Robert Dunn
Michael Wolleben

hiddenopportunities.report

Marketed Exclusively by:

PCS Research Group LLC
88 Pine Street, Suite 3100
New York, NY 10005
212-233-0100

- Masimo Corp. (NASDAQ: MASI) operates two business segments: (1) Healthcare (~62% of consolidated 2023E sales), which develops, manufactures & sells non-invasive patient monitoring devices/technologies, most notably its pulse oximeter, for professional (e.g., hospitals) and, to a lesser degree, consumer customers; and (2) Non-Healthcare (38% of 2023E sales), which develops, manufacturers & sells high-end, home audio equipment/platforms to consumers.

- Since the announcement of the ~$1.0575 billion acquisition of Sound United, which became the foundation of the company's Non-Healthcare segment, in February 2022, MASI's share price has shed 50% (versus a 2.8% decline in the Russell 2000 and a 1.2% gain in the S&P 500), representing a more than $6.5 billion erosion in the company's market capitalization. In that context, we estimate at the current valuation MASI's core Healthcare business is trading at a significant discount to peers and its own 3-, 5- and 10-year trading averages while also assigning a fraction of the value paid for the Non-Healthcare/consumer audio business. Moreover, it is evident that the broad investor criticism & precipitous market decline in the wake of the Sound United transaction set the stage for activist investor, Politan Capital, to build a ~9% stake in the company by August 2022 and gain 2 (of 5) Board seats (with ~70% of the non-insider vote) in June 2023. Following its resounding (albeit hard fought) victory, the activist continues to push for further improvements in MASI's corporate governance paradigm and will undoubtedly hold management accountable on (or accelerate) its commitment to a three-year time horizon before considering a divestiture of the Non-Healthcare business (assuming the strategic rationale for the deal fails to materialize). Additional catalysts could stem from new product launches, including Stork and PerL, as well as a favorable outcome in MASI's patent infringement litigation in front of the International Trade Commission (ITC) against the Apple Watch, which is set for trial in October 2023.

- Based on management guidance and commentary as well as peer and M&A valuations, MASI's Healthcare and Non-Healthcare businesses could be valued at ~$140 per share, and ~$12 per share, respectively. Accounting for projected net debt of ~$6.50 per share yields a base case sum-of-the-parts fair value of $146 per share (with bull and bear cases of ~$159 and ~$132 per share, respectively).

- Potential catalysts include the separation/monetization of assets, corporate governance improvements, favorable litigation awards, leverage reductions and/or better than expected growth & margins. Risks include execution, competition, technological disruption, commodity & currency fluctuations, regulation, cyber threats, pandemics and/or a recession.

Masimo Corporation

NASDAQ: MASI

Publication Date:
August 31, 2023

Price: $114.28/share

Market capitalization: ~$6.035 billion

Healthcare: $140 per share

Non-Healthcare: $12 per share

Net Debt & Other:
($6.50) per share

SOTP: $146 per share*

*SOTP may not add due to rounding

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.

Institutional Research Group

COMPANY BACKGROUND & SEGMENT FINANCIALS

Masimo Corporation (NASDAQ: MASI), headquartered in Irvine, California, was founded in 1989 by current chairman and chief executive, Joe Kiani, an electrical engineer (and currently an ~8.5% holder) with the goal of creating a more functional/effective pulse oximeter, which is a non-invasive medical device that measures the oxygen-levels in a patients' arterial blood, by employing adaptive signal technology to solve the theretofore pervasive problems of low perfusion (i.e., low blood flow at the measurement point) and patient motion on the accuracy of vital sign measurement. To that end, in 1991, Mr. Kiani (along with fellow engineer Mohamed Diab) designed and developed the original/revolutionary Signal Extraction Technology (SET) oximeter, which facilitated the continuous, accurate measurement (and monitoring) of a patients' blood oxygen levels & heart rate (using five signal processing algorithms, of which four are proprietary to MASI). In subsequent years, via the Rainbow SET platform, MASI has expanded its non-invasive vital sign measurement capabilities to capture, among other things, cerebral oximetry, acoustic respiration, oxygen content, carbon dioxide concentration, and hemoglobin levels. Most recently, in April 2022, the company acquired Sound United, a provider of high-performance, luxury home audio platforms & products, for $1.0575 billion in cash. To that end, as of July 2022, MASI reports two operating segments (see Exhibit 1): 1) Healthcare (~62% of consolidated 2023E sales), which develops/designs, manufactures and sells non-invasive patient monitoring devices/technologies for both professional (e.g., hospitals) and, to a lesser degree, consumer customers; and 2) Non-Healthcare (~32% of sales in 2023E), which provides premium, consumer-centric home audio equipment/platforms under several brands, including Bowers & Wilkins, Denon, Marantz, and Polk.

Exhibit 1 Masimo Corp.: Consolidated Selected Financial Items, 2020–2025E

($ in millions; December-ending calendar years)

	2020	2021	2022	2023E	2024E	2025E
Sales (GAAP):						
Healthcare	$1,143.7	$1,239.2	$1,340.3	$1,301.7	$1,418.2	$1,538.0
Non-Healthcare	-	-	$695.5	$800.5	$824.5	$849.3
Total	**$1,143.7**	**$1,239.2**	**$2,035.8**	**$2,102.2**	**$2,242.7**	**$2,387.3**
Gross profit (GAAP):						
Healthcare	$743.0	$808.4	$870.2	$794.5	$893.4	$984.3
Non-Healthcare	-	-	$252.5	$278.2	$288.6	$301.5
Other	-	-	($63.9)	($25.0)	-	-
Total	**$743.0**	**$808.4**	**$1,058.8**	**$1,047.7**	**$1,182.0**	**$1,285.8**
Operating income (GAAP)	**$255.8**	**$275.8**	**$210.0**	**$194.3**	**$277.8**	**$329.5**
Adjusted operating income	**$263.5**	**$294.9**	**$362.0**	**$306.3**	**$347.8**	**$389.5**
Depreciation & amortization:						
Healthcare	$29.3	$35.6	$36.0	$36.4	$39.0	$41.5
Non-Healthcare	-	-	$100.1	$64.0	$66.0	$67.9
Total	**$29.3**	**$35.6**	**$136.1**	**$100.5**	**$105.0**	**$109.5**
EBITDA	**$285.1**	**$311.4**	**$346.1**	**$294.8**	**$382.7**	**$438.9**
EBITDA (as reported)	$288.4	$313.7	-	-	-	-
Adjusted EBITDA	**$292.8**	**$330.5**	**$498.1**	**$406.8**	**$452.7**	**$498.9**
Adjusted EBITDA (as reported)	$330.7	$368.3	-	-	-	-
Net income	**$240.3**	**$229.6**	**$143.5**	**$108.3**	**$170.8**	**$209.8**
Adjusted net income	**$209.2**	**$230.4**	**$253.2**	**$187.3**	**$240.8**	**$269.8**
Diluted shares	58.0	57.7	55.2	54.6	55.5	56.2
EPS	**$4.14**	**$3.98**	**$2.60**	**$1.98**	**$3.08**	**$3.74**
Adjusted EPS	**$3.60**	**$3.99**	**$4.59**	**$3.43**	**$4.34**	**$4.80**

Source: Company reports, Bloomberg and Institutional Research Group estimates.

For some context on the following discussion, MASI has provided consolidated & segment-level financial guidance for 3Q 2023 and full-year 2023 as well as articulated some longer-term financial targets/commentary (see Exhibits 2, 3 & 4).

Exhibit 2 Masimo Corp.: Full-Year 2023E Financial Guidance Progression, Selected Items
($ in millions; December-ending calendar years)

	Initial (as of Dec. 2022)		Previous (as of Feb. 2023)		Current (as of Aug. 2023)	
GAAP sales	**$2,330.0**	**$2,400.0**	**$2,415.0**	**$2,460.0**	**$2,100.0**	**$2,200.0**
Non-GAAP sales	$2,330.0	$2,400.0	$2,415.0	$2,460.0	$2,100.0	$2,200.0
Healthcare	**$1,420.0**	**$1,450.0**	**$1,450.0**	**$1,465.0**	**$1,300.0**	**$1,350.0**
Y-o-Y growth	*7.2%*	*8.2%*	*8.0%*	*9.0%*	*-3.0%*	*1.0%*
Y-o-Y growth (constant currency)	*8.8%*	*9.9%*	*8.0%*	*10.0%*	*-3.0%*	*1.0%*
Non-Healthcare	**$910.0**	**$950.0**	**$965.0**	**$995.0**	**$800.0**	**$850.0**
Y-o-Y growth	*34.8%*	*37.7%*	*39.0%*	*43.0%*	*15.0%*	*22.0%*
Y-o-Y growth (pro forma)	*-2.4%*	*0.3%*	*1.0%*	*4.0%*	*-16.0%*	*-11.0%*
Y-o-Y growth (pro forma, constant currency)	*2.1%*	*4.7%*	*2.0%*	*5.0%*	*-16.0%*	*-11.0%*
GAAP gross profit	**$1,224.7**	**$1,266.8**	**$1,279.0**	**$1,305.0**	**$1,053.0**	**$1,113.0**
Healthcare	-	-	$920.0	$931.0	$800.0	$836.0
Non-Healthcare	-	-	$384.0	$399.0	$278.0	$302.0
Other	-	-	($25.0)	($25.0)	($25.0)	($25.0)
Non-GAAP gross profit	**$1,235.6**	**$1,277.7**	**$1,304.0**	**$1,330.0**	**$1,079.0**	**$1,138.0**
Healthcare	-	-	$920.0	$931.0	$800.0	$836.0
Non-Healthcare	-	-	$384.0	$399.0	$278.0	$302.0
Other	-	-	-	-	-	-
GAAP operating profit	**$290.2**	**$305.6**	**$309.0**	**$314.0**	**$184.0**	**$200.0**
Acquired tangible amortization	$9.3	$9.3	$9.0	$9.0	$8.0	$8.0
Acquired intangible amortization	$30.2	$30.2	$42.0	$42.0	$40.0	$40.0
Acquisition, integration & related costs	$7.5	$7.5	$8.0	$8.0	$10.0	$10.0
Litigation expenses & settlements	$22.4	$22.4	$29.0	$29.0	$51.0	$51.0
Other	-	-	$3.0	$3.0	$3.0	$3.0
Non-GAAP operating profit	**$359.6**	**$375.0**	**$400.0**	**$405.0**	**$296.0**	**$312.0**
GAAP non-operating income (expense)	($43.7)	($43.7)	($50.0)	($48.0)	($44.0)	($44.0)
Non-GAAP non-operating profit (expense)	($41.8)	($41.8)	($48.0)	($46.0)	($47.0)	($48.0)
GAAP provision for income taxes	$67.0	$71.5	$68.0	$70.0	$36.0	$40.0
Non-GAAP provision for income taxes	$83.7	$88.1	$93.0	$95.0	$66.0	$70.0
GAAP net income	**$179.5**	**$190.4**	**$190.0**	**$195.0**	**$105.0**	**$115.0**
Non-GAAP net income	**$234.1**	**$245.1**	**$259.0**	**$264.0**	**$183.0**	**$194.0**
Diluted shares	55.1	55.1	55.0	55.0	54.6	54.6
GAAP EPS	**$3.26**	**$3.46**	**$3.45**	**$3.55**	**$1.92**	**$2.11**
Non-GAAP EPS	**$4.25**	**$4.45**	**$4.71**	**$4.80**	**$3.35**	**$3.55**
EBITDA	**$393.5**	**$408.9**	-	-	-	-
Stock-based compensation	$66.5	$71.2	-	-	-	-
GAAP adjustments	$29.9	$29.9	-	-	-	-
Adjusted EBITDA	**$489.9**	**$510.0**	-	-	-	-

Source: Company reports.

