). The primary analysis was done in both the non-stented intention to treat (ITT) group and all ITT patients.

- At 12 months in the non-stent ITT group, IN.PACT primary patency was 82.9% versus 52.2% in the standard balloon angioplasty (PTA) arm, $p < 0.001$. In the all ITT group, IN.PACT primary patency was 82.2% versus PTA arm at 52.4%, $p < 0.001$. Given these results, investigators concluded that IN.PACT had significantly better outcomes than standard PTA. Investigators also believe that the trial demonstrated strong level 1 evidence as IN.PACT Admiral had the lowest TLR and highest patency rates ever reported.
- Investigators also calculated primary patency based on Kaplan Meier survival estimates. At 360 days (12 months), primary patency was 89.8% for the DCB group and 66.8% for the PTA group. There was also an evaluation at 390 days to account for patients that did not necessarily come in exactly 12 months post procedure. At 390 days, primary patency was 78.4% in the DCB arm and 49.5% in the standard PTA arm.

Final PMA module submitted

Medtronic submitted its final PMA module to the FDA in early June. While management noted that it has been able to bypass FDA panels in the past for other products based on superior technology, the Company continues to anticipate approval around F1Q16 (mid-calendar 2015) assuming an FDA panel. Medtronic is also conducting SFA studies in Japan and China with an expectation to also begin ones in India and Australia. Recall, in August 2013, Medtronic announced that it submitted its first PMA module for its IN.PACT Admiral drug-eluting (paclitaxel) balloon for the superficial femoral artery (SFA) indication. The complete PMA application will include data from the IN.PACT SFA I and SFA II studies, the IN.PACT SFA II pharmacokinetics study, and the IN.PACT global study which to date have enrolled more than 1,000 patients.



Figure 512: LEVANT II and IN.PACT SFA I and II Clinical Trials

From a scientific standpoint, it is inappropriate to compare across clinical trials because there are a host of potential areas of differences including the patient population enrolled as well as the trial design. Nonetheless, we outline the two trials below.

	LEVANT II 12-Month Data		IN.PACT SFA I and II 12-Month Data (360 days)	
	DCB N = 316	PTA N = 160	DCB N = 220	PTA N = 111
Selected Baseline Characteristics				
Age, Mean ± SD	67.8 ± 10.0	69.0 ± 9.0	67.5 ± 9.5	68.0 ± 9.2
% Female	38.9%	33.1%	35.0%	32.4%
Rutherford Stage				
2	29.4%	34.4%	37.7%	37.8%
3	62.7%	57.5%	57.3%	55.9%
4	7.9%	8.1%	5.0%	5.4%
ABI / TBI ^a	0.74 ± 0.20	0.73 ± 0.18	0.769 ± 0.228	0.744 ± 0.189
Lesion Length (cm)	6.27 ± 4.14	6.32 ± 4.04	8.94 ± 4.89	8.81 ± 5.12
Total Occlusions	20.6%	21.9%	25.8%	19.5%
Severe Calcification	10.4%	8.1%	8.1%	6.2%
Selected Procedural Outcomes				
Primary Patency (PSVR)	65.2%	52.6%	82.2%	52.4%
Primary Patency (Kaplan Meier)	73.5%	56.8%	89.8%	66.8%
Freedom from TLR	87.7%	83.2%	97.6%	79.4%
Freedom from TLR (Kaplan Meier)	89.7%	84.8%	97.5%	79.3%
Primary Safety Composite	83.9%	79.0%	95.7%	76.6%
Number of patients with Binary Restenosis	92	64	34	49
Number of patients with TLR	35	24	5	22
Percentage with TLR	38%	37.5%	14.7%	44.9%
Percentage Difference	0.5%		30.2%	

Note: Bard estimates that if the evaluating physicians in LEVANT II had intervened at the rates in other unblended DCB trials when binary restenosis occurred, the comparable freedom from TLR could have been approximately 94% in the drug coated balloon arm versus 78% in the control arm at one year.

(a) In IN.PACT SFA II, TBI allowed / used in cases of incompressible vessels.

(b) Peak Systolic Velocity Ratio. In LEVANT II, primary patency is defined as the absence of restenosis defined by Doppler ultrasound PSVR ≤ 2.5 and freedom from target lesion revascularization. In IN.PACT SFA I and II, primary patency is defined as freedom from clinically driven target lesion revascularization and duplex ultrasound-derived restenosis PSVR ≤ 2.4.

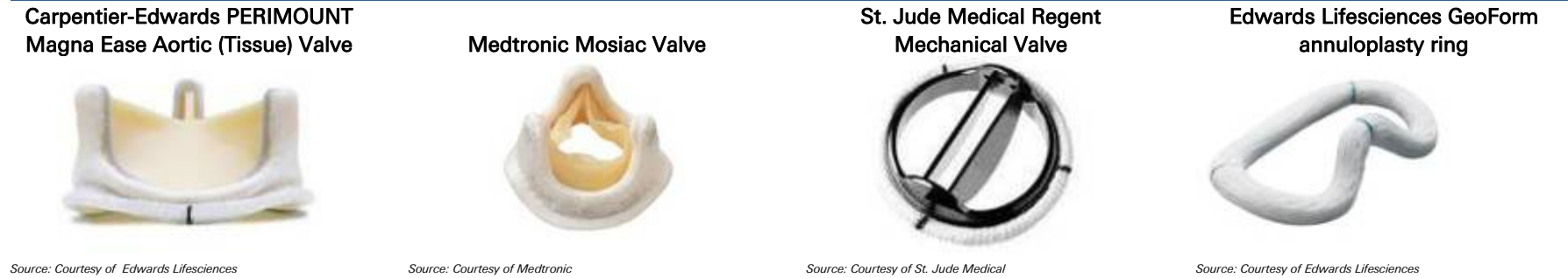
Source: Deutsche Bank



Surgical & Transcatheter Aortic Valves

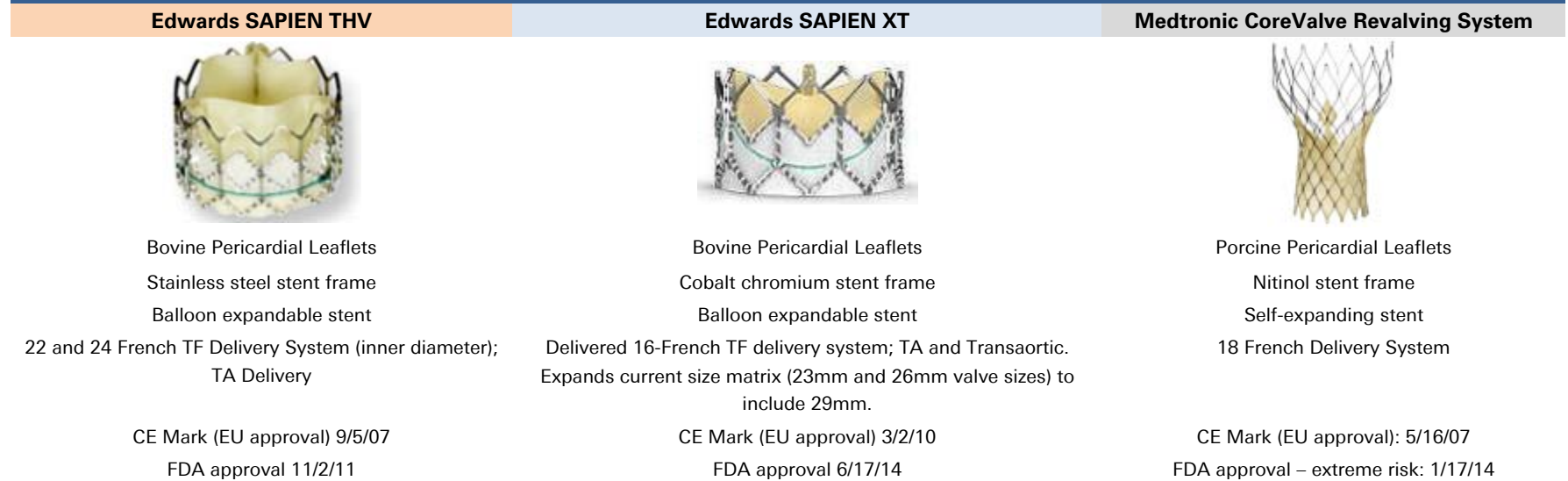
We estimate in 2013, the heart valve market was approximately \$2.6 billion in size including roughly \$1 billion in sales from transcatheter aortic valves. Key players in the surgical heart valve market today include Edwards Lifesciences, St. Jude Medical, Medtronic, and Sorin. Over the years, the heart valve market has shifted away from mechanical heart valves towards the use of tissue heart valves. Transcatheter valves were introduced into the market in Europe in 2007 and in the US in 2011. Unlike an open-chest surgical procedure, a transcatheter valve is delivered through a catheter delivery system through a variety of delivery approaches including the femoral arteries (transfemoral), the apex of the heart (transapical), the aorta (transaortic), and the subclavian artery. Going forward we expect usage to shift more to transcatheter heart valves.

Figure 513: Surgical Heart Valves



Transcatheter Aortic Heart Valves Approved in the United States

Figure 514: Current TAVR Products Approved in the United States





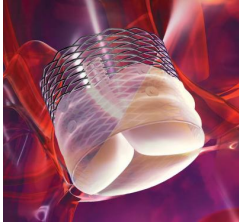





*Photos courtesy of Edwards Lifesciences, Medtronic.
Source: Deutsche Bank, Edwards Lifesciences, Medtronic, industry meetings*



