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**MASI posts modest 3Q 2024 beat and full-year EPS guide increase as the company renews focuses on profitability; the strategic review of the Non-Healthcare/Consumer business as well as the search for a permanent CEO remain on-going; fair value increased to \$158 per share**

- Last night, after the market close, MASI posted 3Q 2024 consolidated sales up nearly 5.5% to ~\$504.6 million (compared with consensus of \$502.9 million and guidance of \$495-\$515 million) with adjusted EPS growth of ~30.5% to \$0.98 (compared with consensus of \$0.82 and guidance of \$0.81-\$0.86).
- By segment, Healthcare segment sales rose 11.5% to \$343.3 million (versus guidance of \$335-\$345 million) with gross margin expansion of 260 bps to 62.9% while Non-Healthcare segment sales declined ~6% to ~\$161 million (compared with guidance of \$160-\$170 million) offset by gross margin expansion of 200 bps to 34.6%.
- In terms of guidance, the company tightened its full-year consolidated top-line outlook to \$2.075-\$2.105 billion (from \$2.085-\$2.135 billion), reflecting Healthcare sales up ~9%-10% to \$1.39-\$1.4 billion (previously \$1.385-\$1.405 billion) and Non-Healthcare sales down 8.5%-11.5% to \$685-\$705 million (previously \$700-\$730 million), while increasing its full-year adj. operating income and EPS outlooks to \$325-\$336 million and \$3.95-\$4.10 (up from \$317-\$330 million and \$3.80-\$4.00, respectively).
- For 4Q 2024 specifically, MASI projects consolidated sales of \$581-\$611 million, reflecting Healthcare revenue of \$363-\$373 million and Non-Healthcare sales of \$103-\$114 million, with adj. EPS of \$1.35-\$1.50.
- Looking to 2025E, without providing specific guidance, management anecdotally noted (for modeling purposes) that it could be reasonable to expect an operating margin profile of "at least 26%" at Healthcare along with an effective tax rate of ~26% and a diluted share count of ~55 million.
- Longer-term, MASI has laid out plans to potentially double its earnings power (to ~\$8.00 per share) over the next five years.
- In regard to the on-going strategic review of the Non-Healthcare/Consumer business, disclosed in late-March 2024, management indicates the process is "progressing" and it continues to evaluate a range of options (e.g., spin-off, sale or joint venture). Also, the company continues its search for a permanent chief executive with the help of Korn Ferry and is evaluating both internal and external candidates. The company did not commit to any timelines on either front but indicated they were both a "priority" for the Board.
- Recall that following the successful proxy battle waged by Politan Capital Management leading to its effective "takeover" of MASI's Board the

## UPDATE

### Masimo Corporation NASDAQ: MASI

Publication Date:  
November 6, 2024

Price: \$151.56/share

Market capitalization: ~\$8.05B

Healthcare: \$153 per share

Non-Healthcare: \$12.50 per share

Net Debt & Other: (\$8) per share

**SOTP: \$158 per share\***

\*SOTP may not add due to rounding

(See the report dated 8/31/2023 and updates from 10/27/2023, 11/8/2023, 12/18/2023, 1/10/2024, 2/28/2024, 3/25/2024, and 10/25/2024 for more info.)

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.



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company's founder & long-time CEO Joe Kiani resigned. More recently, MASI announced that on the advice of outside counsel Mr. Kiani was terminated (with cause) for allegedly attempting to manipulate the shareholder vote via an "empty voting" scheme with RTW Investments. Clearly, this situation is likely to play out in court, but we would note that a potential legal victory could allow the company to avoid certain aspects of Mr. Kiani's employment agreement, most notably the payout of 2.7 million restricted shares (potentially more than \$400 million at current price levels).

- Our fair value estimate for MASI is increased to \$158 per share (from \$145 per share), with bull and bear cases of \$170 per share and \$146 per share, respectively), reflecting multiples of 22.5x and 9.0x, respectively, to our 2025E forecasts for the core Healthcare and Non-Healthcare segments and incorporates projected net debt (see Exhibit #1 on page 1).

#### Exhibit #1 Masimo Corporation: Sum-of-the-Parts Fair Value Estimate

(\$ in millions, except per share figures)

	<u>Healthcare</u>	<u>Non-Healthcare</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
<b>2024E Revenue</b>	<b>\$1,363.2</b>	<b>\$680.1</b>			
Revenue growth est.	8.0%	0.0%			
<b>2025E Revenue</b>	<b>\$1,472.2</b>	<b>\$680.1</b>			
EBITDA margin	<u>26.0%</u>	<u>11.4%</u>			
<b>2025E EBITDA</b>	<b>\$382.4</b>	<b>\$77.4</b>		<b>(\$430.5)</b>	
Applied multiple	<u>22.5x</u>	<u>9.0x</u>		<b>1.0x</b>	
<b>Enterprise value</b>	<b>\$8,603.7</b>	<b>\$696.7</b>	<b>\$9,300</b>	<b>(\$431)</b>	<b>\$8,870</b>
Diluted shares	<u>56.2</u>	<u>56.2</u>		<u>56.2</u>	<u>56.2</u>
<b>Per share basis</b>	<b>\$153.23</b>	<b>\$12.41</b>		<b>(\$7.67)</b>	<b>\$157.97</b>
Bull	\$163.44	\$14.48		(\$7.67)	\$170.25
Base	\$153.23	\$12.41		(\$7.67)	\$157.97
Bear	\$143.01	\$10.34		(\$7.67)	\$145.68

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