In terms of full-year 2023 guidance, the company currently projects consolidated sales of $2.1-$2.2 billion, implying a pro forma constant currency decline of 4%-9%, primarily driven by pronounced weakness at the Non-Healthcare segment, with non-GAAP gross and operating profits of $1.079-$1.138 billion and $296-$312 million, respectively. Income before taxes is implied to be $249-$264 million while net income and EPS are projected to be $183-$194 million and $3.35-$3.55, respectively (based on a diluted share count of 54.6 million). By segment, the company guides to full-year 2023 Healthcare segment sales of $1.30-$1.35 billion, on constant currency growth of (3%)-1% with Non-Healthcare segment sales of $800-$850 million, implying a pro forma constant currency decline of (11%)-(16%) driven by weak consumer demand for high-end audio equipment. On the gross profit front, the Healthcare and Non-Healthcare segments are expected to generate $800-$836 million and $278-$302 million, respectively, implying gross margins of 61.5%-61.9% and 34.8%-35.5% (see Exhibit 2). In terms of the cadence, we note management's current outlook represents a steep reduction compared with both its initial guidance, provided in December 2022, as well as the improved outlook it provided in February 2023. To that end, at the low-end, the current outlook anecdotally assumes that the weak inpatient admission levels and capital sales trends experienced at Healthcare in 2Q 2023 will continue through the end of year while at the higher end that company factors in that some of the large orders that were expected (but pushed out) in 1H 2023 are realized in 2H 2023 and that the pace of hospital installations steadily improves though the second-half (which, in turn, drives an increased sensor sales/volume). At the Non-Healthcare segment, management's guidance reflects continued weakness in the premium and luxury categories, partially offset by growth from new product introductions, most notably in the Hearables category (i.e., headphones and earbuds), which comprise ~7% of the Non-Healthcare segment (up from 3% in the prior year). MASI is also implementing ~$117 million of cost cuts, comprised of $28 million in payroll reductions, $18 million of marketing & promotional spend reductions, and $71 million in reduced performance-based compensation. All told, at least at the core Healthcare segment, management has framed the recent guidance "reset" as establishing a post-Covid "baseline", from which "normal" growth (i.e., high single digit) can resume.

Exhibit 3 Masimo Corp.: 3Q 2023E Financial Targets, Selected Items

($ in millions; December-ending calendar years)

	Initial/Current	
	(as of Aug. 2023)	
GAAP sales	**$475.0**	**$525.0**
Non-GAAP sales	$475.0	$525.0
Healthcare	**$305.0**	**$335.0**
Y-o-Y growth	*-7.0%*	*-2.0%*
Y-o-Y growth (constant currency)	*-7.0%*	*-2.0%*
Non-Healthcare	**$170.0**	**$190.0**
Y-o-Y growth	*-23.0%*	*-14.0%*
Y-o-Y growth (pro forma)	*-23.0%*	*-14.0%*
Y-o-Y growth (pro forma, constant currency)	*-26.0%*	*-17.0%*
GAAP gross profit	**$237.0**	**$268.0**
Healthcare	$185.0	$206.0
Non-Healthcare	$58.0	$67.0
Other	($5.0)	($5.0)
Non-GAAP gross profit	**$242.0**	**$273.0**
Healthcare	$185.0	$206.0
Non-Healthcare	$58.0	$67.0
Other	-	-
GAAP operating profit	**$27.0**	**$37.0**
Acquired tangible amortization	$2.0	$2.0
Acquired intangible amortization	$10.0	$10.0
Acquisition, integration & related costs	$1.0	$1.0
Litigation expenses & settlements	$9.0	$9.0
Other	-	-
Non-GAAP operating profit	**$50.0**	**$60.0**
GAAP non-operating income (expense)	($13.0)	($12.0)
Non-GAAP non-operating profit (expense)	($12.0)	($12.0)
GAAP provision for income taxes	$4.0	$6.0
Non-GAAP provision for income taxes	$10.0	$13.0
GAAP net income	**$10.0**	**$18.0**
Non-GAAP net income	**$27.0**	**$35.0**
Diluted shares	54.4	54.4
GAAP EPS	**$0.19**	**$0.32**
Non-GAAP EPS	**$0.50**	**$0.64**

Source: Company reports.

On a quarterly basis, for 3Q 2023 specifically, the company has guided to consolidated sales of $475-$535 million with gross and operating profits of $242-$273 million and $50-$60 million, respectively (see Exhibit 3). By segment, management projects Healthcare segment sales growth of (7%)-2% to $305-$335 million in 3Q 2023 and Non-Healthcare segment sales of $305-$335, implying a pro forma constant currency decline of (26%)-(17%). Healthcare gross profit is expected to be $185-$206 million, implying a gross margin of ~60.6%-61.5%, while Non-Healthcare segment gross profit is anticipated to be $58-$67 million, implying a 34.1%-35.3% gross margin (see Exhibit 3).

Longer-term (i.e., 2023-2028), Masimo targets consolidated revenue growth of 7%-9% with operating profit, adjusted EBITDA and EPS growth of 10%-12%, respectively (see Exhibit 4).

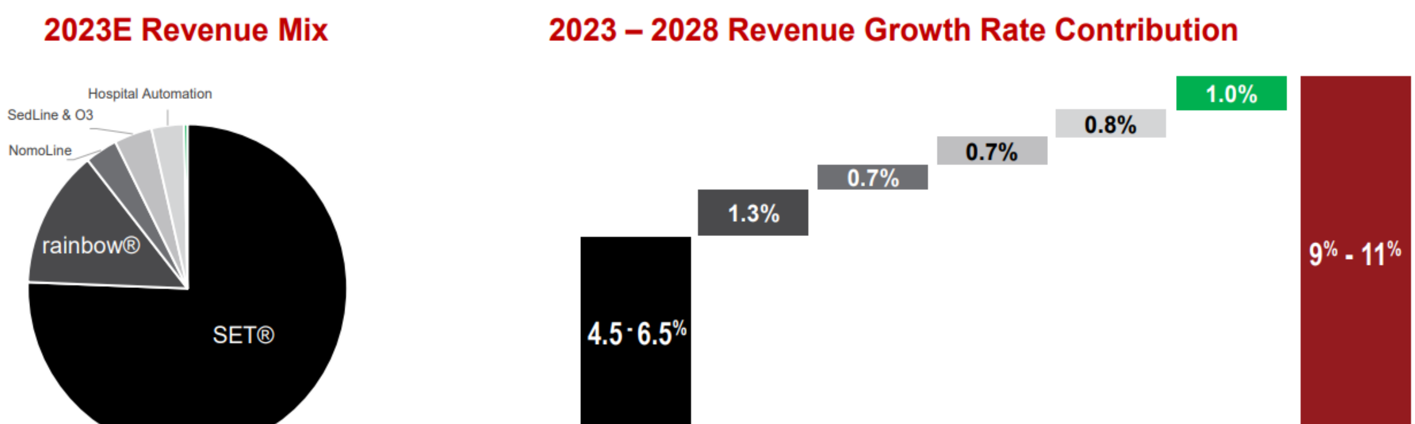
Exhibit 4 Masimo Corp.: Long-term Financial Targets, Selected Items

Consolidated revenue growth	**7% - 9%**
Healthcare revenue growth	*9% - 11%*
Non-Healthcare revenue growth	*4% - 6%*
Operating profit growth	**10% -12%**
EPS growth	**10% - 12%**

Source: Company reports.

Within its consolidated longer-term guidance, MASI expects top-line growth at the Healthcare segment to be ~9%-11%, with its core Set pulse oximetry device contributing 4.5%-6.5% along with contributions of 1.3%, 0.7%, 0.7% from its Rainbow SET, NomoLine and SedLine/O3 products, respectively. Hospital automation is expected to provide an ~0.8% tailwind while new products are expected to be ~1% accretive to future growth. All told, the company sees its total addressable market (TAM) in the Healthcare arena as exceeding $110 billion (see Exhibit 5).

Exhibit 5 Masimo Corp.: Healthcare Segment, Top-Line Guidance Bridge (2023E-2028E)



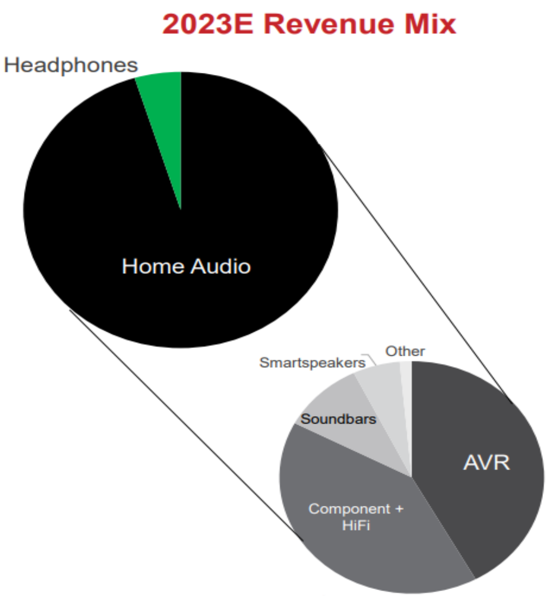
	SET® Pulse Oximetry	rainbow® Pulse Co-Oximetry & Hemodynamics	NomoLine Capnography and Gas Monitoring	SedLine & O3 Brain Monitoring	Hospital Automation	New Products Telemonitoring, Wearables, Hearing Enhancement, etc.	Total Revenue
Masimo Growth	**6 – 8%**	**10%**	**20%**	**20%**	**20% +**	**20% +**	**9 – 11%**
Market Growth	3 – 4%	N/A	10%	5 – 7%	N/A	N/A	N/A
Market Opportunity[1]	$3 B	$2 B	$1 B	$0.3 B	$2.5 B	$101 B+	$110 B+

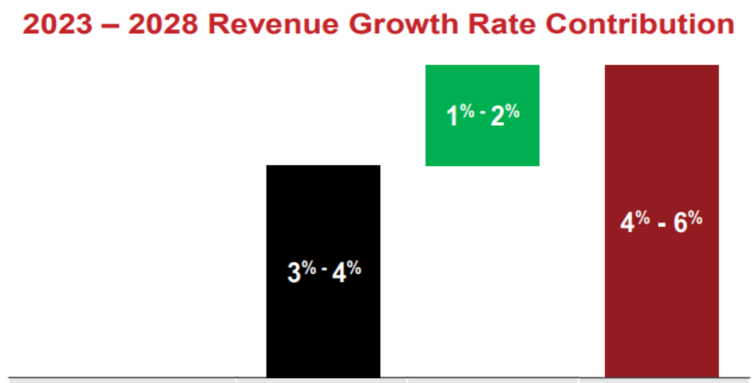
Source: Company reports, iData and Futuresource.