Transcatheter Aortic Heart Valves Approved in Europe

Figure 515: Current TAVR Products Approved in Europe

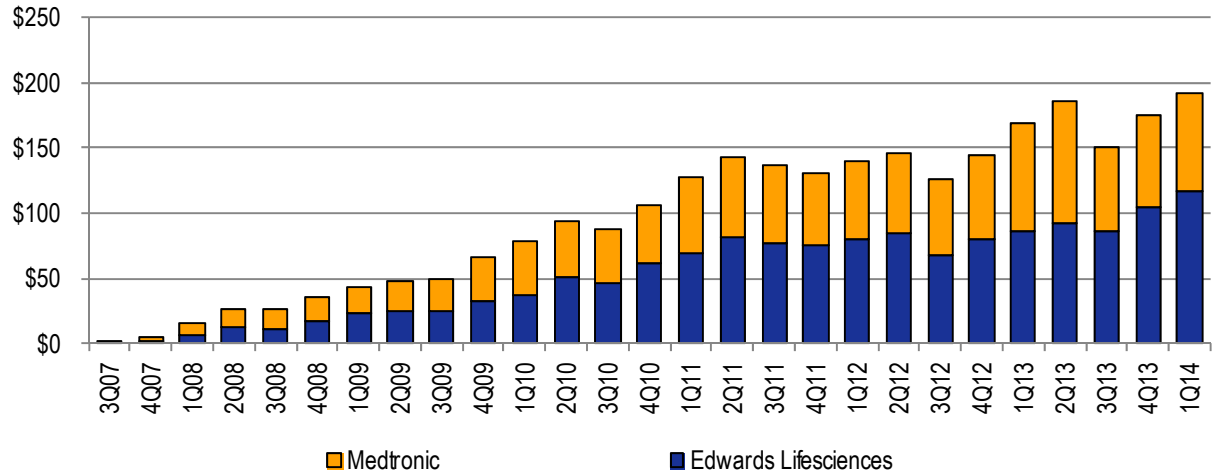
Edwards SAPIEN 3	Medtronic Evolut	Medtronic Engager	St. Jude Portico
 <p>Bovine Pericardial Leaflets Cobalt chromium stent frame Balloon expandable stent Delivered through a 14 French eSheath</p> <p>CE Mark (EU approval): 01/27/14</p>	 <p>Porcine pericardial leaflets Nitinol stent frame Self-expanding stent Will be launching with 14 French equivalent delivery system</p> <p>CE Mark for 23mm 9/27/12</p>	 <p>Bovine pericardial tissue leaflets Nitinol stent frame Self-expanding stent 29 French transapical delivery system</p> <p>CE Mark (EU approval): 2/28/13</p>	 <p>Bovine Pericardial Leaflets and Porcine Cuff Nitinol stent frame Self-expanding stent 18 French Delivery System</p> <p>CE Mark (EU approval): 11/9/12</p>
Boston Scientific Lotus Valve	Jena Valve	Symetis Accurate TA	Direct Flow Medical
 <p>Bovine pericardium leaflets Nitinol frame Mechanically expanded Transfemoral Delivery System</p> <p>CE Mark (EU approval) 10/28/13</p>	 <p>Porcine Pericardial Leaflets Nitinol stent frame Self-expanding stent Transapical Delivery System</p> <p>CE Mark (EU approval): 9/30/11</p>	 <p>Porcine Pericardial Leaflets Nitinol stent frame Self-expanding stent Transapical Delivery System</p> <p>CE Mark (EU approval): 10/3/11</p>	 <p>Bovine Pericardial Leaflets Polymer frame Inflatable double ring Transfemoral Delivery System</p> <p>CE Mark (EU approval): 1/28/13</p>

Photos courtesy of Edwards Lifesciences, Medtronic, St. Jude Medical Symetis, Direct Flow Medical, Jena Valve
Source: Deutsche Bank, Edwards Lifesciences, Medtronic, St. Jude medical, Symetis, Direct Flow Medical, JenaValve, TVT meeting



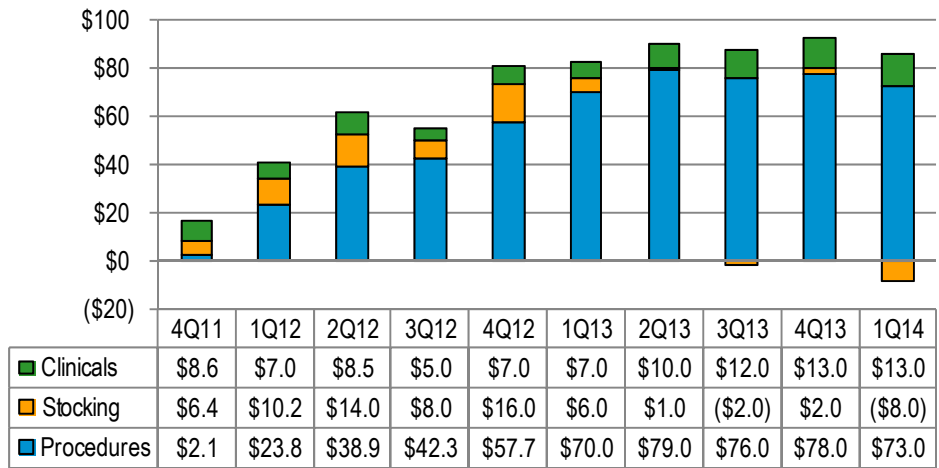
Transcatheter Valves Sales

Figure 516: International Transcatheter Valves Sales (\$ in millions)



Source: Deutsche Bank, company reports

Figure 517: Edwards U.S. Transcatheter Valves Sales (\$ in millions)



Source: Deutsche Bank, company reports

Transcatheter valves were first approved in Europe in 2007 and since then have dramatically increased in usage.

Edwards transcatheter valves was first approved in November 2011 for the inoperable patient population and in October 2012 for high surgical risk patients.

In addition to procedure related revenue, Edwards sales are from valves related to clinical trials and stocking.



Transcatheter Valve Clinical Programs and Selected Data

Edwards's PARTNER I trial was the first US pivotal trial that evaluated the use of a transcatheter valve (in this case SAPIEN) in inoperable/extreme risk as well as high surgical risk patients. Medtronic's CoreValve study was similar in its design in that it had an inoperable/extreme risk and high surgical risk sub-study. Edwards's PARTNER II trial has two purposes: 1) to support of approval of SAPIEN XT and SAPIEN 3 valves; and 2) to expand the indication to intermediate risk patients. Medtronic's SURTAVI study also evaluated intermediate risk. Given the approval of Edwards' SAPIEN Valve and Medtronic's CoreValve, as well as the clinical trial data from the PARTNER and CoreValve Study, the trial designs for other manufacturers in pursuit of FDA approval is likely to be versus a historical control (in the case of inoperable/extreme risk) or randomized versus an FDA approved devices.

Edwards' PARTNER Cohort A (High Risk) Select Trial Data

PARTNER Cohort A included patients who were considered to be high surgical risk, as defined by a Society of Thoracic Surgeons (STS) risk score of 10% or higher or by the presence of coexisting conditions that would be associated with a predicted risk of death by 30 days after surgery of 15% or higher. Cohort A enrolled a total of 699 patients; 492 patients in the transfemoral v. surgical arm and 207 patients in the transapical v. surgical arm. The average STS score was approximately 11.8%. The Cohort met its primary endpoint of non-inferiority in transcatheter aortic valve replacement (TAVR) versus traditional surgical aortic valve replacement (SAVR). The 1 year mortality rate was 24.2% in the TAVR group versus 26.8% in the SAVR group on an intention-to-treat basis. Data is now available out to three years.

Figure 518: PARTNER 1 Cohort A: All-Cause Mortality Rates

All-Cause Mortality at 30 Days									
Analysis Type	All Patients			Transfemoral Patients			Transapical Patients		
	TAVR	SAVR	p-value	TAVR	SAVR	p-value	TAVR	SAVR	p-value
Intent-to-treat (ITT)	3.4%	6.5%	0.07	3.3%	6.2%	0.13	3.8%	7.0%	0.32
As-treated (AT)	5.2%	8.0%	0.15	3.7%	8.2%	0.05	8.7%	7.6%	0.79

All-Cause Mortality at 1-Year									
Analysis Type	All Patients			Transfemoral Patients			Transapical Patients		
	TAVR	SAVR	p-value	TAVR	SAVR	p-value	TAVR	SAVR	p-value
Intent-to-treat (ITT)	24.3%	26.8%	0.45	22.2%	26.4%	0.29	29.0%	27.9%	0.85
As-treated (AT)	23.7%	25.2%	0.64	21.4%	25.2%	0.33	29.1%	25.3%	0.55

All-Cause Mortality at 2-Years									
Analysis Type	All Patients			Transfemoral Patients			Transapical Patients		
	TAVR	SAVR	p-value	TAVR	SAVR	p-value	TAVR	SAVR	p-value
Intent-to-treat (ITT)	33.7%	34.6%	0.80	30.7%	34.3%	0.4	40.7%	35.3%	0.43
As-treated (AT)	33.5%	32.2%	0.71	30.4%	31.3%	0.84	40.7%	34.3%	0.35

All-Cause Mortality at 3-Years									
Analysis Type	All Patients			Transfemoral Patients			Transapical Patients		
	TAVR	SAVR	p-value	TAVR	SAVR	p-value	TAVR	SAVR	p-value
Intent-to-treat (ITT)	44.2%	44.8%	0.89	41.0%	44.6%	0.44	51.6%	35.7%	0.37
As-treated (AT)	43.9%	43.7%	0.97	40.6%	42.7%	0.65	51.6%	46.2%	0.47

Source: ACC Presentation Slides

Figure 519: PARTNER Cohort A, Continued Access Program

	30 days		1 year		2 year	
	PMA-TA	NRCA-TA	PMA-TA	NRCA-TA	PMA-TA	NRCA-TA
	(N=104)	(n=988)	(N=104)	(n=988)	(N=104)	(n=988)
All-cause mortality	8.7%	8.8%	29.0%	22.0%	40.7%	33.6%
Cardiac Mortality	5.8%	5.6%	9.2%	10.1%		
Rehospitalization	4.8%	4.6%			30.2%	25.0%
Death or rehos	14.4%	13.2%				
Stroke or TIA	5.8%	2.3%				
Stroke	5.8%	2.1%	9.6%	3.8%	12.5%	6.1%

	30 days		1 year		2 year	
	PMA-TF	NRCA-TF	PMA-TF	NRCA-TF	PMA-TF	NRCA-TF
	(N=423)	(n=1080)	(N=423)	(n=1080)	(N=423)	(n=1080)
All-cause mortality	5.7%	4.9%	25.0%	18.0%	35.9%	29.5%
Cardiac Mortality	4.3%	3.3%	11.7%	8.5%		
Rehospitalization	5.4%	5.8%			25.9%	24.8%
Death or rehos	10.4%	10.6%				
Stroke or TIA	6.1%	3.8%				
Stroke	5.4%	3.3%	7.3%	4.8%	9.0%	5.8%

Source: Deutsche Bank, TCT presentations



Medtronic's CoreValve High Risk Trial Shows Superiority to Surgery

Medtronic CoreValve trial enrolled over 1,500 patients at 45 U.S. clinical sites. The trial included two independent studies of patients with severe aortic stenosis—extreme risk (inoperable) and high risk patients. The Extreme Risk data was presented at TCT and Medtronic achieved its primary endpoint showing superiority in all-cause death or major stroke compared to the objective performance goal (25.5% versus 43%, $p < 0.0001$). Medtronic released one-year results of its CoreValve High surgical risk at the ACC Conference in March 2014. At 1 year, CoreValve proved to be superior to surgery with an all-cause mortality rate of 14.2% versus 19.1%, respectively.