On the Non-Healthcare front, MASI expects top-line growth ~4%-6%, driven by 3%-4% growth in the core home audio equipment business with a 1%-2% contribution from headphones/wearables including the recently launched PI7, PX7 and

PX8 model headphones (all under the Bowers & Wilkins brand) as well as the Denon PerL earbuds. All told the company sees its total addressable market in the Non-Healthcare space as exceeding $61 billion (see Exhibit 6).

Exhibit 6 Masimo Corp.: Non-Healthcare Segment, Top-Line Guidance Bridge (2023E-2028E)





	Home Audio Premium & Luxury	Headphones	Total Revenue
Masimo Growth	**3% – 4%**	**25% +**	**4% – 6%**
Market Growth	LSD	DD	N/A
Market Opportunity[1]	$6 B [2]	$55 B+	$61 B+

Source: Company reports and Futuresource.

Healthcare

The Healthcare segment, which we expect will account for 62% of consolidated sales in 2023E, broadly provides non-invasive vital sign monitoring technologies primarily for use by professional customers, including hospitals, physicians' offices, home care providers, long-term care facilities, emergency medical providers, veterinarians, as well as consumers. Specifically, the company's core business is producing non-invasive oximetry monitoring platforms, most notably its SET (Signal Extraction Technology) and Rainbow SET systems (nearly 90% of segment sales; see Exhibit 10), which allow for the continuous, accurate and non-invasive measurement of, among other things, a patients' blood oxygen levels (or saturation) & heart rate using five adaptive signal processing algorithms, of which four are proprietary to MASI (along with its portfolio of ~1,000 healthcare patents), which solve the pervasive problems in traditional products where patient motion and low perfusion (or low blood flow at the measurement point) significantly limit measurement accuracy. Via its Rainbow SET platform, which was first introduced in 2005, MASI has expanded its vital sign measurement capabilities to capture, among other things, cerebral oximetry, acoustic respiration, oxygen content, carbon dioxide concentration, and hemoglobin levels (see Exhibit 7 as well as the Appendix beginning on page 23 for more detailed measurement descriptions).

Exhibit 7 Masimo Corp.: Healthcare Segment, Vital Sign Measurement Capabilities, Selected Items

SET Measurement Capabilities	Rainbow SET Measurement Capabilities	Other Non-Invasive Capabilities
Oxygen Saturation	Total Hemoglobin	Brain Monitoring
Pulse Rate	Carboxyhemoglobin	Capnography and Gas Monitoring
Perfusion Index	Methemoglobin	Regional Oximetry
Pleth Variability Index	Fractional Arterial Oxygen	
Respiration Rate from Pleth	Oxygen Content	
	Oxygen Reserve Index	
	Pleth Variability Index	
	Acoustic Respiration Rate	

Source: Company reports.

The platforms are comprised of the actual devices (e.g., the circuit boards and monitor screens), the products, including sensors & cables, as well as the software and related services (see Exhibit 8). Within the core professional arena, the company employs a classic "razor-razor blade" model where it provides the platform, including the bedside monitor screen/circuit board (e.g., Root) as well as handheld/portable and wireless devices (e.g., Radical-7 and Rad-57) for little to no cost in return for long-term agreements, typically 3-6 years, for the purchase of products, including disposable (and reusable) sensors/fingertip monitors as well as the related software, services and accessories (see Exhibit 8). In that context, we would note that the company's installed base of equipment was more than 2.5 million (serving ~200 million patients annually), as of the end of 2Q 2023. On the consumer side, where its seems intuitive that the accuracy (and continuous nature) of measurement in its products despite both low perfusion and user motion are particularly applicable, MASI provides a wide range of connected devices for the personal home monitoring of, among other things, oximetry, again a measurement of the oxygen-levels in a person's blood, pulse rate, sleep activity, temperature, breathing, including opioid-induced respiratory depression, and hydration, including the MightySat pulse oximeter, the Radius T thermometer and the W1 wristwatch, which was launched in late-August 2022, with its next generation version, Freedom, expected to be launched in Fall 2023 (see Exhibit 8). [Note: MASI is currently engaged in several legal battles with Apple (NASDAQ: AAPL) regarding alleged patent infringement related to the Apple Watch, which will be discussed in more detail later in this report.]

Exhibit 8 Masimo Corp.: Healthcare Segment Product Portfolio, Selected Items (Professional & Consumer)

Source: Company reports.

In terms of sales & marketing, the company employs a direct sales force, which has relationships with the top-5 group purchasing organizations (GPO's) in the U.S. while also engaging with distributors, such as Cardinal Health (NYSE: CAH) and Medline Industries (private); together those channels comprise ~90% of segment sales (see Exhibit 9). Additionally, the company partners with original equipment manufacturers (OEMs), such as GE Healthcare (NASDAQ: GEHC), Hillrom, a subsidiary of Baxter (NYSE: BAX), Mindray (private), Philips (NYSE: PHG), Physio-Control, a subsidiary of Stryker (NYSE: SYK) and Zoll, part of Itamar (NASDAQ: ITMR), who comprise the remaining ~10% of segment sales. On the manufacturing front, the company utilizes its internal network of facilities, located in Irvine, CA, Hudson, NH, Mexicali and San Luis Ray, Mexico and Fukushima, Japan, for the vast majority of its products (although it does engage third-party contractors for certain subassemblies, such as circuit boards). The company's primary competitor, not including players that incorporate MASI's technologies on their products, is Nellcor, a subsidiary of Medtronic (NYSE: MDT), who until 2018 was paying MASI a 7.75% royalty related to a 2006 patent-infringement settlement and is currently in the process of being spun-off from the parent (in a transaction that is likely to be completed sometime during 2H 2023-1H 2024); that said, we would that MASI is the primary pulse oximetry provider at 9 of top 10 hospitals, per U.S. News & World Report.

Exhibit 9 Masimo Corp.: Healthcare Segment, Selected Financial Items, 2020–2025E
($ in millions; December-ending calendar years)

	2020	2021	2022	6 mos. 2022	6 mos. 2023	2023E	2024E	2025E
Sales	**$1,143.7**	**$1,239.2**	**$1,340.3**	**$661.2**	**$627.8**	**$1,301.7**	**$1,418.2**	**$1,538.0**
Direct & distribution	$958.8	$1,099.1	$1,192.7	$590.8	$562.6	$1,168.8	$1,274.0	$1,382.3
OEMs	$185.0	$140.1	$147.6	$70.4	$65.2	$132.8	$144.1	$155.7
Gross profit	**$743.0**	**$808.4**	**$870.2**	**$442.1**	**$383.8**	**$794.5**	**$893.4**	**$984.3**
Selling, general & administrative	-	-	-	-	-	($410.0)	($446.7)	($480.6)
Research & development	-	-	-	-	-	($143.2)	($152.5)	($161.5)
Operating income	**-**	**-**	**-**	**-**	**-**	**$241.3**	**$294.3**	**$342.2**
Acquired tangible asset amortization	-	-	-	-	-	-	-	-
Acquired intangible asset amortization	-	-	-	-	-	-	-	-
Acquisition, integration & related costs	-	-	-	-	-	-	-	-
Litigation related expenses & settlements	-	-	-	-	-	$51.0	$25.0	$20.0
Other	-	-	-	-	-	$3.0	-	-
Adj. operating income	**-**	**-**	**-**	**-**	**-**	**$295.3**	**$319.3**	**$362.2**
Depreciation & amortization	$29.3	$35.6	$36.0	$18.1	$18.4	$36.4	$39.0	$41.5
EBITDA	-	-	-	-	-	**$277.8**	**$333.3**	**$383.7**
Adjusted EBITDA	-	-	-	-	-	**$331.8**	**$358.3**	**$403.7**
Margins:								
Gross profit	65.0%	65.2%	64.9%	66.9%	61.1%	61.0%	63.0%	64.0%
Operating margin	-	-	-	-	-	18.5%	20.8%	22.3%
Adj. operating margin	-	-	-	-	-	22.7%	22.5%	23.6%
EBITDA margin	-	-	-	-	-	21.3%	23.5%	25.0%
Adj. EBITDA margin	-	-	-	-	-	25.5%	25.3%	26.3%

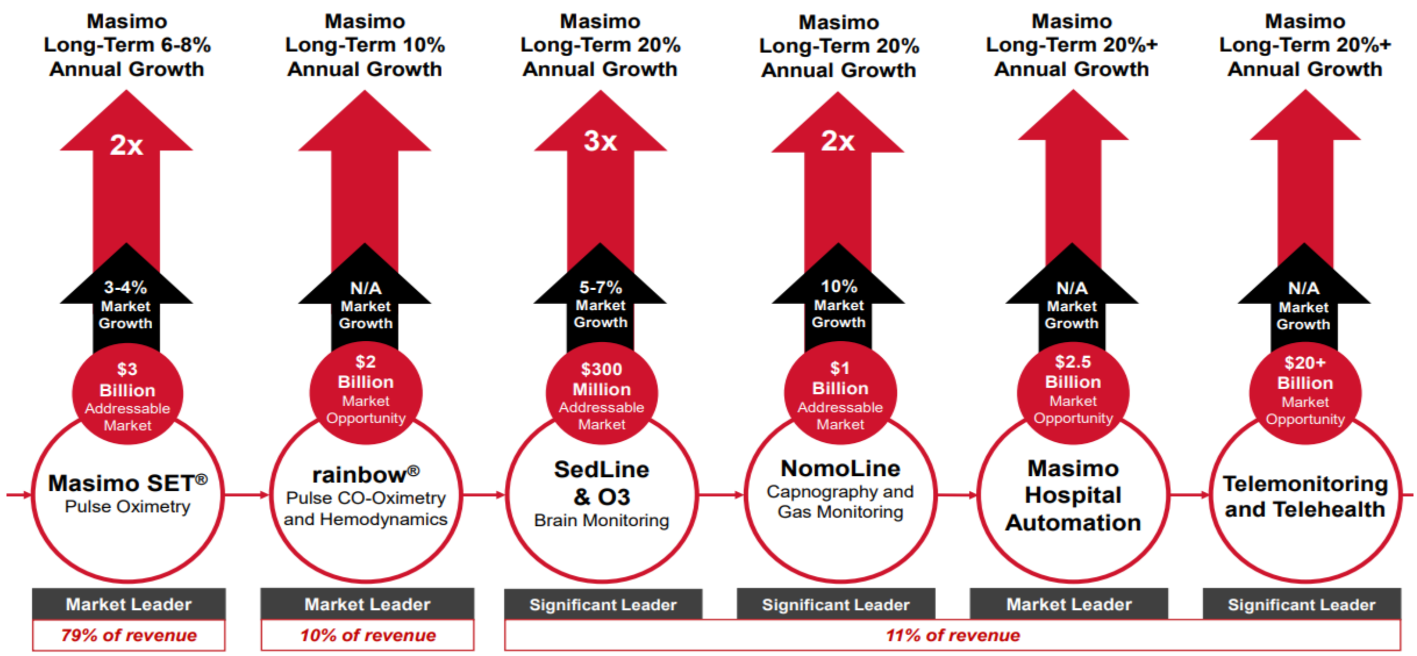
Source: Company reports, Bloomberg and Institutional Research Group estimates.

Since 2017, MASI's Healthcare segment has posted compound annual growth in sales and gross profit of ~11% (with gross margins ranging from ~65%-67%). In 2021, segment sales increased ~8.5% (on the heels of a 22% increase in 2020 due to pent up hospital demand) to $1.239 billion, driven by a ~15% increase in direct & distribution sales offset by a ~24.5% decline in business with OEMs, while gross profit advanced ~9% to ~$808.5 million (on a margin 65.2%). In 2022, segment sales improved 8% to $1.34 billion, driven by 8.5% growth in direct & distribution sales and a ~5.5% increase in sales with OEM partners, while gross profit increased ~7.5% to $870 million (on a margin of 64.9%). In 1H 2023, Healthcare segment sales declined ~5% to ~$628 million, driven by weakness in both the direct & distribution and OEM channels, with a gross profit decline of ~13% to ~384 million on a 580-basis point deterioration in gross margin to 61.1%. Anecdotally, on the top-line management estimates that inpatient volumes were roughly flat and in-patient surgeries were down relative to 2019 (a more normal year as compared with 2020) so far this year, resulting in lower-than-expected sensor sales, and some large new product orders/installations that were expected in 1H 2023 were pushed out (but will hopefully be realized in 2H 2023). As well, on the gross margin front, the company was impacted by not only the deleveraging effect of lower sales but also some anomalous discounting in its sensor sales, which is a phenomenon that will not likely be repeated considering that all discounting on consumables (as opposed to capital equipment) now needs to be personally approved by Mr. Kiani.

In terms of guidance, the company currently projects full-year 2023 Healthcare segment sales of $1.30-$1.35 billion, on constant currency growth of (3%)-1% (compared with its initial and previous guidance of $1.42-$1.45 billion and $1.45-$1.65 billion, respectively) with gross profit of $800-$836 million (versus its previous guide of $920-$932 million), implying a gross margin of 61.5%-61.9% (versus the prior implication that gross margin would be 63.4%-63.5; see Exhibit 2). In terms of anecdotal commentary, management indicates that the current outlook, at the low-end, assumes that the weak inpatient admission levels and capital sales trends experienced in 2Q 2023 will continue through the end of year while the higher-end contemplates that some of the large orders that were expected in 1H 2023 (but pushed out) actually come through in 2H 2023 and that the pace of hospital installations steadily improves though the second-half (which, in turn, will drive increased sensor sales). All told, management has framed the current guidance as a "reset" that sets a post-Covid "baseline", from which "normal" growth (i.e., high single digit) can resume. (Additionally, management's most recent public commentary anecdotally suggests that sensor sales in July have "improved substantially from 2Q", which in our view suggests the low-end of guidance will prove to be conservative.) For 3Q 2023 specifically, management projects Healthcare segments sales growth of (7%)-2% to $305-$335 million with gross of $185-$206 million, implying a gross margin of ~60.6%-61.5% (see Exhibit 3).

Longer-term (i.e., 2023-2028), MASI expects the Healthcare segment to grow its top-line at a compound annual rate of ~9%-11% (see Exhibit 5), driven by 6%-8% and 10% growth in its core SET and Rainbow SET pulse oximetry platforms, which, again, comprise nearly 90% of segment sales and together represent an ~$5 billion market opportunity, along with ~20% CAGRs in its SedLine & O3 (brain monitoring), NomoLine (capnography & gas monitoring) and hospital automation products, which together represent a nearly $4 billion opportunity (see Exhibit 10).

Exhibit 10 Masimo Corp.: Healthcare Segment Product Portfolio, Selected Items (Professional & Consumer)



Source: Company reports.

New products, including MASI's telehealth/telemonitoring solutions, which are expected to grow ~20% annually in a ~$20 billion market, are expected to provide an ancillary (i.e., ~1%) tailwind to the company's overall 5-year growth profile. Additionally, just last week, on August 23rd, MASI launched its Stork platform, a hospital-quality smart baby monitor that, among other things, continuously and accurately measures a baby's oxygen levels and pulse rate while also detecting breathing problems and changes in temperature (i.e., a spiking fever) and incorporating camera technology (with two-way voice capabilities) for real-time monitoring (via an app that can be accessed remotely), at major retailers, including Target (NYSE: TGT) and Best Buy (NYSE: BBY), as well as direct to consumers via its own website (at www.masimopersonalhealth.com). While it is still early days, the company sees the product becoming a "couple of hundred million dollars a year" revenue stream over the "next few years" (i.e., 2-3 years) with a longer-term potential approaching "$1 billion" within the ~$1.5 billion global smart baby monitor market, which, per Statista, is projected to grow at 9%-15% annually on the back of 130 million babies being born per year, increased adoption of the category due a growing emphasis on child safety and security as well as the rising number of working families that need virtual monitoring capabilities. (Like the rest of its consumer health portfolio, MASI contends that not only are the health capabilities of its platform superior to competitors but that consumers - in this case, parents - will prefer to trust a healthcare-first company as opposed to a predominately consumer products/electronics company when it comes to their own health as well as that of their child or loved ones).

For our part, including the softness expected in 2023, we project compound annual growth of less than 5% in Healthcare segment sales and gross profit to ~$1.54 billion and $984.5 million, respectively, in 2025. Additionally, we expect 2025E GAAP and adjusted operating income of $342 and $362 million, respectively, as well as segment EBITDA and adjusted EBITDA, excluding stock stock-based compensation, of $384 and $404 million, respectively (see Exhibit 9).

Legal Battle with Apple: A potential source of incremental upside (albeit not included in our valuation scenarios)

As mentioned earlier, the company is currently engaged in several legal battles with Apple Inc. (NASDAQ: AAPL) regarding, among other things, patent infringement by the Apple Watch. For a bit of context, it has been reported/alleged that Apple approached Masimo in early-2013 seeking a potential collaboration on the development of its Apple Watch, which was initially introduced in April 2015, and even considered an outright acquisition of the company before the idea was nixed by CEO, Tim Cook, given the hefty price tag and MASI's largely non-consumer focus at the time. Subsequently, in July 2013, Apple hired (or poached depending on your perspective) Masimo's chief medical officer, Michael O'Reilly, as well as chief technology officer, Marcelo Lamego (along with "20-30 engineers"). In February 2020, MASI brought a ~$3 billion federal lawsuit in the U.S. Central District of California against Apple for, among other things, patent infringement, and the misappropriation of trade secrets. The case, as it relates to roughly half of the initial complaints that weren't dismissed prior to trial, resulted in a mistrial due to a hung jury, which was reportedly skewed 6-1 in favor of Apple. For its part, MASI disputes the prevailing narrative regarding the outcome and intends to seek a re-trial in the now ~$1.85 billion case, which could occur sometime next year. On both those fronts, Mr. Kiani commented on the 1Q 2023 earnings call, "It isn't as though it's been reported there was 6:1. I can't get into more details on that, but it wasn't like that. But unfortunately we did hit that. So at this point I guess in life you don't get many do-overs. We're going to get another do-over. So we will be retrying this case. And hopefully given how good the case came and how everyone assumed they would go we expect next time we'll get very different results".

As well, in June 2021, the company filed another patent infringement complaint against Apple with the International Trade Commission (ITC); subsequently, in January 2023, following a period of investigation and an evidentiary hearing in June 2022, an Administrative Law Judge (ALJ) ruled that Apple violated Section 337 of the Tariff Act of 1930 by importing and selling a product with light-based oximetry functionality (i.e., the Series 6 version introduced in 2020), infringing on one of MASI's pulse oximeter patents. While a promising first step, that case will be formally adjudicated in a proceeding currently scheduled to begin on October 10, 2023.

Lastly, in October 2022, Apple filed a lawsuit in the U.S. District Court of Delaware that Masimo's W1 watch infringed on 10 patents (six utility and 4 design) to which MASI responded with its own counterclaims for monopolization, false advertising and the infringement on 10 of its patents. The two causes of action were ordered to be coordinated in May 2023 and initial indications suggest that the cases could go to trial sometime in 2024 (although likely later in the year).

In terms of recent management commentary on the subject, Mr. Kiani indicated on the 3Q 2023 earnings call that, "We have 3 cases. One is the ITC, which we should hopefully have the soonest results. As you remember, we were supposed to get the commission to give us a decision on July 17. They pushed it out to October 10. We think hopefully that will stick. And assuming they go with the ALJ's 300-plus paged decision, we should get an injunction barring President Biden's ability to stop it, which he has 60 days to do so. They did not stop the AliveCor's injunction, so we don't expect they'll stop ours…on the trade secret and patent case in California, as you remember, the trade secret case, we unfortunately had a hung jury, and we just met with the judge. It looks like we will not go to trial until next year on that again, hopefully February, March time frame…And then on the Delaware case that Apple brought against us, they brought a patent against us, I think, 10 patents, but we also had an antitrust complaint and an unfair competition, false advertising claim. And that is going a lot faster than we expected. The judge has been incredible and has been really holding all of our feet to the fire. And that might go to trial next year."

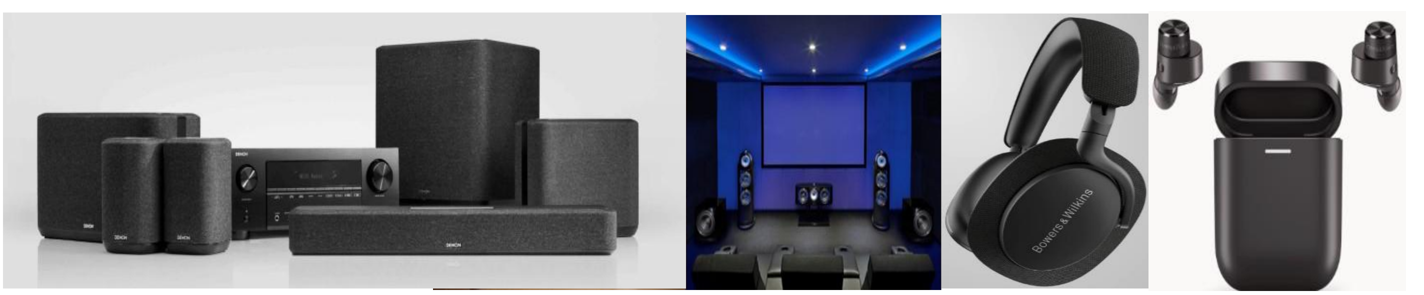
While we include no incremental (or decremental) value from the potential outcome of any of these cases, we would note that the nearest-term (an seemingly most promising) case in front of the ITC could result in an import ban on some Apple Watches and put pressure on the company to reach a settlement with MASI, which, in addition to damages, would likely come in the form of some sort of royalty agreement (likely not all that dissimilar to the arrangement Masimo had with Medtronic between 2006-2018). To that end, considering estimates suggesting Apple will sell 55-65 million watches in 2023-2024 even a royalty of $1-$2 per unit would be a significant source of upside for MASI (i.e., assuming a gross margin of ~90% and ~26% tax rate it could add ~$0.65-$1.55 to EPS, which at a 25x multiple could be worth ~$16.50-$39.50 per share, in terms of the stock price).

In the event the two parties just simply go their separate ways (and are left to compete) we see a pathway for Masimo's W1 watch (along with the next generation version, Freedom), which is, by all accounts a significantly more health focused product (as compared with other similarly-positioned consumer products) given its accurate and continuous measurement of traditional vital signs as well as differentiated factors, such as hydration measurement, as having an appeal to a niche portion of the competitive but relatively fragmented ~$30 billion smart watch market (that is expected to grow at ~15% annually through 2030, per Fortune Business Insights), which could include athletes, entertainers and the more seriously health/fitness conscious (i.e., $30-$60 million of sales at just 0.1%-0.2% market share). As well, there is the potential for the devices to be incorporated into both a professional setting, such as a hospital, as well as become a key component in the company's vision for a connected, in-home health ecosystem (that will be described in more detail in the next section of this report).