Figure 520: Clinical Outcomes, "As Treated" Population

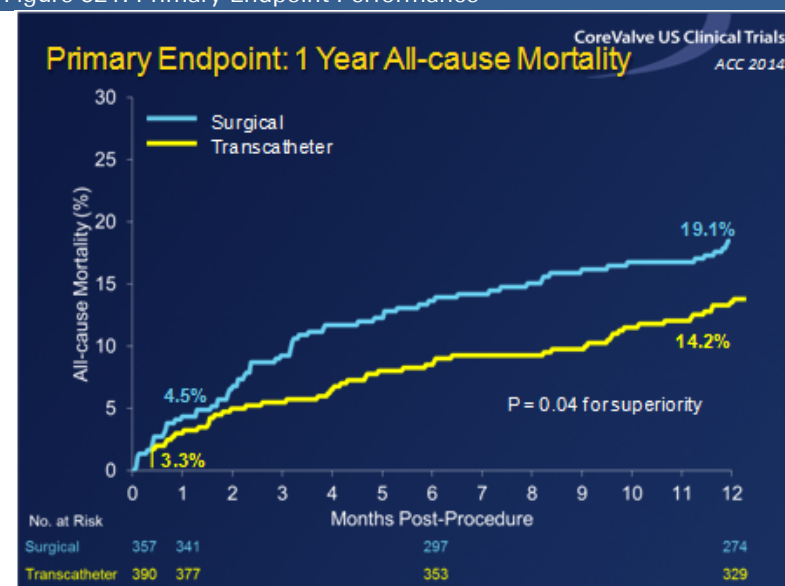
Outcome	30 Days			1 Year		
	TAVR N=390	SAVR N=357	P Value	TAVR N=390	SAVR N=357	P Value
Death						
All-cause – no. (%)	13 (3.3)	16 (4.5)	0.43	55 (14.2)	67 (19.1)	0.04 ^(a)
Cardiovascular – no. (%)	12 (3.1)	16 (4.5)	0.32	40 (10.4)	44 (12.8)	0.31
Stroke – no. (%)	19 (4.9)	22 (6.2)	0.46	33 (8.8)	42 (12.6)	0.10
Major – no. (%)	15 (3.9)	11 (3.1)	0.55	22 (5.8)	23 (7.0)	0.59
Minor – no. (%)	4 (1.0)	12 (3.4)	0.03	11 (3.0)	20 (6.0)	0.05
Transient ischemic attack – no. (%)	3 (0.8)	1 (0.3)	0.36	6 (1.6)	5 (1.6)	0.93
All-cause mortality or major stroke – no. (%)	23 (5.9)	24 (6.7)	0.68	63 (16.3)	79 (22.5)	0.03
MACCE – no. (%)	30 (7.7)	37 (10.4)	0.22	79 (20.4)	96 (27.3)	0.03
Myocardial infarction – no. (%)	3 (0.8)	3 (0.8)	0.92	7 (1.9)	5 (1.5)	0.70
Reintervention – no. (%)	3 (0.8)	0 (0.0)	0.10	7 (1.9)	0 (0.0)	0.01

(a) Testing of the primary end point of all-cause mortality at 1 year first determined whether transcatheter therapy was non-inferior to surgical therapy ($P < 0.0001$) and then tested for superiority ($P = 0.04$)

Procedural Outcome	30 Days			1 Year		
	TAVR (N = 390)	Surgical (N = 357)	P Value	TAVR (N = 390)	Surgical (N = 357)	P Value
Major vascular complication	23 (5.9)	6 (1.7)	0.003	24 (6.2)	7 (2.0)	0.004
Bleeding event						
Life-threatening or disabling bleeding	53 (13.6)	125 (35.0)	<0.001	64 (16.6)	136 (38.4)	<0.001
Major bleeding	109 (28.1)	123 (34.5)	0.05	114 (29.5)	130 (36.7)	0.03
Acute kidney injury	23 (6.0)	54 (15.1)	<0.001	23 (6.0)	54 (15.1)	<0.001
Cardiogenic shock	9 (2.3)	11 (3.1)	0.51	9 (2.3)	11 (3.1)	0.51
Cardiac perforation	5 (1.3)	0	0.03	5 (1.3)	0	0.03
Permanent pacemaker implantation	76 (19.8)	25 (7.1)	<0.001	85 (22.3)	38 (11.3)	<0.001
New-onset or worsening atrial fib	45 (11.7)	108 (30.5)	<0.001	60 (15.9)	115 (32.7)	<0.001

Source: ACC presentation, Medtronic, New England Journal of Medicine March 29, 2014, Deutsche Bank

Figure 521: Primary Endpoint Performance



Note: All data reported as Kaplan-Meier estimates at the specific time point, and do not equal the number of patients with events divided by the total number of patients in each treatment group. The corresponding P values are the log-rank for all data through 30 days or 365 days. Testing of the primary end point of all-cause mortality at 1 year first determined whether transcatheter therapy was non-inferior to surgical therapy ($P < 0.0001$) and then tested for superiority ($P = 0.04$)

Source: ACC presentation, Medtronic, New England Journal of Medicine March 29, 2014, Deutsche Bank



Paravalvular Regurgitation/Leaks

Paravalvular regurgitation (PVL) is defined as blood flow between the implanted valve and the surrounding cardiac tissue. PVL is a rare complication of surgery as surgeons ensure a proper fit of the valve before finalizing the procedure. Clinical trial data from Edwards' PARTNER study has showed that there is a link between moderate and severe PVLs and mortality, though recent CoreValve Extreme Risk data shows improvement in the rate of PVL over time.

Edwards' PARTNER II Data: Raises Some Concerns

Edwards' PARTNER II trial evaluated the SAPIEN XT. Edwards has released the data from the inoperable patient group and the PVL data raised some concerns for some. Though not statistically different between SAPIEN and SAPIEN XT, numerically SAPIEN XT PVL leak rates were higher.

Figure 522: PARTNER 2 Cohort B Primary Endpoint Events (ITT)

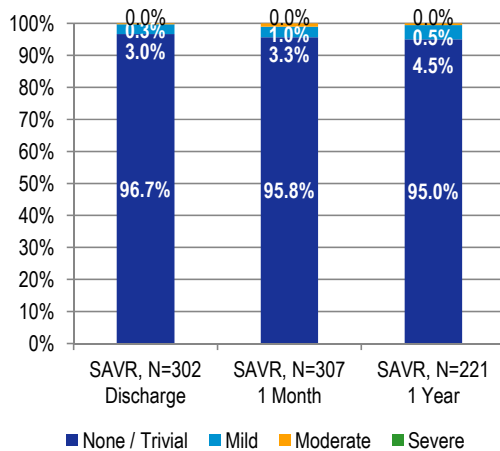
1 Year Outcomes (ITT)			
	SAPIEN	SAPIEN XT	p-value
Paravalvular Leaks			0.20
None/Trace	38.2%	40.0%	
Mild	40.9%	30.8%	
Moderate/Severe	20.9%	29.2%	
Total Aortic Regurgitation			0.56
None/Trace	34.8%	35.5%	
Mild	42.9%	34.7%	
Moderate/Severe	22.4%	29.7%	0.17

Source: ACC Slide presentation

CoreValve Extreme Risk Data: Shows Improvement over Time

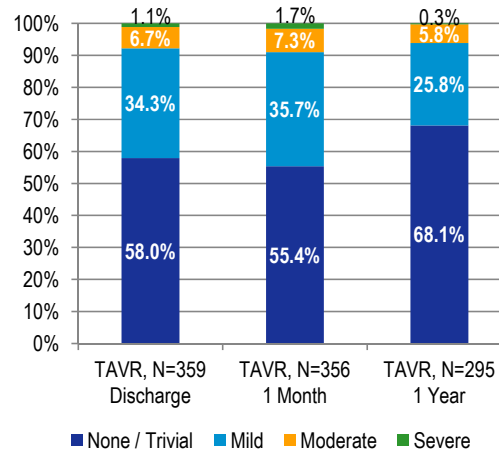
In the CoreValve Extreme Risk trial, the rate of paravalvular leak was higher in the TAVR arm than in the surgical arm at all time points after the procedure. However, as seen with the Extreme Risk arm, the rates of paravalvular leaks improved over time.

Figure 523: Paravalvular Regurgitation, Control (SAVR)



Source: ACC presentation, Medtronic, New England Journal of Medicine March 29, 2014, Deutsche Bank

Figure 524: Paravalvular Regurgitation, TAVR



Source: ACC presentation, Medtronic, New England Journal of Medicine March 29, 2014, Deutsche Bank



Edwards SAPIEN 3

Figure 525: SAPIEN 3



Source: Courtesy of Edwards Lifesciences

Edwards SAPIEN 3 device incorporates a balloon-expandable cobalt chromium frame with a larger landing zone as compared to the SAPIEN and SAPIEN XT. The valve also has an external sealing cuff that is designed to reduce paravalvular leaks. The valve has bovine pericardial leaflets with the Thermafix anticalcification treatment. The valve will be delivered on the Commander delivery system, which has a 14F internal diameter unexpanded that has a recommended minimum artery diameter of 6mm.

Edwards received CE Mark approval for SAPIEN 3 in January 2014 and has commenced the roll-out of the product.

With respect to the US approval process, the FDA allowed Edwards to incorporate SAPIEN 3 under the PARTNER 2 study:

- **High surgical risk/inoperable:** On January 13, 2014, Edwards announced it had completed enrollment in the inoperable and high surgical risk arm which included 500 patients. The primary endpoint of the study is one-year non-hierarchical composite event of death, all stroke and major vascular complications. Edwards has estimated that the product will be approved for high risk patients around mid-2016.
- **Intermediate risk:** On January 13, 2014, Edwards also announced the FDA approved SAPIEN 3 as an IDE to begin a single-arm, non-randomized clinical trial in intermediate risk patients. This study will enroll up to 1,000 patients with an STS score of 4-8 (intermediate risk). Study patients will undergo clinical follow-up at discharge, 30 days and 1 year and then annually for a minimum of 5 years. Assuming approvability is based on a one-year follow-up, approval for intermediate risk could come in late 2016 or early 2017.
- *We note, 30-day results from the first 150 high and intermediate risk patients were presented at EuroPCR 2014. The data showed positive 30 day outcomes with a low overall all-cause mortality rate of 5.3%, all stroke rate of 2.7%, and major vascular complication rate of 6.0%.*

Edwards CENTERA

Figure 526: CENTERA



Source: Courtesy of Edwards Lifesciences

Edwards' CENTERA is a self-expanding transcatheter aortic heart valve. CENTERA will be ultra-low profile and will be delivered through a 14-French eSheath transfemorally and also allow for subclavian access as well. The valve will be repositionable and will feature a motorized delivery system to facilitate deployment and single-operator use.

Edwards expects to receive CE Mark (European approval) in mid-2015.

Edwards has not provided an update on US timing- sufficed to say its several years away.



St. Jude's Transcatheter Valve Program

Figure 527: Portico



Source: Courtesy of St. Jude Medical

St. Jude's transcatheter aortic valve implantation (TAVI) system includes a self-expanding bovine and porcine pericardial valve that incorporates St. Jude's Linx anti-calcification technology used in both the Epic and Trifecta surgical valves. The porcine pericardial sealing cuff was designed to minimize paravalvular leaks. The nonflared annulus and low placement of leaflets/cuff within the nitinol stent frame allows for minimal protrusion into the ventricle to reduce conduction system interference. The valve is delivered transfemorally with an 18 French delivery catheter. The 23mm Portico valve received a CE Mark (EU approval) in November 2012 while the 25mm received approval in December 2013.

At the 2013 TCT conference, data was presented on the European trial evaluating the 23mm and 25mm valve. While the 23mm valve portion of the study is fully enrolled with 50 patients, the 25mm portion is still ongoing and data was included from 33 (out of 50) patients in the data presentation. Select baseline characteristics for the 83 patients include the following: a mean age of 83.8 years; a mean STS score of 6.1 ± 3.4 ; and a mean Logistic Euroscore of 16.3 ± 7.9 .

In the figure below we display select outcome measures for the Portico valve. We view the death rates and stroke rates to be positive relative to the experience seen with other commercially available valves. The new pacemaker rate of 10.8% is the lowest we've seen thus far with a transfemoral self-expanding system. The major vascular complication rate also compares favorably. With regard to paravalvular leaks, there was a low rate of moderate and severe regurgitation which is a positive since data from other studies show that moderate and severe AR leads to higher rates of mortality longer term. That said, we note that there was a reasonably high rate of mild leaks and longer term data needs to be evaluated to determine the impact on longer term mortality.