Non-Healthcare

The Non-Healthcare segment, which we expect will account for 38% of consolidated sales in 2023E designs/develops, manufactures and sells high-end audio equipment to consumers (as well as licenses its technologies to luxury auto companies, such as BMW, Maserati, McLaren, Polestar and Volvo) under the Bowers & Wilkins, Denon, Marantz, and Polk Audio brands, which range from, "mass premium" (i.e., Polk) to "ultra luxury" (i.e., B&W, Marantz and Denon), as well as the Definitive Technology, Classe and Boston Acoustics brands.

Exhibit 11 Masimo Corp.: Non-Healthcare Segment Product Portfolio, Selected Items



Source: Company reports.

As mentioned earlier, MASI's Non-Healthcare segment was established in July 2022 following the April 2022 acquisition of Sound United (announced on February 15, 2022, after the market close) from private-equity firm, Charlesbank Capital Partners, for $1.0575 billion in cash. At the time, the company indicated that they had evaluated over 200 potential consumer-focused targets and that the purchase price was ~1.0x 2021 sales and ~8.0x adjusted EBITDA. (Although, per management's initial commentary indicating the business was doing "around $900 million" in annual sales and "about $125 million" of adj. EBITDA we calculate those multiples as being closer to 1.2x and 8.5x, respectively). Additionally, per filings, MASI has indicated that Sound United contributed $695 million of sales and a net loss of ~$39 million between closing – on April 11 - and year-end 2022 and $391 million of sales and a net loss of ~$9 million in 1H 2023.

From a market perspective, the reaction to the deal was decidedly poor, to say the least, considering MASI's stock fell ~37% from $228.84 to $144.20 per share on the day the transaction was announced, effectively erasing ~$4.7 billion from the company's market capitalization. From management's perspective, the strategic rationale for the combination is that Sound United, in addition to its defensible position in the ~$6 billion premium & luxury home entertainment space, which itself is growing at a low-single digit compound annual growth rate (see Exhibit 6), is a key piece of creating a cloud connected, hospital-quality, home-health ecosystem. To that end, the company intends to leverage the nearly 4 million installed Denon-branded HEOS units in an effort to activate secure "home health hubs". For context, HEOS is a multi-room home entertainment operating system that connects to different devices, which, in management's mind opens the possibility for MASI to connect all of the home's medical devices and enable a remote patient monitoring ecosystem that connects patients to healthcare professionals all around the home (or car) in real time. For instance, say a patient's heart rate suddenly drops (or changes) the system would not only alert the individual but it could automatically connect them to a live interaction (or chat) with a nurse/clinician or emergency contact/family member. (Vice versa the ecosystem could be employed to bring some of the connectivity/audio capabilities into the professional medical environment, which, along with the ability to also monitor patients outside the facility, could potentially help alleviate some of the current stresses on labor availability within the industry). Again, from management's perspective, the deal also bulked up the company's engineering and sales capacity with the addition of ~375 engineers, 450 sales & marketing staff and the expansion of its global retail distribution network by more than 20,000 locations (with a significant presence outside the U.S. with ~60% of segment sales being abroad). Additionally, the deal offered opportunities to leverage MASI's patented adaptive signal technology, particularly in the rapidly growing $85 billion "hearables" market (i.e., headphones and earbuds). On the latter front, MASI recently introduced its Adaptive Acoustic Technology (AAT) on Sound United products, which transmits a pilot sound directly into the ear, measures the cochlear response and generates a personalized acoustic profile to ensure the best listening experience for the user. (Anecdotally, this is an example of management's optimism on the potential synergies between core MASI and Sound United, which, in the case of hearables, could ultimately result in the development of an effective, over the counter hearing aid solution for consumers, among other applications.)

Management's assertions regarding the deal's potential aside, the market clearly remains skeptical on not only the broader strategic rationale for the tie-up but also the trajectory of recent results; to that end, 2Q 2023 trends at the Non-Healthcare segment demonstrated mid-teens declines in pro forma sales and gross profit on a current currency basis, driven by pronounced weakness in demand for high-end audio systems. Further, in terms of guidance (see Exhibit 2), following 2Q 2023, the company reduced its initial 2023 top-line outlook to $800-$850 million (from its initial and previous guidance of $910-$950 million and $965-$995 million, respectively), implying a pro forma constant currency decline of (11%)-(16%) (as compared with its initial and previous forecasts of ~2.0-5.0% growth). On the gross profit front, the Non-Healthcare segment is expected to generate $278-$302 million, implying a gross margin 34.8%-35.5% (versus the previous implication of 39.8%-40.0%). Anecdotally, management's guidance reflects continued consumer weakness in the premium and luxury audio categories, partially offset by growth from new product introductions, most notably in the Hearables category (i.e., headphones and earbuds), which comprise ~7% of the Non-Healthcare segment (up from 3% in the prior year). For 3Q 2023 specifically, the company has guided segment sales of $305-$335, implying a pro forma constant currency decline of (26%)-(17%) with gross profit of $58-$67 million, implying a 34.1%-35.3% margin (see Exhibit 3).

Longer-term (i.e., 2023-2028) MASI expects Non-Healthcare segment sales to grow at a compound annual rate of ~4%-6% (see Exhibit 6), driven by 3%-4% growth in the core-premium & luxury home audio business, which is estimated to be a ~$6 billion opportunity growing in the low-single digits, and 25%-plus growth in headphones, which is indicated to be an ~$55 billion opportunity that is growing at a double-digit clip. On the latter hearables front, the company recently launched PI7, PX7 and PX8 model headphones (under the Bowers & Wilkins brand) as well as the Denon PerL earbuds (see Exhibit 11).

For our part, we project 2023 sales and gross profit of $800.5 million and $278 million, respectively, which, for context, is at the low-end of guidance (of $800-$850 million and $278-$302 million), with compound annual growth of 3.0% and ~4.0% in sales and gross profit during 2024-2025, resulting in sales of $849.5 million and $301.5 million, respectively. Adjusted operating income is expected to be ~$27.5 million while we estimate segment EBITDA and adjusted EBITDA, excluding stock base compensation, will be $55 million and $95 million, respectively, in 2025E (see Exhibit 12).

Exhibit 12 Masimo Corp.: Non-Healthcare Segment, Selected Financial Items, 2020–2025E
($ in millions; December-ending calendar years)

	2020	2021	2022	6 mos. 2022	6 mos. 2023	2023E	2024E	2025E
Sales	-	-	$695.5	$208.3	$392.5	$800.5	$824.5	$849.3
Gross profit	-	-	$252.5	$72.6	$136.3	$278.2	$288.6	$301.5
Selling, general & administrative	-	-	-	-	-	($264.2)	($272.1)	($280.3)
Research & development	-	-	-	-	-	($36.0)	($33.0)	($34.0)
Operating income	-	-	-	-	-	($22.0)	($16.5)	($12.7)
Acquired tangible asset amortization	-	-	-	-	-	$8.0	$5.0	$5.0
Acquired intangible asset amortization	-	-	-	-	-	$40.0	$35.0	$30.0
Acquisition, integration & related costs	-	-	-	-	-	$10.0	$5.0	$5.0
Litigation related expenses & settlements	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Adj. operating income	-	-	-	-	-	$36.0	$28.5	$27.3
Depreciation & amortization	-	-	$100.1	$61.8	$32.9	$64.0	$66.0	$67.9
EBITDA	-	-	-	-	-	$42.0	$49.5	$55.2
Adjusted EBITDA	-	-	-	-	-	$78.0	$94.5	$95.2
Margins:								
Gross profit	-	-	36.3%	34.9%	34.7%	34.8%	35.0%	35.5%
Operating margin	-	-	-	-	-	-2.8%	-2.0%	-1.5%
Adj. operating margin	-	-	-	-	-	4.5%	3.5%	3.2%
EBITDA margin	-	-	-	-	-	5.3%	6.0%	6.5%
Adj. EBITDA margin	-	-	-	-	-	9.7%	11.5%	11.2%

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Notably, in response to the broad investor criticism, the corresponding market decline and the involvement of an activist investor (who ultimately secured two Board seats), management has indicated that while they remain confident in the strategic rationale and long-term benefits of the Sound United acquisition they are not anchored to the strategy as a matter of course if it is does not work. To that end, on the 2Q 2023 earnings call, Mr. Kiani stated "When we bought Sound United, we said 'Hey, give us 3 years. If we haven't proven this thing is going really do what we say it is, we'll get out of it'. Not only that thought hasn't changed, everything today tells us it was the right move." To be sure, time will tell, but, at the current valuation it seems to us that an investor receives the Non-Healthcare business essentially for free and the core Non-Healthcare business at a discounted multiple with the incremental upside optionality if the business is divested or the transaction's strategic rationale ultimately plays out.

Balance Sheet & Cash Flow

At the end of 2Q 2023, MASI had net debt of ~$738 million, including ~$151 million in cash and debt of ~$889 million, and a leverage ratio of 1.9x (see Exhibit 13). In conjunction with the Sound United acquisition, the company entered into a credit agreement (with Citi, JPM, BofA, and the Bank of the West) that included a $300 million term loan and a $500 million revolver, which was upped to $705 million in May 2022 (yielding SOFR plus 1.0% and 1.75%). A well, the company has a ~$23 million Japanese revolver with Mizuho (at TIBOR plus 0.5%) as well as a non-collateralized Japanese government loan of ~$11.5 million (at 1.33%) that was part of a local stimulus program. Notably, the company has no significant debt maturities until 2028. While the company has historically operated with a net cash position management has indicated that, given the company's cash flow generation characteristics, it is "comfortable with 3x or less, in that zone".

Exhibit 13 Masimo Corp.: Balance Sheet, Selected Items
($ in millions; December-ending calendar years)

	2020	2021	2022	2Q 2023
Cash	**$641.4**	**$745.3**	**$202.9**	**$150.7**
Debt:				
Short-term debt	-	-	$15.1	$31.8
Term loan			$7.5	$9.4
Japanese loan			$7.6	$22.4
Long-term debt	-	-	$941.6	$888.8
Term loan			$278.9	$274.2
Revolver			$651.0	$605.2
Japanese loan			$11.7	$9.4
Total debt	**$0.0**	**$0.0**	**$956.7**	**$920.6**
Net debt	**($641.4)**	**($745.3)**	**$753.8**	**$769.9**
Leverage ratio	**-**	**-**	**1.5x**	**1.9x**

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Assuming capital expenditures at ~2% of total sales, we project free cash flow of $54 million, $181 million and $237 million, respectively, in 2023-2025 (see Exhibit 14). While not factored into our forecasts, the company is authorized to repurchase ~5.0 million shares of common stock, as of July 1, 2023. (For context, the company repurchased 3.0 million shares at $133.82 per share in 2022 and 0.5 million shares at $235.88 and $242.50 per share in 2021 and 2020, respectively).

Exhibit 14 Masimo Corp.: Sources & Uses of Cash Flow, Selected Items
($ in millions; December-ending calendar years)

	2020	2021	2022	6 mos. 2022	6 mos. 2023	2023E	2024E	2025E
Net income	$240.3	$229.6	$143.5	$64.7	$37.0	$108.3	$170.8	$209.8
Depreciation & amortization	$29.3	$35.6	$136.1	$79.9	$51.3	$100.5	$105.0	$109.5
Other	($58.5)	($0.6)	($250.2)	($119.0)	($64.3)	($112.5)	($50.0)	($35.0)
Cash flow from operations	**$211.1**	**$264.6**	**$29.4**	**$25.6**	**$24.0**	**$96.3**	**$225.7**	**$284.2**
Capital expenditures	($72.5)	($25.5)	($52.8)	($30.0)	($20.4)	($42.5)	($45.1)	($47.5)
Free cash flow	**$138.6**	**$239.1**	**($23.4)**	**($4.4)**	**$3.6**	**$53.8**	**$180.6**	**$236.7**
Acquisitions	($112.7)	-	($999.7)	($985.5)	$7.5	$7.5	-	-
Strategic investments	($6.8)	($2.6)	($1.7)	($1.2)	($0.7)	($1.5)	($1.5)	($1.5)
Stock issuances	$58.4	$23.2	$8.1	$4.6	$6.0	$7.5	-	-
Stock repurchases	($110.5)	($128.9)	($401.5)	($401.4)	-	-	-	-
Tax withholdings for options	($2.2)	($16.7)	($25.4)	($25.4)	($12.7)	($25.0)	($25.0)	($25.0)

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Corporate Governance, Ownership & Recent Management Commentary

MASI's Board is currently comprised of 5 directors, of which 4 are deemed independent with the exception being founder, chairman, chief executive and ~8.5% holder Joe Kiani. The Board includes the two directors, Quentin Koffey and Michelle

Brennan, that were elected in June 2023 (with ~70% of the non-insider vote) following a proxy contest with Politan Capital (currently a ~9% holder). The Board is currently comprised of three classes of directors, elected in staggered years although the company has committed to declassifying the Board over four years beginning in 2024 (along with some other corporate governance improvements although there is still a de facto "poison pill" embedded in the Mr. Kiani's employment agreement that is subject to litigation and will be discussed in more detail below). Independent directors comprise the Audit, Compensation and Nominating, Compliance & Governance committees. The top-10 10 institutional shareholders control ~59.5% of the outstanding shares while all officers and directors at MASI (as a group of 10 people) own ~9.0% of the company (see Exhibit 15).

Exhibit 15 Masimo Corp.: Insider and Institutional Ownership, Selected Items

	Shares held	% ownership
Holders:		
FMR LLC	7.2	13.6%
BlackRock Inc.	6.1	11.6%
The Vanguard Group	4.9	9.2%
Politan Capital Management	**4.7**	**8.9%**
Joseph Kiani	**4.4**	**8.3%**
Liontrust Asset Management	1.7	3.2%
State Street Corp.	1.7	3.2%
The Capital Group Companies	1.7	3.1%
RTW Investments	1.5	2.8%
Schroders PLC	1.1	2.1%
Westfield Capital Management	1.0	1.8%
Geode Capital Management	0.8	1.4%
Fundsmith LLP	0.7	1.4%
BNP Paribas SA	0.7	1.4%
T. Rowe Price Group	0.5	1.0%
Martin Currie Ltd,	0.5	1.0%
Bank of New York Mellon	0.5	0.9%
Sumitomo Mitsui Trust Holdings	0.5	0.9%
Northern Trust Corp.	0.4	0.8%
Farallon Capital Management	0.4	0.7%
Total	**40.8**	**77.2%**
Insiders:		
All executives & directors (10 people)	**4.8**	**9.0%**

Source: Company reports and Bloomberg.

For a degree of background on recent shareholder developments, we surmise that the genesis of activist-investor, Politan Capital Management's, current involvement clearly dates back to the acquisition of Sound United in April 2022. (For context, MASI's stock fell ~37% from $228.84 to $144.20 per share on the day the $1.0575 billion purchase of the consumer-audio concern was announced in February 2022; effectively erasing ~$4.7 billion of the company's market capitalization in a single trading session. Subsequently, on August 16, 2022, Politan disclosed an ~8.4% stake (currently ~9%) in a 13D filing indicating purchase prices between $123.40-$159.35 per share (from June 23rd to August 15th) as well as its intention to engage management, the Board and other relevant/interested parties to discuss the company's "business, operations, financial condition, strategic plans, governance, the composition of the executive suite and board and possibilities for changes thereto, as well as other matters" and that it "may take or engage in various plans, actions or transactions in seeking to bring about changes to increase stockholder value". Next, on September 9, 2022, roughly one week after the first (and only) meeting between the investor and the company (at which Politan reportedly intimated its desire for Board representation), MASI's Board amended its bylaws requiring any stockholder seeking to nominate directors to disclose, among other things, the identity of all limited partners as well as their families holdings in any of MASI's competitors (or counterparties in litigation), any future plans to nominate directors at any other public companies over the next 12-months (along with all its prior nominations/proposals over the last 36-months) as well as the identity of any other shareholders that had privately expressed support for the nomination. (Notably, these measures came on top of the company's already "staggered" Board and a "change of control" provision in the CEO's employment agreement from 2015 that could trigger a more than $350 million payout should: 1) the Board appoint a lead independent director; 2) more than one-third of the Board were replaced over a 24-month period; or if 3) Mr. Kiani were no longer the company's chairman and chief executive (which we note is still subject to ongoing litigation that will be described in more detail shortly.) In response, on October 21, 2022, Politan filed a lawsuit in Delaware challenging the amendments and seeking to invalidate the CEO's employment agreement; subsequently, in March 2023, following an adverse ruling on the bylaw issues in December 2002 and a failed bid to have the case dismissed prior to trial in February 2023, MASI rescinded the aforementioned bylaw changes and adopted several corporate governance improvement measures, including the appointment of a lead independent director, H. Michael Cohen (the former head of healthcare investment banking at Deutsch Bank who had been a director since 2018), which was precipitated by the permanent waiver of Mr. Kiani's right to treat such an event as "good reason" to exercise the payout provision of its employment agreement, the elimination of the company's stockholder rights plan, the declassification of the Board over four years beginning in 2024 as well as a commitment to add two independent directors to an expanded Board (of 7 up from 5). As well, following the public backing from the California Teachers Retirement Fund (or CalSTRS) for Politan's remaining legal claim on the legality of Mr. Kiani's employment contract, the company also agreed to temporarily waive the one-third director change provision (but just at the 2023 Annual Meeting). Consequently, on May 2, 2023, Politan formally nominated two directors, Quentin Koffey and Michelle Brennan, for election at the 2023 annual meeting. (For context, Mr. Koffey is the chief investment officer of Politan, which he founded in 2021 following successful stints at activist-investors Senator Investment Group as well as Elliott Management, and Ms. Brennan was a 30-year executive at Johnson & Johnson where she, among other things, oversaw its medical device business.) Unsurprisingly, MASI vigorously opposed the election of Politan's two nominees (although, in June 2023, the company did offer to consider Ms. Brennan as a candidate if its plans for an expanded Board were approved and Mr. Kiani agreed to permanently amend the one-third change of control provision of his employment contract to one-half of the directors) but ultimately, following support from both ISS and Glass Lewis, Mr. Koffey and Ms. Brennan were elected to MASI's Board in late-June 2023. (For additional context, the pair garnered ~70% of the non-insider vote, via support from 17 of the top 20 holders and 43 of the top 50 holders; they replaced H. Michael Cohen, previously the lead independent director, and Julie Shimer, the former chief executive of Welch Allyn who had been a director since 2019.)

Regarding Politan's ongoing legal action challenging the "validity and legality" of Mr. Kiani's employment agreement, which, as amended in June 2023, currently stipulates that if he is no longer chairman and chief executive or "the individuals who constituted the Board at the beginning of the twelve (12) month period immediately preceding the change cease for any reason to constitute one-half or more of the directors then in office" he is eligible to receive, among others things, such as accelerated salary, bonus and stock option vesting, a restricted stock award covering 2.7 million of MASI's common shares (or roughly 5% of the total shares outstanding) as well as a cash payment of $35 million. For its part, Politan alleges that the agreement should be invalidated because it serves only to entrench management and subvert stockholder rights while Massimo asserts that the original 2015 agreement was fully disclosed and the product of extensive arms-length negotiations between the Board's independent compensation committee and Mr. Kiani (who they view as being instrumental to company's past and future success). On February 3, 2023, judge Nathan Cook, the vice chancellor of the Delaware Court of Chancery, denied Masimo's motion to dismiss the case, specifically criticizing both the one-third director change and independent lead director appointment clauses, by stating "this is an astounding amount of consideration for a change in the composition of one-third of the board. Not a majority. One-third" while also noting it was "truly amazing" for the "appointment of a lead director to trigger these provisions" that could "amount to abdication" of the Board's fiduciary duty. Subsequently, in early-March 2023, CalSTRS joined the suit with the investor publicly stating, " CalSTRS has been a Masimo stockholder for more than a decade and believes an essential part of managing our portfolio is taking a stand against problematic corporate governance practices that impede stockholder rights…the Masimo CEO's employment agreement is not only counter to the best interests of the Company's stockholders, but also sets a dangerous precedent…ultimately, good governance drives greater value and that is why we are joining this lawsuit." The trial was initially set for September 12-15, 2023 but was recently pushed out until February 4, 2024.

Exhibit 16 Masimo Corp.: Public Comparables

($ in millions, except per share amounts; shares in millions)