Figure 528: Select Outcome Measures for Portico

Event	Event rate (%)	Overall rate (%)
	30 day N=83	day 1 up to 12 months N=83
Death	3.6%	8.4%
Cardiovascular Death	3.6%	4.8%
Disabling (major) stroke	2.4%	3.6%
New pacemaker implantation	10.8%	10.8%
Major vascular complications	6.0%	6.0%
Paravalvular Aortic Regurgitation		
None/trivial	30%	29%
Mild	65%	68%
Moderate	5%	3%
severe	0%	0%

Source:TCT Conference presentation

St. Jude's US Trial started in May 2014

St. Jude started its IDE Trial in May 2014. The company anticipates enrolling about 1,610 patients across 40 centers. The trial will be a randomized study against commercially available TAVR valves. The primary endpoint is designed to evaluate the non-inferiority of all-cause mortality and disabling strokes at 12 months. There will also be a valve-in-valve registry as well of up to 100 patients with failed aortic surgical bioprostheses. Initially the study will include 23mm and 25mm valves but St. Jude anticipates that the 27mm and 29mm valves will be added in 2H14.

At its analyst day in February 2014, however, St. Jude noted that the FDA has indicated that the FDA considers TAVR "established" rather than "novel" and that it has recently engaged STJ on alternative trial designs that should significantly reduce the size and duration of the trial.



Boston Scientific's Lotus Valve

Figure 529: LOTUS



Source: Courtesy of Boston Scientific

Boston Scientific entered the transcatheter valve market in January 2011 by exercising its option to acquire Sadra Medical for \$225 million up front, and an additional \$225 million contingent upon certain regulatory and revenue accomplishments.

The Lotus Valve System includes a pre-loaded, stent-mounted tissue valve prosthesis and catheter delivery system for guidance and percutaneous placement of the valve. The valve is neither balloon expandable nor self-expanding but rather is mechanically expanded into place with the aim of offering consistent and precise placement, and allowing for bi-directional repositioning or retrieval at any time before the release of the aortic valve implant. The device has an Adaptive Seal technology, which is designed to minimize the incidence of paravalvular regurgitation.

On October 28, 2013, Boston Scientific announced it received CE Mark (European approval) for its Lotus Valve System. The system is now available in select centers in Europe, and commercial site expansion should accelerate as centers and physicians become fully trained in the device. Approval was supported by data from the REPRISE II trial.

REPRISE II

REPRISE II is a prospective single-arm clinical study that initially enrolled approximately 120 patients at 14 sites in Australia, France, Germany and the United Kingdom. The trial has been extended to enroll an additional 130 patients at 20 sites in Australia and Europe. In order to be eligible for the study, patients had to present with severe symptomatic aortic stenosis and considered high risk for surgical valve replacement.

On October 31, 2013, REPRISE II trial's data, demonstrating successful valve implantation and positioning of Lotus Valve system in all 120 patients with no severe paravalvular regurgitation at 30 days, was released at TCT 2013 meetings. Specifically, key findings included: primary device performance endpoint (assessed by an independent core lab) was met as the 30-day mean aortic valve pressure gradient of 11.5 ± 2 mmHg was significantly (p value < 0.001) less than the performance goal of 18 mmHg; the primary safety endpoint, defined as all-cause mortality at 30 days, was 4.2%; at 30-days, an independent core lab assessment of paravalvular aortic regurgitation indicated no severe regurgitation and one case or 1% of moderate regurgitation; the disabling stroke rate for the 120 patients at 30 days was 1.7%; no instances of unplanned use of cardiopulmonary bypass, valve embolization, valve-in-valve, non-study valve implantation or ectopic valve placement occurred.

At EuroPCR 2014, REPRISE II six month data was presented. The new data showed only 1.1% of patients having moderate paravalvular aortic regurgitation while no severe cases occurred. Additionally, at six months, the mean aortic valve pressure gradient remained low and stable at 11.4 ± 4.6 mmHg. All-cause mortality rate was 8.4% and disabling stroke rate was 3.4%. Lastly, no cases of non-study valve implantation, unplanned use of cardiopulmonary bypass, valve embolization, valve-in-valve or ectopic valve placement occurred.

REPRISE III: US trial on its way...

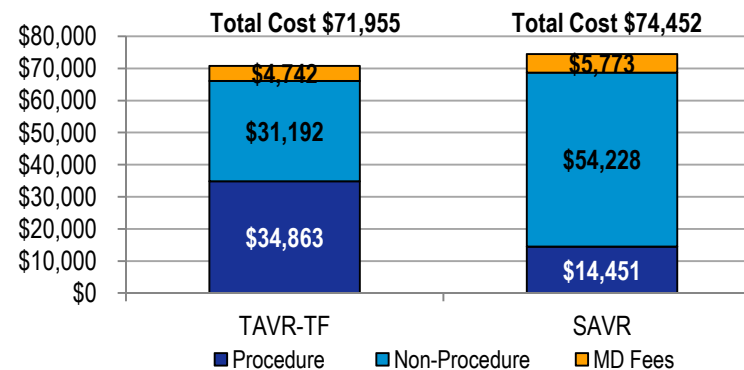
Boston Scientific is currently in discussions with the FDA surrounding a US trial titled REPRISE III. It hopes that it will be able to begin a US IDE trial in mid-2014. Current expectations are for a global, prospective, multicenter, controlled trial that will enroll approximately 1,000 patients across 60 centers in the United States, Canada, Western Europe, and Australia. Patients will be randomized 2:1 against a commercially approved TAVR device. Follow up will be at discharge or 7 days, as well as 30 days, six months, and one year annually through five years.



Transcatheter Valve Economics

The total index admission costs for transfemoral procedures were \$71,955 (including MD fees of \$4,742), which compared favorably to surgery costs of \$74,452 (including MD fees of \$5,773). Follow-up costs at 12 months were relatively similar between the transfemoral and surgical groups at approximately \$22,000. The procedure cost for the transfemoral approach was much higher (given the estimated commercial price for SAPIEN of \$30,000) though the total cost was approximately \$2,200 lower for the transfemoral procedure versus surgery. This resulted in a small quality of life year gain of 0.068. The index admission costs for patients that underwent a transapical procedure were higher at \$90,548 versus \$79,540 for surgery. The 12-month follow-up cost was somewhat lower for the transapical group but the total cost was approximately \$9,600 higher for the transapical procedure versus surgery. The transapical approach did not show an increase in QALYs but rather a slight decrease of 0.07.

Figure 530: Index Admission Costs – Transfemoral TAVR vs. Surgical



Source: 2011 TCT Conference, Edwards Lifesciences

Medicare Reimbursement Levels

For Medicare patients, hospitals are reimbursed under the inpatient prospective payment system. The amount Medicare pays hospitals for transcatheter valve procedures depends on the DRG code assignment. In the figure below we illustrate the average payment for each MS-DRG based on the proposed rates for fiscal 2015 though note the actual amount received by a hospital varies as hospitals can have add-on payments. We note, the Medicare reimbursement payment covers the cost of the valve itself (which is about \$30,000-32,000) as well as all other costs related to the procedure. The Part A payment does not cover physician fees, which are covered separately.

Figure 531: Select MS-DRG Average Base Payment Rates, FY2015 Proposed Rates

MS-DRG	MS-DRG Title	FY 2015 Proposed Weights	FY 2015 Proposed Payment	FY 2013 Discharges
CARDIAC VALVE & OTHER MAJOR CARDIOTHORACIC PROCEDURES				
216	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W MCC	9.812	\$57,247	9,480
217	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W CC	6.479	\$37,802	4,946
218	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W/O CC/MCC	5.541	\$32,329	796
219	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W MCC	7.995	\$46,645	16,702
220	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W CC	5.316	\$31,015	19,963
221	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W/O CC/MC	4.649	\$27,122	4,431
Total Discharges				56,318
Average Weight and Payment			\$40,374	

cc= complications or comorbidities mcc = major complications or comorbidities

Source: Centers for Medicare and Medicaid Services, Deutsche Bank



Requests for a New Transcatheter Valve Code

In the FY2015 IPPS proposed rule, Medicare noted that it received two requests—one from Abbott and another from an unspecified company (which we believe to be Edwards)—to create a new MS-DRGs for transcatheter valves.

Abbott requested a new DRG, that would include MitraClip/percutaneous mitral valve repair with an implant and other transcatheter valve procedures, would be called “Transcatheter Valve Therapies.” However, Medicare noted that its clinical advisors do not support group percutaneous valve repair procedures with transcatheter/endovascular valve replacement procedures.

Medicare received another request, which we believe was from Edwards, to create a DRG called “Endovascular Cardiac Valve Replacement.” Medicare reviewed the claims data from the December 2013 update of the FY13 MedPAR files for cases in MS-DRGs 216-221. The data showed that there were a total of 7,287 cases with an average length of stay of 8.1 days and higher costs compared to cases that did not involve a transcatheter valve (\$53,802 compared to \$47,177).

Figure 532: Proposed MS-DRGs: Endovascular Cardiac Valve Replacement

Proposed New MS-DRGs for Endovascular Cardiac Valve Replacement	Number of Cases	Avg Length of Stay	Average Cost
Proposed New MS-DRG 266 with MCC	3,516	10.6	\$61,891
Proposed New MS-DRG 267 without MCC	3,771	5.7	\$46,259

Source: CMS

Medicare noted that the data appear to indicate support for the creation for a new base MS-DRG based on its evaluation of resource consumption, patient characteristics, volume, and costs between the cardiac valve replacements performed by endovascular or transcatheter technique. Medicare noted that it found that the data supported the creation of a new MS-DRG subdivided into two severity levels. Medicare is proposing the creation of a new MS-DRG for endovascular cardiac valves. We believe this would be a positive for Edwards as it could help to address some of hospital’s economic concerns surrounding a program. It would not, however, change the restrictions with the National Coverage Determination that specifies that reimbursement is for on-label devices and at hospitals and for physicians that meet certain volume criteria.



Transcatheter Aortic Valve National Coverage Determination

CMS released the final NCD in May 2012. In the final decision memo, the CMS determined reimbursement coverage for TAVR be approved under Coverage with Evident Development (CED) only when all the following conditions are met.

- The procedure is furnished with a complete valve and implantation system that has received FDA premarket approval (PMA) for the FDA approved indication.
- Two cardiac surgeons have independently examined and reviewed the patient's suitability for open valve replacement surgery. Both surgeons will need to document the rationale. The device label for SAPIEN (for inoperable patients) requires evaluation by only one cardiac surgeon.
- The patient is cared for by a heart team. The procedure is furnished in a hospital with appropriate infrastructure including an on-site heart valve surgery program, cardiac cath lab or hybrid operating room/cath lab equipped with a fixed radiographic imaging system with flat-panel fluoroscopy, non-invasive imaging such as vascular ultrasound, echocardiography, CT, MRI, sufficient space in a sterile environment, post-procedure intensive care facility, and procedure volume requirements (listed below).
- Hospital and physician qualifications:

For centers without previous TAVR PMA trial experience

Hospital requirements: 1) 50 or more AVRs in the year prior to TAVR, inclusive of at least 10 high risk patients, 2) at least 2 physicians with cardiac surgery privileges, and 3) over 1000 catheterizations annually, including over 400 percutaneous PCIs. Edwards estimates that approximately 400 centers in the US perform 50 or more AVR procedures annually.