8/30/2023	Masimo Corp	Abbott Laboratories	Align Technology Inc	Boston Scientific Corp	Dexcom Inc	Edwards Lifesciences Corp	Hologic Inc	IDEXX Laboratories Inc	Intuitive Surgical Inc	Insulet Corp	ResMed Inc	STERIS PLC	West Pharmaceutical Services Inc
Ticker	MASI	ABT	ALGN	BSX	DXCM	EW	HOLX	IDXX	ISRG	PODD	RMD	STE	WST
Price	$114.28	$105.06	$361.42	$50.19	$105.18	$75.63	$76.53	$497.83	$292.14	$193.91	$162.81	$223.36	$395.19
Shares Out	52.8	1,735.4	76.5	1,464.2	387.9	607.9	244.9	83.0	351.4	69.8	147.1	98.8	73.9
M Cap	6,036.1	182,316.7	27,660.8	73,489.4	40,794.4	45,976.7	18,745.4	41,325.7	102,644.8	13,539.0	23,944.0	22,063.8	29,189.2
Net Debt	738.1	8,921.0	(1,007.8)	8,886.0	(373.3)	(841.8)	56.1	805.8	(5,718.6)	737.7	1,213.2	2,725.0	(588.5)
EV	6,774.2	191,012.7	26,627.0	82,375.4	40,421.1	45,134.9	18,801.5	42,131.5	96,926.2	14,276.7	25,157.2	24,788.8	28,600.7
Revenue													
2021A	1,239.2	42,332.2	3,942.1	11,886.7	2,448.0	5,249.6	5,339.6	3,199.7	5,682.5	1,091.1	3,119.2	3,109.7	2,809.4
2022A	2,035.8	43,219.0	3,715.8	12,681.3	2,904.8	5,366.2	4,774.9	3,357.1	6,252.3	1,266.6	3,579.0	4,562.5	2,852.7
2023E	2,102.2	39,873.0	3,981.0	14,074.8	3,544.2	6,002.9	4,023.3	3,683.5	7,127.5	1,623.1	4,230.5	4,845.7	2,985.5
2024E	2,242.7	41,838.9	4,433.0	15,231.7	4,262.8	6,609.0	4,075.9	4,037.5	8,141.0	1,932.4	4,639.4	5,426.3	3,260.3
2025E	2,387.3	44,754.4	4,939.7	16,434.8	5,047.4	7,289.5	4,316.0	4,426.4	9,217.9	2,283.5	4,989.5	5,810.1	3,517.2
CAGR	*5.5%*	*1.2%*	*10.0%*	*9.0%*	*20.2%*	*10.7%*	*-3.3%*	*9.7%*	*13.8%*	*21.7%*	*11.7%*	*8.4%*	*7.2%*
EV / Sales													
2021A	5.3x	4.5x	6.8x	6.9x	16.5x	8.6x	3.5x	13.2x	17.1x	13.1x	8.1x	8.0x	10.2x
2022A	3.2x	4.4x	7.2x	6.5x	13.9x	8.4x	3.9x	12.6x	15.5x	11.3x	7.0x	5.4x	10.0x
2023E	3.1x	4.8x	6.7x	5.9x	11.4x	7.5x	4.7x	11.4x	13.6x	8.8x	5.9x	5.1x	9.6x
2024E	2.9x	4.6x	6.0x	5.4x	9.5x	6.8x	4.6x	10.4x	11.9x	7.4x	5.4x	4.6x	8.8x
Average		*7.1x*											
2025E	2.8x	*4.3x*											
Average		*4.3x*											
EBITDA													
2021A	368.3	12,613.3	1,215.0	3,402.0	605.3	1,765.2	2,745.8	1,037.7	2,564.2	171.9	1,073.3	912.3	878.7
2022A	498.1	12,349.6	891.6	3,624.3	720.1	1,933.7	2,043.0	1,018.1	2,516.2	144.4	1,178.6	1,375.0	867.6
2023E	406.8	10,117.6	908.3	4,009.7	894.5	1,922.8	1,308.9	1,213.9	2,764.8	227.6	1,354.7	1,295.5	831.0
2024E	452.7	10,851.8	1,047.6	4,434.8	1,175.3	2,186.3	1,359.4	1,349.2	3,261.2	316.5	1,481.5	1,445.3	946.1
Margin	*20.2%*	*25.9%*	*23.6%*	*29.1%*	*27.6%*	*33.1%*	*33.4%*	*33.4%*	*40.1%*	*16.4%*	*31.9%*	*26.6%*	*29.0%*
2025E	498.9	11,843.6	1,198.8	4,998.4	1,445.9	2,457.5	1,454.8	1,498.4	3,734.1	427.3	1,646.7	1,592.0	1,053.8
Margin	*20.9%*	*26.5%*	*24.3%*	*30.4%*	*28.6%*	*33.7%*	*33.7%*	*33.9%*	*40.5%*	*18.7%*	*33.0%*	*27.4%*	*30.0%*
EV / EBITDA													
2021A	18.4x	15.1x	21.9x	24.2x	66.8x	25.6x	6.8x	40.6x	37.8x	83.1x	23.4x	27.2x	32.6x
2022A	13.6x	15.5x	29.9x	22.7x	56.1x	23.3x	9.2x	41.4x	38.5x	98.9x	21.3x	18.0x	33.0x
2023E	16.7x	18.9x	29.3x	20.5x	45.2x	23.5x	14.4x	34.7x	35.1x	62.7x	18.6x	19.1x	34.4x
2024E	15.0x	17.6x	25.4x	18.6x	34.4x	20.6x	13.8x	31.2x	29.7x	45.1x	17.0x	17.2x	30.2x
Average		***25.1x***											
2025E	13.6x	16.1x	22.2x	16.5x	28.0x	18.4x	12.9x	28.1x	26.0x	33.4x	15.3x	15.6x	27.1x
Average		***21.6x***											
EPS													
2021A	$3.99	$5.09	$11.13	$1.62	$0.70	$2.26	$7.77	$8.37	$4.95	$0.30	$5.32	$6.26	$8.49
2022A	$4.59	$5.23	$7.02	$1.73	$0.80	$2.45	$5.82	$8.01	$4.70	$0.77	$5.74	$7.90	$8.17
2023E	$3.43	$4.39	$8.74	$1.99	$1.20	$2.54	$3.91	$9.83	$5.57	$1.63	$6.50	$8.05	$7.84
2024E	$4.34	$4.61	$10.34	$2.23	$1.58	$2.88	$3.98	$11.18	$6.40	$2.22	$7.08	$8.75	$8.81
2025E	$4.80	$5.11	$11.88	$2.49	$1.98	$3.26	$4.36	$12.77	$7.45	$3.13	$8.01	$9.62	$9.81
P/E													
2021A	28.6x	20.6x	32.5x	31.1x	149.6x	33.4x	9.9x	59.5x	59.0x	646.4x	30.6x	35.7x	46.6x
2022A	24.9x	20.1x	51.5x	29.0x	131.5x	30.8x	13.1x	62.2x	62.1x	252.5x	28.4x	28.3x	48.4x
2023E	33.3x	23.9x	41.4x	25.2x	87.9x	29.8x	19.6x	50.6x	52.5x	119.1x	25.0x	27.8x	50.4x
2024E	26.3x	22.8x	35.0x	22.5x	66.8x	26.2x	19.2x	44.5x	45.7x	87.3x	23.0x	25.5x	44.9x
Average		*38.6x*											
2025E	23.8x	20.6x	30.4x	20.2x	53.2x	23.2x	17.6x	39.0x	39.2x	62.0x	20.3x	23.2x	40.3x
Average		*32.4x*											

Source: Company reports, Bloomberg and Institutional Research Group estimates.

VALUATION

For context, MASI, in and of itself, has traded with a forward EV/EBITDA multiple of 17.5x, 26.1x and 26.2x and 21.1x over the last 1-, 3-, 5- and 10-year periods while garnering forward P/E multiples of 31.5x, 44.4x, 43.95x and 35.1x.

Healthcare

Peers to MASI's Healthcare segment, could most aptly include a range of medical technology/device companies, including Abbott Laboratories (NYSE: ABT), Align Technologies (NASDAQ: ALGM), Boston Scientific (NYSE: BSX), Dexcom Inc. (NASDAQ: DXCM), Edwards Lifesciences Corp. (NYSE: EW), Hologic Inc. (NASDAQ: IDXX), Intuitive Surgical Inc. (NASDAQ: ISRG), Insulet Corp. (NASDAQ: PODD), ResMed Inc. (NYSE: RMD), Steris Plc (NYSE: STE), and West Pharmaceutical Services Inc. (NYSE: WST), which trade, on average, at nearly 21.5x 2025E EV/EBITDA (in a range of ~13x-33x; see Exhibit 16). In terms of M&A in the broader medical device/equipment sector, we estimate the average purchase multiple has been around 25x trailing EV/EBITDA and 20.5x forward EV/EBITDA in recent years (see Exhibit 17).

Exhibit 17 Masimo Corp.: M&A Activity in the Medical Equipment & Device Sector, Selected Items

Announcement Date	Target	Acquirer	Transaction value (target currency, millions)	Offer Price / LTM EPS	TV/LTM EBITDA	TV/FY1 EBITDA	TV/LTM sales
9/14/2014	Nobel Biocare Holding AG	Danaher Corp	1,992	30.0x	15.4x	14.2x	2.7x
10/4/2014	CareFusion Corp	Becton Dickinson and Co	12,103	29.4x	13.5x	11.9x	3.1x
10/12/2014	Synergy Health Ltd	STERIS PLC	1,345	32.5x	13.1x	12.3x	3.5x
10/26/2014	Wright Medical Group Inc	Wright Medical Group NV	1,255	-	58.6x	-	4.4x
12/16/2014	Volcano Corp	Koninklijke Philips NV	1,171	-	74.6x	31.2x	2.9x
2/25/2015	Sorin SpA	Cyberonics Inc	1,330	22.7x	11.5x	10.2x	1.8x
7/21/2015	Thoratec LLC	St Jude Medical Inc	3,162	-	45.5x	-	6.5x
9/14/2015	Sirona Dental Systems Inc	DENTSPLY SIRONA Inc	5,118	29.7x	15.7x	13.6x	4.4x
4/27/2016	St Jude Medical Inc	Abbott Laboratories	29,803	26.3x	17.7x	16.0x	-
9/5/2016	Cepheid	Danaher Corp	3,802	-	-	-	6.7x
12/1/2016	Vascular Solutions LLC	Teleflex Inc	935	46.1x	28.1x	-	5.8x
2/12/2017	Zeltiq Aesthetics Inc	Allergan PLC	2,213	-	-	43.1x	6.3x
2/13/2017	Cynosure LLC	Hologic Inc	1,345	55.0x	21.1x	17.2x	3.1x
4/22/2017	CR Bard Inc	Becton Dickinson and Co	23,971	32.8x	20.4x	18.3x	6.3x
5/4/2017	VWR Corp	Avantor Performance Materials Inc	6,473	25.8x	13.4x	13.1x	1.4x
6/5/2017	Albany Molecular Research Inc	Carlyle Group Inc & GTCR Golder Rauner LLC	1,539	-	15.5x		2.4x
6/18/2017	Novadaq Technologies Inc	Stryker Corp	830	-	-	-	7.5x
6/27/2017	Spectranetics Corp/The	Koninklijke Philips NV	1,964	-	-	-	6.9x
8/6/2017	NxStage Medical Inc	Fresenius Medical Care AG & Co KGaA	1,956	-	-	31.6x	5.2x
10/22/2017	Exactech Inc	TPG Capital LP/US	713	48.7x	15.8x	14.4x	2.7x
12/6/2017	Entellus Medical Inc	Stryker Corp	717	-	-	-	8.3x
4/9/2018	Analogic Corp	Altaris Capital Partners LLC	848	-	15.5x	-	1.8x
5/15/2018	Abaxis Inc	Zoetis Inc	1,732	63.4x	36.3x	28.2x	7.1x
8/29/2018	K2M Group Holdings Inc	Stryker Corp	1,263	-	-	-	4.6x
7/28/2019	Genomic Health Inc	Exact Sciences Corp	2,480	49.2x	34.6x	22.5x	6.3x
11/3/2019	Wright Medical Group NV	Stryker Corp	4,933	-	41.0x	24.5x	5.4x
11/17/2019	Consort Medical PLC	Recipharm AB	611	34.8x	13.2x	10.5x	2.0x
3/2/2020	QIAGEN NV	Thermo Fisher Scientific Inc	9,789	31.5x	17.7x	17.5x	6.4x
8/1/2020	Varian Medical Systems Inc	Siemens Healthineers AG	16,134	57.3x	30.6x	23.0x	5.0x
12/17/2020	BioTelemetry	Philips	2,585	57.1x	23.4x	18.8x	5.9x
1/6/2021	Oxford Immunotec	PerkinElmer	411	-	-	-	7.2x
1/11/2021	Cantel Medical	Steris	4,358	-	21.6x	18.4x	4.1x
3/14/2021	GenMark Diagnostics	Roche	1,729	-	-	-	10.1x
4/10/2021	Luminex	DiaSorin	1,624	-	19.6x	16.9x	3.9x
7/28/2021	Misonix	Bioventus	508	-	-	-	7.5x
8/5/2021	Intersect Ent	Medtronic PLC	951	-	-	-	9.3x
9/1/2021	Hill-Rom Holdings	Baxter	11,840	33.8x	18.4x	18.2x	4.0x
1/9/2022	Apria	Owens & Minor	1,560	20.7x	-	-	1.4x
4/17/2022	Natus Medical	Archimed	1,085	24.5x	14.4x	-	2.3x
7/6/2022	Meridian Bioscience	Consortium	1,470	23.3x	14.6x	-	4.3x
10/31/2022	Abiomed	Johnson & Johnson	16,352	78.2x	57.0x	48.4x	15.2x
11/28/2022	Apollo Endosurgery	Boston Scientific	407	-	-	-	5.7x
2/7/2023	Cardiovascular Systems	Abbott Laboratories	729	-	-	-	3.0x
2/8/2023	Nuvasive	Globus Medical	3,782	60.1x	14.7x	12.3x	3.1x
Avg.				**39.7x**	**25.1x**	**20.3x**	**5.1x**

Source: Company reports, Bloomberg, Chain Bridge Research and Institutional Research Group estimates.

Applying a 19.5x multiple, a discount to peers, M&A activity and the company's own trading history, to 2025E EBITDA yields a segment value of about $7.9 billion, or roughly $140 per share (see Exhibit 18).

Exhibit 18 Masimo Corp.: Estimated Value of Healthcare Segment Based on 2025E EBITDA
($ in millions, except per share amounts; shares in millions; December-ending calendar years)

		Healthcare	
2023E Revenue		$1,301.7	
Revenue growth est.		8.9%	
2024E Revenue		$1,418.2	
Revenue growth est.		8.4%	
2025E Revenue		**$1,538.0**	
EBITDA margin		26.3%	
2025E EBITDA		**$403.7**	
Applied multiple	18.0x	**19.5x**	21.0x
Enterprise value	$7,267.1	**$7,872.7**	$8,478.3
Diluted shares	56.2	56.2	56.2
Per share basis	$129.42	**$140.21**	$150.99

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Non-Healthcare

Peers to the Non-Healthcare segment could be compared with Apple Inc (NASDAQ: AAPL), Garmin Ltd. (NYSE: GRMN), Sonos Inc. (NASDAQ: SONO) and Sony Group Corp. (NYSE: SONY), which trade, on average, at ~11.5x 2025E EV/EBITDA (in a range of 6.5x-19.5x). Applying a low-end peer multiple of 7.0x to F2025E EBITDA yields a segment value of roughly $666.5 million or about $12 per share (see Exhibit 19). For context, the preceding valuation implies an about 37% discount to MASI's $1.0575 billion purchase price of Sound United in April 2022.

Exhibit 19 Masimo Corp.: Estimated Value of Non-Healthcare Segment Based on 2025E EBITDA
($ in millions, except per share amounts; shares in millions; December-ending calendar years)

		Non-Healthcare	
2023E Revenue		$800.5	
Revenue growth est.		3.0%	
2024E Revenue		$824.5	
Revenue growth est.		3.0%	
2025E Revenue		**$849.3**	
EBITDA margin		11.2%	
2025E EBITDA		**$95.2**	
Applied multiple	5.5x	**7.0x**	8.5x
Enterprise value	$523.6	**$666.4**	$809.2
Diluted shares	56.2	56.2	56.2
Per share basis	$9.33	**$11.87**	$14.41

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Sum-of-the-Parts Valuation

Accounting for projected net debt of $367 million, yields a total sum-of-the-parts value of ~$8.2 billion, or ~$146 per share (with bull and bear cases of ~$159 and ~$132 per share, respectively; see Exhibit 20).

Exhibit 20 Masimo Corp.: Sum-of-the-Parts Valuation
($ in millions, except per share amounts; shares in millions; December-ending calendar years)

	Healthcare	Non-Healthcare	Enterprise Value	Net Debt	Market Cap
2024E Revenue	**$1,418.2**	**$824.5**			
Revenue growth est.	8.4%	3.0%			
2025E Revenue	**$1,538.0**	**$849.3**			
EBITDA margin	26.3%	11.2%			
2025E EBITDA	**$403.7**	**$95.2**		**($367.0)**	
Applied multiple	**19.5x**	**7.0x**		**1.0x**	
Enterprise value	**$7,872.7**	**$666.4**	**$8,539**	**($367)**	**$8,172**
Diluted shares	56.2	56.2		56.2	56.2
Per share basis	**$140.21**	**$11.87**		**($6.54)**	**$145.54**
Bull	$150.99	$14.41		($6.54)	$158.87
Base	$140.21	$11.87		($6.54)	$145.54
Bear	$129.42	$9.33		($6.54)	$132.21

Source: Company reports, Bloomberg and Institutional Research Group estimates.

Summary & Conclusion

Since the announcement of the ~$1.0575 billion acquisition of Sound United, which became the foundation of the company's Non-Healthcare segment, in February 2022, MASI's share price has shed 50% (versus a 2.8% decline in the Russell 2000 and a 1.2% gain in the S&P 500), representing a more than $6.5 billion erosion in the company's market capitalization. In that context, we estimate at the current valuation MASI's core Healthcare business is trading at a significant discount to peers and its own 3-, 5- and 10-year trading averages while also assigning a fraction of the value paid for the Non-Healthcare/consumer audio business. Moreover, it is evident that the broad investor criticism & precipitous market decline in the wake of the Sound United transaction set the stage for activist investor, Politan Capital, to build a ~9% stake in the company by August 2022 and gain 2 (of 5) Board seats (with ~70% of the non-insider vote) in June 2023. Following its resounding (albeit hard fought) victory, the activist continues to push for further improvements in MASI's corporate governance paradigm and will undoubtedly hold management accountable on (or accelerate) its commitment to a three-year time horizon before considering a divestiture of the Non-Healthcare business (assuming the strategic rationale for the deal fails to materialize). Additional catalysts could stem from new product launches, including Stork and PerL, as well as a favorable outcome in MASI's patent infringement litigation in front of the International Trade Commission (ITC) against the Apple Watch, which is set for trial in October 2023.

Based on management guidance and commentary as well as peer and M&A valuations, MASI's Healthcare and Non-Healthcare businesses could be valued at ~$140 per share, and ~$12 per share, respectively. Accounting for projected net debt of ~$6.50 per share yields a base case sum-of-the-parts fair value of $146 per share (with bull and bear cases of ~$159 and ~$132 per share, respectively).

Potential catalysts include the separation/monetization of assets, corporate governance improvements, favorable litigation awards, share repurchases, leverage reductions/FCF generation and/or better than expected growth (either at the core business or from new product launches) & margins. Risks include management execution, competition, technological disruption, commodity & currency fluctuations, regulation, cyber threats and/or pandemic-or recession-related pressures on professional and consumer spending/activity.

Appendix: Glossary of Measurements

Core-SET Measurements

Oxygen Saturation (SpO2): MASI measures oxygen levels (or saturation) in a patient's arterial blood (i.e., blood in the arteries), which is inherently more oxygenated than venous blood (i.e., blood in the veins) given that arterial blood delivers oxygen to the body's organs and tissue while venous blood is returning to the lungs for re-oxygenation.

Pulse Rate (PR): MASI measures the number of times a patient's heart beats per minute, which can be used to evaluate a patient's level of exertion (or stress) at any given point in time.

Perfusion Index (Pi): MASI measures the ratio of pulsing blood to non-pulsing blood in a patient's finger, which can be used evaluate the patient's blood flow.

Pleth Variability Index (PVi): MASI measures the change in Pi (as described above) over the course of a respiratory cycle. PVi is expressed as a percentage and the lower the measure, the less variability there is in the amount of fluid in the patient. In a hospital, PVi is often used to help doctors gauge a patient's responsiveness in surgical or intensive care settings.

Respiration Rate from the Pleth (RRp): MASI allows for the non-invasive measurement of a patient's respiratory rate using its pulse oximeter, which compares with more traditional forms of respiration rate measurement, such as tidal carbon dioxide monitoring (EtCO2) that require patients to wear invasive nasal cannulae/tubes or masks.

Rainbow SET Measurements

Total Hemoglobin (SpHb): MASI measures the part of a red blood cell that transports oxygen, which often requires an invasive test that typically only measures at a static point in time while Masimo's products are able to measure hemoglobin levels noninvasively. The measurement is frequently used to diagnose and treat anemia.

Carboxyhemoglobin (SpCO): MASI measures the amount of carbon monoxide (CO) that has bonded with hemoglobin (to form SpCO) in the blood, which prevents the hemoglobin from carrying oxygen and can result in carbon monoxide poisoning. CO symptoms tend to be similar to those of the flu and can be easily misdiagnosed and more traditional SpCO testing requires an invasive blood sample that usually needs to be processed at a laboratory.

Methemoglobin (SpMet): MASI identifies when methemoglobin is present in the blood, as a result of reaction to medication. There are ~30 drugs that known to be able to cause methemoglobinemia, which limits the hemoglobin's capacity to bind to oxygen resulting in the condition.

Fractional Arterial Oxygen (SpfO2): MASI can detect when a patient has elevated levels of carbon monoxide (CO) or methemoglobin in their blood. As compared to most functional SpO2 measurements, which are prone to overestimating the real oxygen saturation level of the blood, SpfO2 measurements enables a comparatively higher degree of accuracy when measuring a patient's blood oxygen saturation level in the presence of dyshemoglobins (e.g., CO or methemoglobin).

Oxygen Content (SpOC): MASI, continuously and noninvasively, measures the oxygen content in the blood, consisting of both of oxygen saturation and hemoglobin levels. SpOC is more indicative of a patient's oxygenation level than either measurement on a standalone basis.

Oxygen Reserve Index (ORi): MASI allows for continuous monitoring of a patient's oxygenation level across a moderate hyperoxic range. ORi is expressed as a number between 0 and 1. When combined with other forms of oxygenation measurements, ORi can alert clinicians of an impending hypoxic state.

Rainbow Pleth Variability Index (RPVi): RPVi is a multi-wavelength PVi measurement (mentioned above) but with a higher level of specificity. RPVi is expressed as a percentage and the lower the measure, the less variability there is in the amount of fluid in the patient across the Perfusion Index (Pi; again, described above).

Acoustic Respiration Rate (RRa): MASI utilizes sound-based technology to measure a patient's respiratory rate (or number of breaths per minute). Traditional forms of respiration rate measurement, such as tidal carbon dioxide monitoring (EtCO2), require patients to wear/be injected with nasal cannulae/tubes or masks and have lower compliance rates.

<u>Other Non-Invasive Measurement Capabilities</u>

Brain Monitoring: Masimo's SedLine brain monitoring technology includes Cerebral Oximetry and Sedation Monitoring. The cerebral oximetry can measure oxygen levels in the brain when peripheral pulse oximetry cannot be relied upon and sedation monitoring measures how sedated a patient is when anesthetized.

NomoLine Capnography and Gas Monitoring: Masimo's NomoLine technology provides a portfolio of capnography and gas monitoring products that can accommodate different medical settings, ranging from in-hospital to inbound transport (i.e., in the ambulance). For reference, capnography is the monitoring of carbon dioxide concentration or partial pressure in respiratory gases.

Regional Oximetry: Masimo's O3 regional oximetry technology allows doctors to monitor cerebral oxygenation when a patient's regular pulse oximetry cannot be relied upon (i.e., not indicative of the levels of oxygen in the brain).