Cardiac surgeon requirements: 1) 100 or more total aortic valve replacement procedures per year that include 10 or more high risk patients, 2) at least 25 AVRs in one year, and 3) at least 50 AVRs in 2 years with at least 20 AVRs in the last year prior to TAVR.

Interventional cardiologist requirements: 1) Experience with 100 structural heart disease procedures in lifetime or 30 left sided structural procedures annually, of which 60% be balloon aortic valvuloplasty. Atrial septal defect and patent foramen ovale closure are not included as left-sided procedures. 2) additional heart team members such as echocardiographers, imaging specialists, heart failure specialists, cardiac anesthesiologists, intensivists, nurses, and social works, and 3) device-specific training by the manufacturer.

For centers with previous TAVR PMA experience:

Hospital requirements: 1) 20 or more AVRs annually or 40 or more every 2 years, 2) at least 2 physicians with cardiac surgery privileges, and 3) over 1000 catheterizations annually, including over 400 percutaneous PCIs. Edwards estimates that approximately 400 centers in the US perform 50 or more AVR procedures annually.

Heart team (cardio surgeon and interventional cardiologist) requirements 1) 20 or more procedures per year or 40 or more procedures every 2 years, 2) additional heart team members such as echocardiographers, imaging specialists, heart failure specialists, cardiac anesthesiologists, intensivists, nurses, and social works

- Both the interventional cardiologist and cardiac surgeon must participate in the intra-operative technical aspects of the TAVR procedure
- Participation by all centers in a prospective national audited TAVR study that 1) consecutively enrolls patients 2) accepts all manufactured devices, 3) follows patients for one year, and 4) complies with relevant regulations. The registry will track stroke, all cause mortality, transient ischemic attacks, major vascular events, acute kidney injury, repeat aortic valve procedures, and quality of life.
- CMS will provide coverage of unlabeled uses of TAVR only when all these conditions are met: 1) the procedure is performed by a multi-disciplinary heart team that includes joint efforts by interventional cardiologists and cardiac surgeons, 2) clinical study that evaluates the incidence of stroke, all-cause mortality, transient ischemic attacks, major vascular events, acute kidney injury, and repeat aortic valve procedures.
- TAVR will also be reimbursement for use in a non-inferiority trial with certain trial requirements.

Based on the criteria above, we estimate there are 300-400 hospitals out of 1,200 hospitals with cardiac surgery that qualify for reimbursement given the volume metrics.



Transcatheter Mitral Valve Repair: Abbott's MitraClip

Figure 533: MitraClip



Source: Courtesy of Abbott Labs

Abbott announced in October 25, 2013 that it has received FDA approval for its MitraClip device, a transcatheter mitral valve repair device, for patients with significant symptomatic degenerative mitral regurgitation who are at prohibitive risk for mitral valve surgery. MitraClip has been approved in Europe since 2008 and sales were \$130-\$140 million in 2013. While approval is a positive, our enthusiasm is tempered by the label indication and current reimbursement which is likely to temper the uptake of the product in the near-term.

The MitraClip system consists of a guide catheter, a clip delivery system, and the MitraClip implant. In the MitraClip procedure, the device is first inserted into the body through the femoral artery, where it is then directed via catheter and guidewire up through the artery and introduced into the left atrium of the heart. The device is then directed through the atrium and into the left ventricle via the mitral valve. The two arms of the clip clamp on to the leaflets of the mitral valve, effectively reproducing the surgical procedure secured via sutures. MitraClip can be repositioned prior to full deployment, and after satisfactory positioning is achieved, the clip is detached from the catheter and remains fastened to the mitral valve leaflets while the catheter is removed from the body.

While approval is a plus and means Abbott can now commercialize the product in the US, we believe Medicare reimbursement is likely to limit the near-term sales opportunity. Currently the MitraClip device is assigned to DRG 246-251 though the most likely codes to be used would be DRG 250-251, which on average reimburses hospitals \$11,447 or \$17,330. This is far below the cost of the device which is in the \$30,000 range.

Abbott has requested the remapping of the MitraClip procedure from the current low paying DRGs 249-251 to higher paying DRGs 216-221 where TAVRs are mapped, but CMS has repeatedly denied the request. In 2014, Abbott requested a new DRG that would include MitraClip/percutaneous mitral valve repair with an implant and other transcatheter valve procedures, and would be called "Transcatheter Valve Therapies." However, Medicare noted that its clinical advisors do not support group percutaneous valve repair procedures with transcatheter/endovascular valve replacement procedures, but is inviting the public for comments. Abbott has also applied for a technology add-on payment, which could improve hospital economics if granted (the earliest it would be in effect would be October 1, 2014).

Figure 534: Average Inpatient Reimbursement Rates, FY2014

MS-DRG	MS-DRG Title	FY 2015 Proposed Weights	FY 2015 Proposed Payment	FY 2013 Discharges
PERCUTANEOUS CARDIOVASCULAR PROCEDURE WITH NO STENT				
250	PERC CARDIOVASC PROC W/O CORONARY ARTERY STENT W MCC	2.990	\$17,447	9,786
251	PERC CARDIOVASC PROC W/O CORONARY ARTERY STENT W/O MCC	2.043	\$11,923	27,984
Total Discharges				37,770
Average Weight and Payment			\$13,354	
MS-DRG	MS-DRG Title	FY 2015 Proposed Weights	FY 2015 Proposed Payment	FY 2013 Discharges
CARDIAC VALVE & OTHER MAJOR CARDIOTHORACIC PROCEDURES				
216	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W MCC	9.812	\$57,247	9,480
217	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W CC	6.479	\$37,802	4,946
218	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W CARD CATH W/O CC/MCC	5.541	\$32,329	796
219	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W MCC	7.995	\$46,645	16,702
220	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W CC	5.316	\$31,015	19,963
221	CARDIAC VALVE & OTH MAJ CARDIOTHORACIC PROC W/O CARD CATH W/O CC/MC	4.649	\$27,122	4,431
Total Discharges				56,318
Average Weight and Payment			\$40,374	

cc= complications or comorbidities mcc = major complications or comorbidities

Source: Deutsche Bank, CMS





Edwards FORTIS Transcatheter Mitral Valve

FORTIS is a cloth-covered, self-expanding framed mitral valve designed to minimize paravalvular leak and has an anatomical anchoring system. We continue to believe that the mitral valve remains an opportunity for Edwards, though it is one with risk. We note that several other mitral programs (including one from Edwards) have had first-in-man experience only to then be discontinued.

In March 2014, Edwards announced successful first-in-man implants in the first three patients treated with the company's transcatheter mitral valve. FORTIS implants took place at the St. Thomas Hospital in London, UK. Treating physicians commented that they were pleased with the early results and were hopeful that the device could fulfill an unmet need. The first-in-man experience using Edwards' Fortis transcatheter mitral valve was presented at EuroPCR 2014 meeting. Clinicians concluded that patient selection, mitral valve pathology, procedure process and post procedure are four primary themes to focus on when transplanting a mitral valve. We note, patient selection is a theme similar to that of TAVR and factors, include degree of left ventricular dysfunction, pulmonary disease, renal disease, and revision surgery. We anticipate broader results on transcatheter mitral valves in the coming years. We continue to believe that the mitral valve remains an opportunity for Edwards, though it is one with risk. We note that several other mitral programs (including one from Edwards) have had first-in-man experience only to then be discontinued.

Transcatheter Mitral Valve Proposed National Coverage Determination

In May 2014, CMS released the proposed NCD for transcatheter mitral valve repair. Similar to the final NCD for transcatheter aortic valve repair, in the proposed decision memo for transcatheter mitral valve repair, CMS proposed reimbursement coverage for TMVR be approved under Coverage with Evident Development (CED) only when all the following conditions are met:

- The procedure is furnished with a complete transcatheter mitral valve repair system that has received FDA premarket approval (PMA) for that system's FDA approved indication.
- Both a cardiac surgeon and cardiologist familiar with mitral valve repair have independently examined and reviewed the patient's suitability for mitral valve replacement surgery and risks. Both surgeons will need to document the rationale.
- The patient is cared for by a heart team both preoperatively and postoperatively. The procedure is furnished in a hospital with appropriate infrastructure including, but not limited to an onsite heart valve surgery program, cardiac cath lab or hybrid operating room/cath lab equipped with a fixed radiographic imaging system with flat-panel fluoroscopy, non-invasive imaging such as transthoracic and transesophageal echocardiography, sufficient space in a sterile environment, post-procedure intensive care facility, and procedure volume requirements (listed below):

For centers wishing to perform TMVR procedures

Hospital requirements: 1) 25 or more mitral valve procedures in the year prior to TMVR, inclusive of at least 10 mitral valve repairs, 2) over 1000 catheterizations annually, including over 400 percutaneous PCIs

Interventional cardiologist requirements: 1) 50 or more structural procedures each year, including atrial septal defects, patent foramen ovale, and transeptal punctures, 2) additional heart team members such as echocardiographers, imaging specialists, heart valve and heart failure specialists, electrophysiologists, cardiac anesthesiologists, intensivists and cardiac imaging specialists, congenital heart disease specialists, nurses, data / research coordinators, and administrators, 3) device related training as required by the manufacturers.

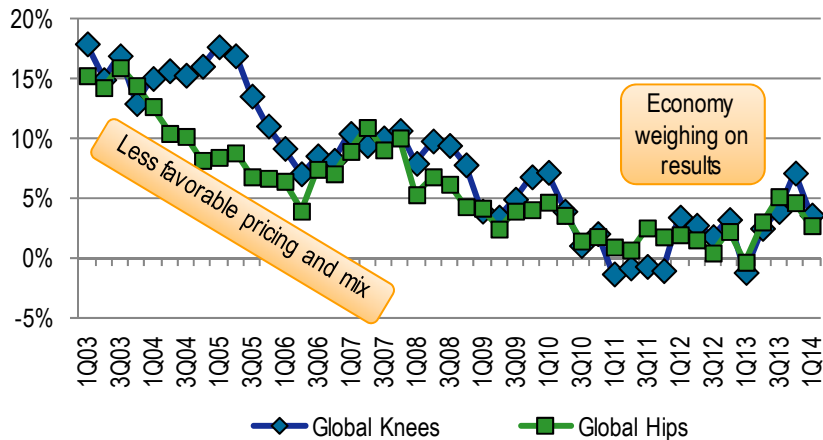
- Both the interventional cardiologist and cardiac surgeon must participate in the intra-operative technical aspects of the TMVR procedure
- Participation by all centers in a prospective national audited TMVR registry that 1) consecutively enrolls TMVR patients 2) accepts all manufactured devices, 3) follows patients for at least one year, and 4) complies with relevant regulations. The registry will track stroke, all cause mortality, transient ischemic attacks, major vascular events, acute kidney injury, repeat mitral valve procedures, worsening mitral regurgitation, functional capacity, and quality of life.
- CMS will provide coverage of unlabeled uses of TMVR only when all these conditions are met: 1) the procedure is performed by a multi-disciplinary heart team that includes joint efforts by interventional cardiologists and cardiac surgeons, 2) clinical study that evaluates the post-TMVR quality of life and functional capacity at one year, 3) clinical study that addresses stroke rate, all-cause mortality, transient ischemic attacks, major vascular complications, renal complications, repeat mitral valve procedures, and worsening of mitral regurgitation at one year.
- TMVR will also be reimbursed for use in CMS-approved studies and registries that follow standards of integrity and relevance to the Medicare population.



Orthopedics

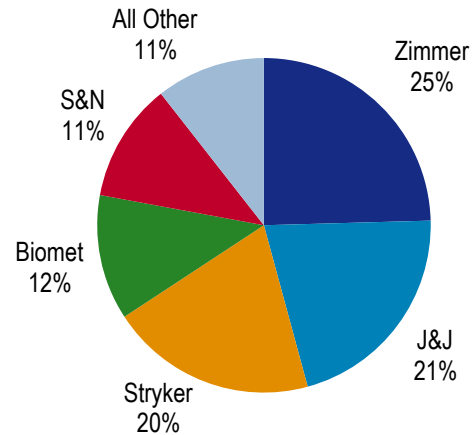
The global orthopedic market is approximately \$35 billion in sales. The major markets include hips, knees, spine devices, trauma, and orthobiologics. The market has slowed over the past five years, which has been a function of a less favorable pricing environment, less contribution from mix, and as well as the impact of the macro environment on implants that are more elective in nature (like hips and knees).

Figure 535: Underlying Hip and Knee Sales (Y/Y % change)



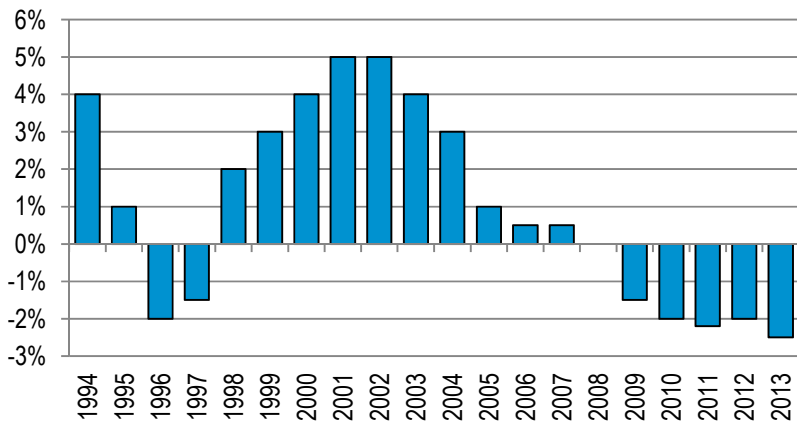
Source: Deutsche Bank, Company reports

Figure 536: Major Joint (Hip and Knee) market shares (estimated 2013)



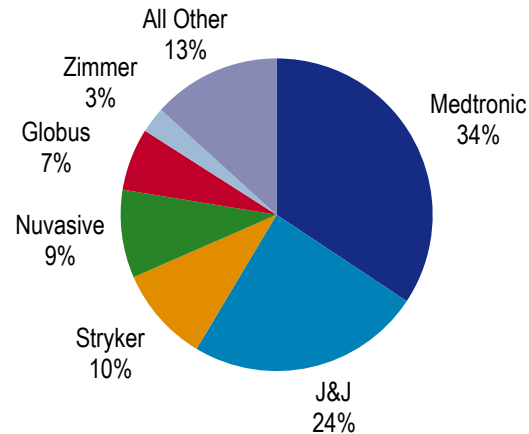
Source: Deutsche Bank, Company reports

Figure 537: Estimated Annual Change in US Joint Recon Pricing



Source: Deutsche Bank, Company reports

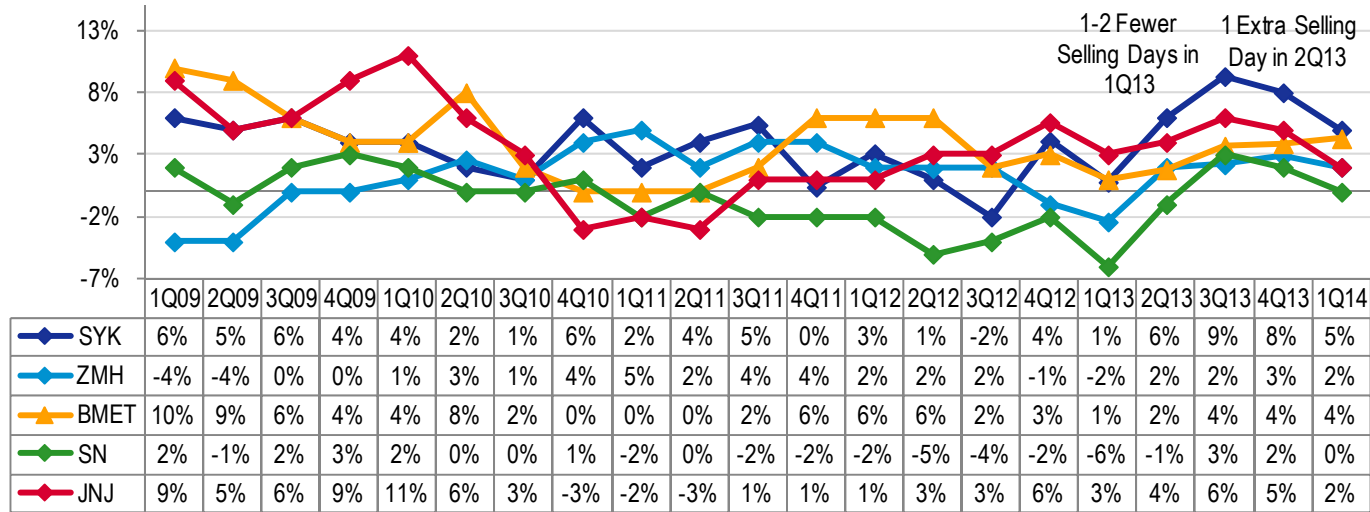
Figure 538: Global Spine Market Shares (estimated 2013)



Source: Deutsche Bank, Company reports

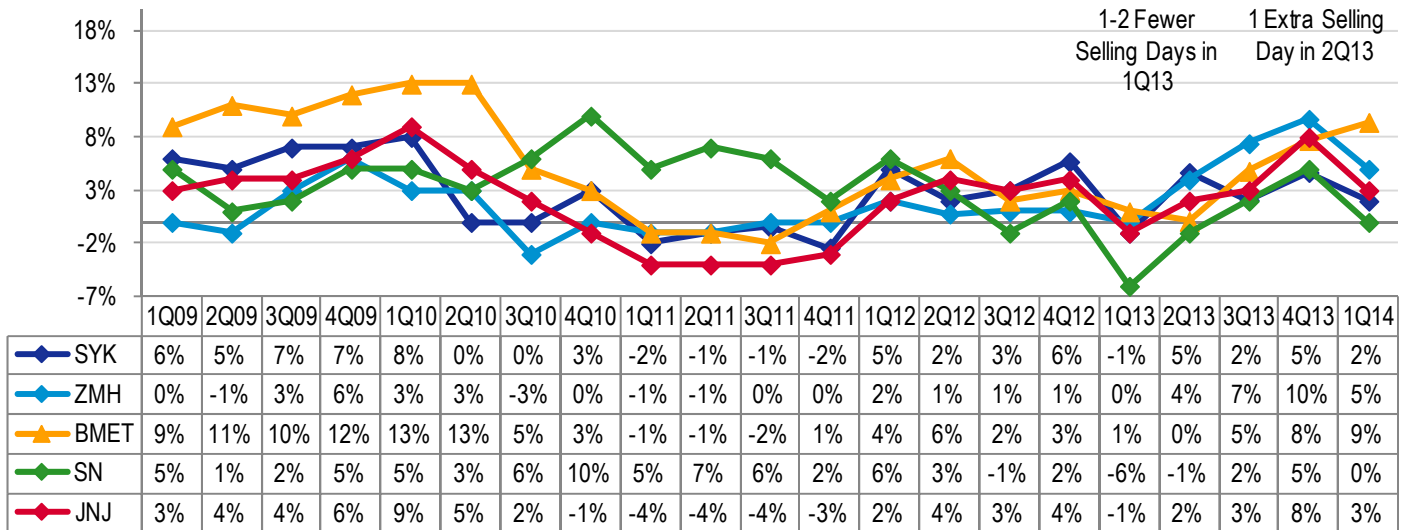


Figure 539: Global Constant Currency Hip Market (Y/Y % Change; Biomet's growth rate is for the closest fiscal quarter)



Source: Deutsche Bank, Company reports

Figure 540: Global Constant Currency Knee Market (Y/Y % Change; Biomet's growth rate is for the closest fiscal quarter)



Source: Deutsche Bank, Company reports

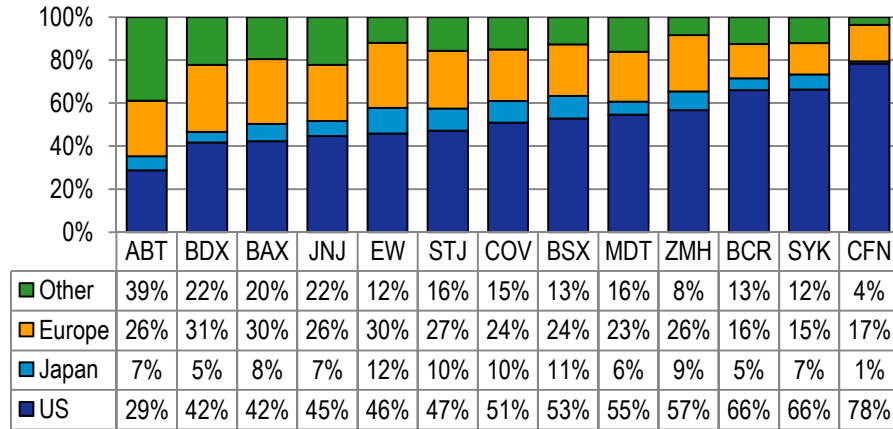




Company Geographic Mix Summary

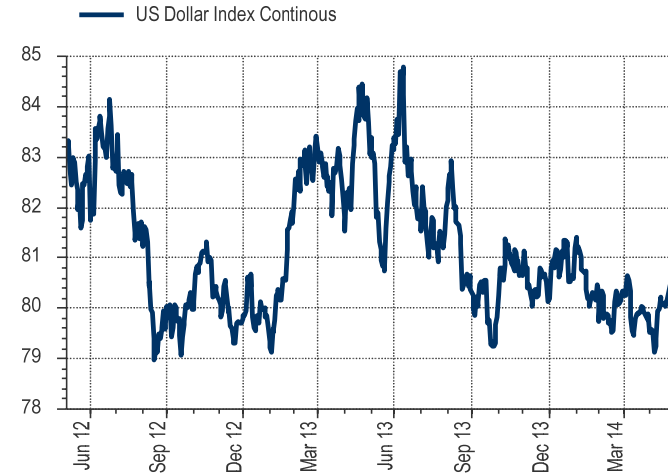
MedTech companies are multi-national and generate a significant amount of their sales outside the United States and therefore are impacted by foreign currency fluctuations. The impact of FX from an EPS perspective varies depending on natural and financial hedging. Companies that tend to have the most EPS exposure to FX changes due to their geographic mix and hedging policies include St. Jude Medical, Covidien, and Becton Dickinson.

Figure 541: Geographic Mix, (estimates for last fiscal year)



Source: Deutsche Bank, Company reports

Figure 542: US Dollar Index

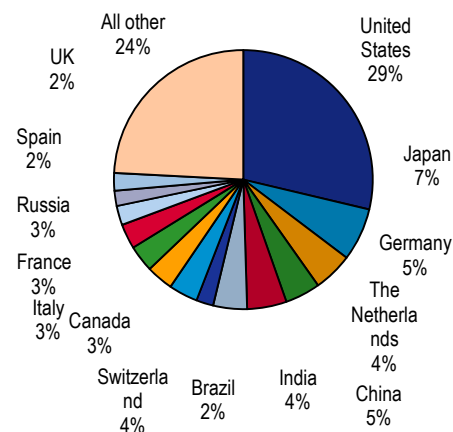


Source: Thomson Reuters, Deutsche Bank



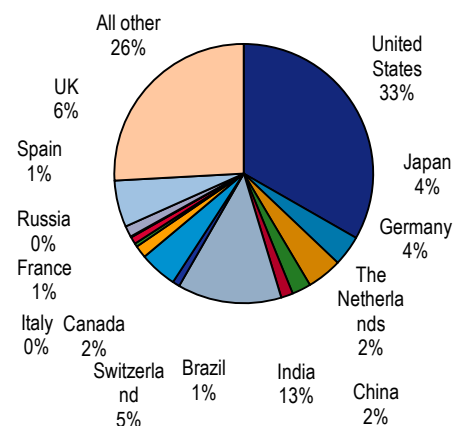
Abbott Labs

Figure 543: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 544: PP&E, 2013



Source: Company Reports, Deutsche Bank

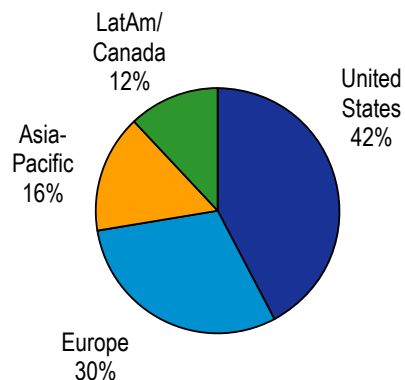
Comments on Foreign Currency and Hedge Policy

Abbott is a multinational company with local manufacturing, corporate, and R&D facilities located around the world.

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. Abbott enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated intercompany loans and trade payables and third-party trade payables and receivables.

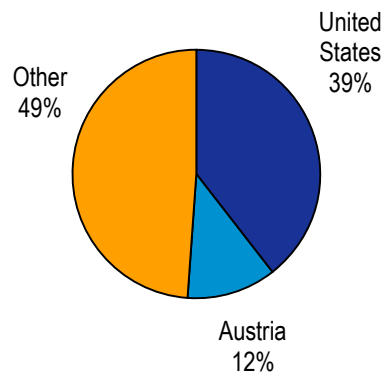
Baxter

Figure 545: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 546: PP&E, 2013



Source: Company Reports, Deutsche Bank

Comments on Foreign Currency and Hedge Policy

The company generates approximately 60% of its revenues outside the United States, and maintains over 50 manufacturing facilities and over 100 distribution facilities in the United States, Europe, Asia-Pacific, Latin America and Canada.

The company is most exposed to fluctuations in the Euro, Japanese Yen, British Pound, Australian Dollar, Canadian Dollar, Brazilian Real, and Colombian Peso.

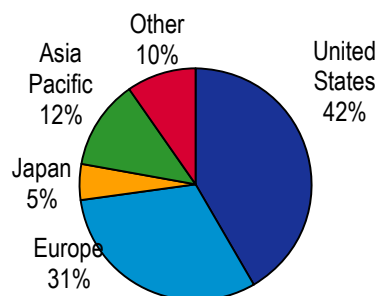
The company maintains 18 manufacturing facilities in the United States and its territories, including three in Puerto Rico. The company also manufactures in Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Costa Rica, the Czech Republic, the Dominican Republic, France, Germany, India, Ireland, Italy, Japan, Malta, Mexico, the Philippines, Poland, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Tunisia, Turkey and the United Kingdom.

In addition to these natural hedges, the company also holds financial contracts including, forwards, and cross-currency swaps to hedge its FX exposure related to transactions and recognized assets and liabilities.



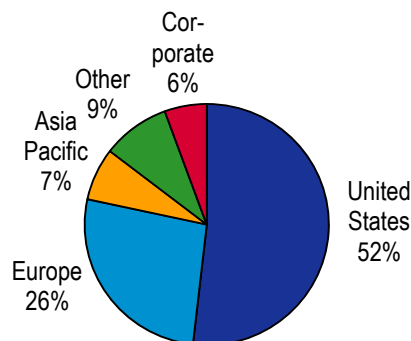
Becton Dickinson

Figure 547: Sales, F2013



Source: Company Reports, Deutsche Bank

Figure 548: Long-lived Assets, F2013



Source: Company Reports, Deutsche Bank

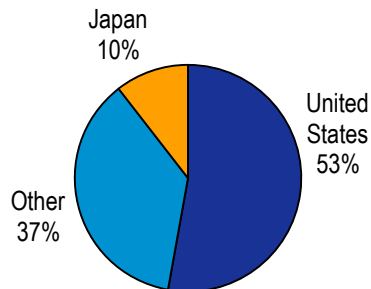
Comments on Foreign Currency and Hedge Policy

In F2013, Becton Dickinson reported 42% of sales from the United States with 31% from Europe, an estimated 5% from Japan, 12% from other Asia-Pacific regions, and 10% from other international countries, which includes Latin America and Canada.

BD has some natural hedges through its manufacturing facilities and operations outside the United States. The company has facilities in Brazil, Canada, China, France, Germany, Hungary, India, Ireland, Japan, Mexico, the Netherlands, Pakistan, Singapore, Spain, Sweden and the United Kingdom.

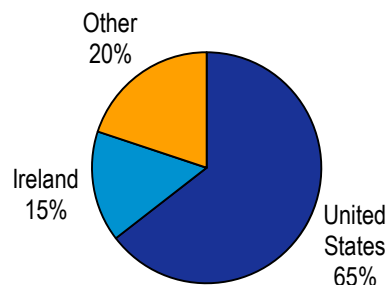
Boston Scientific

Figure 549: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 550: Long-Lived Assets, 2013



Source: Company Reports, Deutsche Bank

Comments on Foreign Currency and Hedge Policy

Boston Scientific is most exposed to the Japanese Yen, Euro, British Pound, Australian Dollar, and Canadian Dollar.

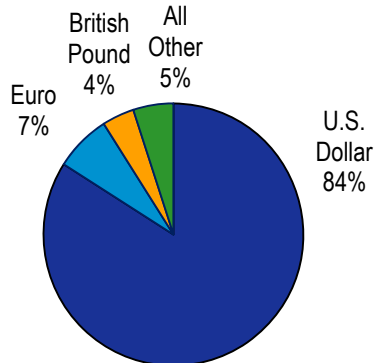
Boston Scientific uses derivative instruments (currency forward and option contracts), and non-derivative transactions (European manufacturing and distribution operations) to reduce the risk that earnings and cash flows are impacted.

As of December 31, 2013, Boston Scientific had six international manufacturing facilities, including three in Ireland, two in Costa Rica and one in Puerto Rico. Approximately 57% of products sold worldwide during 2013 were manufactured at these facilities.



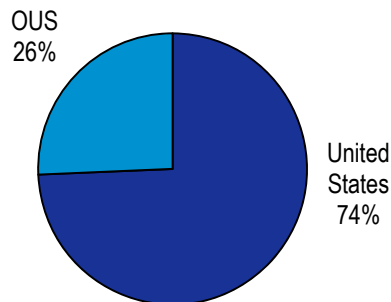
CareFusion

Figure 551: Sales by Currency, F2013



Source: Company Reports, Deutsche Bank

Figure 552: Long-lived Assets, F2013



Source: Company Reports, Deutsche Bank

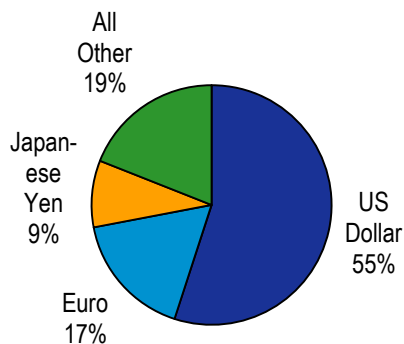
Comments on Foreign Currency and Hedge Policy

CareFusion sells its products in about 130 countries and manufactures products in North America, Europe, and Latin America.

CareFusion uses derivative instruments such as forwards, swaps, and options to hedge currency risks.

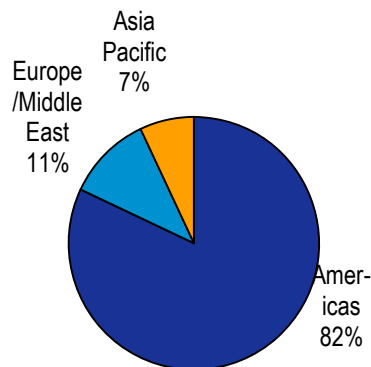
Covidien

Figure 553: Sales by Currency, F2013



Source: Company Reports, Deutsche Bank

Figure 554: Cost of Production, F2013



Source: Company Reports, Deutsche Bank

Comments on Foreign Currency and Hedge Policy

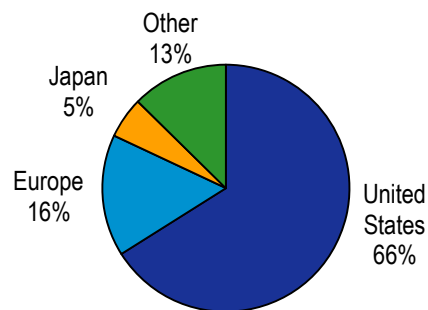
Covidien has 41 manufacturing facilities located throughout the world. Covidien estimates that manufacturing by region in fiscal 2012 (as measured by cost production) was Americas 82%, Europe/Middle East 11%, and Asia Pacific 7%.

The company typically uses forward and option contracts to mitigate its FX exposures on receivables, payables, forecasted transactions and intercompany loans. Currency fluctuations and gains and losses from hedging contracts flow through the sales, COGS, and SG&A lines.



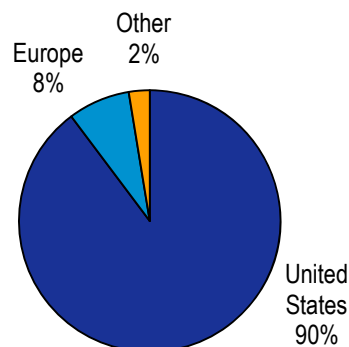
C.R. Bard

Figure 555: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 556: Long-lived Assets, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

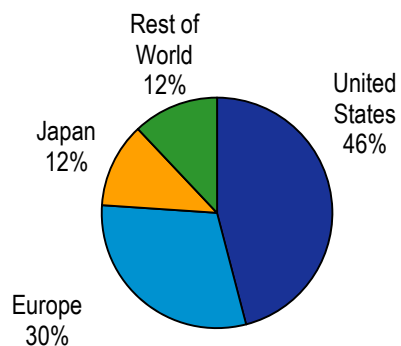
The company's principal international markets are currently in Europe and Japan, though the company is expanding into other markets including emerging markets. Bard has limited natural hedging from a manufacturing perspective. Approximately 77% of international sales are of products manufactured by Bard in the United States, Puerto Rico or Mexico.

Bard has some financial hedges such as forward and option contracts to mitigate its exposure to currency fluctuations. The company primarily hedges its exposure to the Euro, British Pound, Mexican Peso, Canadian Dollar, Australian Dollar, and the Japanese Yen. Bard has mentioned in the past that it sells its products to a Japanese distributor denominated in US dollars thus the Yen does not have a significant impact on earnings.

Source: Company Reports, Deutsche Bank

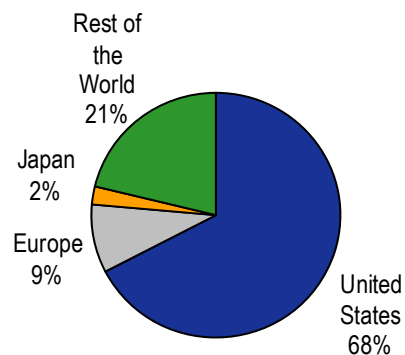
Edwards Lifesciences

Figure 557: Geographic Mix, 2013



Source: Company Reports, Deutsche Bank

Figure 558: Long-lived Assets, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

Edwards' Surgical Heart Valve Therapy and Transcatheter Heart Valve products are manufactured in California and Utah in the US, Switzerland and Singapore. Critical Care products are manufactured primarily in facilities located in Puerto Rico and the Dominican Republic.

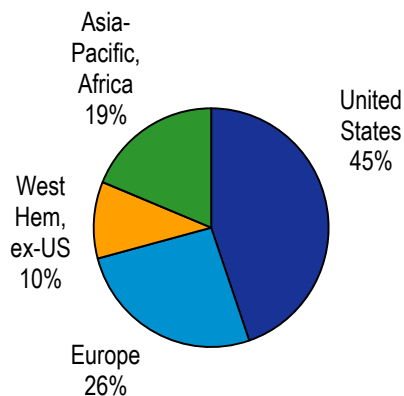
Edwards primary currency exposures relate to the Euro and the Japanese Yen. Edwards enters into forward exchange and option contracts to hedge its FX exposures. FX flows through the top line, COGS, and SG&A lines. Gains and losses from FX hedging contracts are recorded in the COGS line and gains and losses on FX transactions are recorded in the other income/expense line.

Source: Company Reports, Deutsche Bank



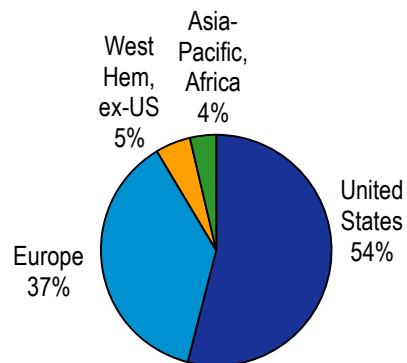
Johnson & Johnson

Figure 559: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 560: Long-lived Assets, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

J&J has natural hedges through its international manufacturing facilities.

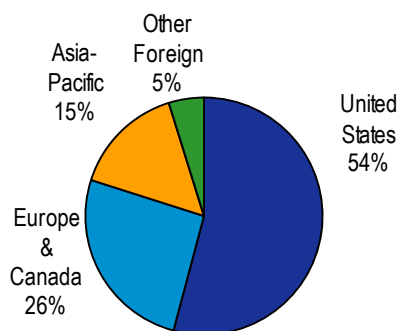
As of December 31, 2013, of its 144 manufacturing facilities, 43 are in Europe, 36 in Asia-Pacific and Africa, 15 in the Western Hemisphere ex-US, and the remaining 50 are in the United States.

J&J enters into forward exchange contracts to manage its FX exposures (assets and liabilities, intercompany transactions). Gains and losses from hedging contracts are recorded in the other income/expense line.

Source: Company Reports, Deutsche Bank

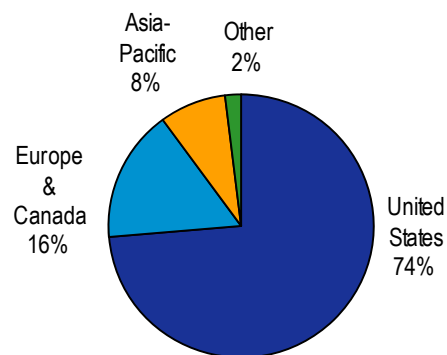
Medtronic

Figure 561: Sales, F2014



Source: Company Reports, Deutsche Bank

Figure 562: PP&E, F2014



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

Medtronic derived approximately 54% of its F2014 sales from the United States, followed by 26% of sales from Europe and Canada, 15% from Asia-Pacific, and 5% from other international countries. The primary currencies the company is exposed to are the Euro, Japanese Yen, British Pound, and Australian Dollar.

The company has natural and financial hedges. Medtronic has a total of 41 manufacturing facilities. The largest facilities are located in Arizona, California, Colorado, Connecticut, Florida, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, Texas, Puerto Rico, Canada, France, Germany, Ireland, Italy, Mexico, The Netherlands, The People's Republic of China, Singapore, and Switzerland.

Medtronic enters into forward currency exchange contracts. The primary currencies of derivative instruments are the Euro and Japanese Yen.

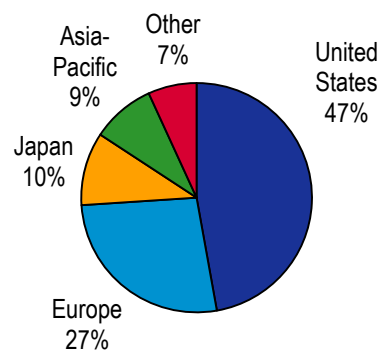
Medtronic records most of the gains and losses from its realized foreign currency transactions and derivative gains and losses in the other expense/income.

Source: Company Reports, Deutsche Bank



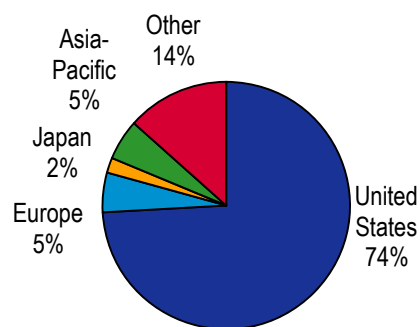
St. Jude Medical

Figure 563: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 564: Long-lived Assets, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

St. Jude is most exposed to fluctuations in the Euro, Japanese Yen, Canadian Dollar, Australian Dollar, Brazilian Real, British Pounds, and Swedish Kronor.

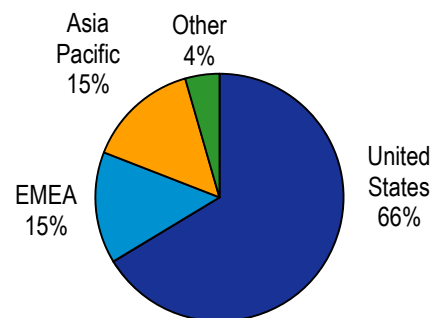
St. Jude's manufacturing facilities currently operating are located in California, Minnesota, Arizona, South Carolina, Texas, New Jersey, Oregon, Massachusetts, Brazil, Puerto Rico, Costa Rica, Malaysia and Thailand.

St. Jude has commented in the past that as much as 40%-50% of the FX falls through to profits.

Source: Company Reports, Deutsche Bank

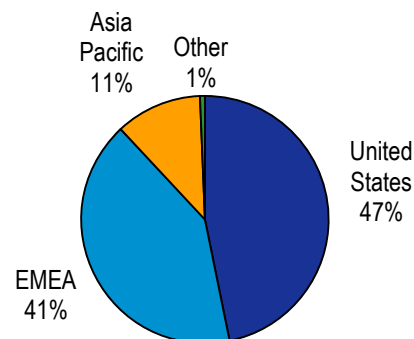
Stryker

Figure 565: Sales, 2013



Source: Company Reports, Deutsche Bank

Figure 566: PP&E, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

Stryker's operating results are primarily exposed to changes in exchange rates among the United States dollar, European currencies, in particular the euro, Swiss franc and the British pound, the Japanese yen, the Australian dollar and the Canadian dollar.

Stryker manufacture products in the United States, China, France, Germany, Ireland, Puerto Rico and Switzerland and incur costs in the applicable local currencies.

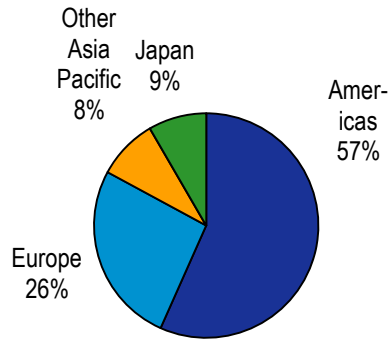
Stryker has noted that it plans to implement a hedging strategy.

Source: Company Reports, Deutsche Bank



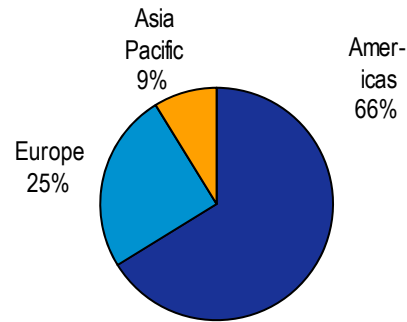
Zimmer Holdings

Figure 567: Geographic Mix, 2013



Source: Company Reports, Deutsche Bank

Figure 568: Long-lived Assets, 2013



Source: Company Reports, Deutsche Bank

Foreign Currency and Hedge Policy

Zimmer is primarily exposed to currency fluctuations in the Euro and Japanese Yen and to a lesser extent Swiss Franc, British pound, Canadian Dollar, Australian Dollar, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, and Indian Rupees.

Zimmer's significant manufacturing locations include Warsaw, Indiana; Winterthur, Switzerland; Ponce, Puerto Rico; Dover, Ohio; Carlsbad, California; Parsippany, New Jersey; Shannon, Ireland; and Beijing, China.

Zimmer utilizes forward contracts and options to mitigate its FX exposures and believes the FX impact on its bottom-line is minimal. Gains and losses from these hedge contracts and options are recorded in COGS.

Source: Company Reports, Deutsche Bank





The author of this report sincerely wishes to acknowledge the contribution made by Federico Vargas, an employee of Copal Amba, a third-party provider to Deutsche Bank of offshore research support service.



Appendix 1

Important Disclosures

Additional information available upon request

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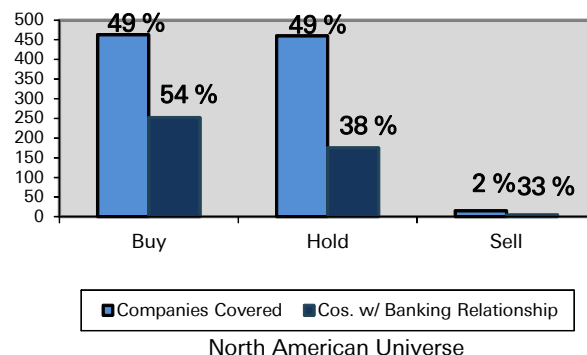
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