

A photograph of a man and a young girl walking outdoors at sunset. The man is carrying the girl on his shoulders, and both are smiling. The background is a warm, golden light from the setting sun, creating a soft glow. The image is partially covered by a white rectangular box on the right side, which contains the text.

Baxter

Second-Quarter 2021 Earnings

Baxter International Inc.

July 29, 2021

Forward-Looking Statements

This presentation includes forward-looking statements concerning Baxter's financial results, business development activities, capital structure, cost savings initiatives, R&D pipeline, including results of clinical trials and planned product launches, and outlook for third quarter and full-year 2021. These forward-looking statements are based on assumptions about many important factors, including the following, which could cause actual results to differ materially from those in the forward-looking statements: the effects of the ongoing COVID-19 pandemic on our business and the businesses of our customers; demand for and market acceptance of risks for new and existing products (including the impact of reduced hospital admission rates and elective surgery volumes); product development risks (including any delays in required regulatory approvals); product quality or patient safety concerns; the impact of competitive products and pricing, including generic competition, drug reimportation and disruptive technologies; accurate identification of and execution on business development and R&D opportunities and realization of anticipated benefits (including the acquisitions of Cheetah Medical, Seprafilm Adhesion Barrier and the rights to Caelyx/Doxil for specified territories outside the U.S., and Transderm Scop); loss of key employees or inability to identify and recruit new employees; continuity, availability and pricing of acceptable raw materials and component supply or the inability to create additional production capacity in a timely manner or the occurrence of other manufacturing or supply difficulties (including as a result of a natural disaster, public health crises and epidemics/pandemics, regulatory actions or otherwise); breaches or failures of the company's information technology systems or products, including by cyberattack, unauthorized access or theft; the impact of global economic conditions (including potential trade wars); future actions of regulatory bodies and other governmental authorities, including FDA, the Department of Justice, the SEC, the New York Attorney General, the Environmental Protection Agency and foreign regulatory agencies, including the continued delay in lifting the warning letter at our Ahmedabad facility or proceedings related to the investigation related to foreign exchange gains and losses; increasing regulatory focus on privacy and security issues; failures with respect to compliance programs; U.S. healthcare reform and other global austerity measures; pricing, reimbursement, taxation and rebate policies of government agencies and private payers; proposed regulatory changes of the U.S. Department of Health and Human Services in kidney health policy and reimbursement, which may substantially change the U.S. end stage renal disease market and demand for our peritoneal dialysis products, necessitating significant multi-year capital expenditures, which are difficult to estimate in advance; the ability to enforce owned or in-licensed patents or the prevention or restriction of the manufacture, sale or use of products or technology affected by patents of third parties; global, trade and tax policies; any change in laws concerning the taxation of income (including current or future tax reform), including income earned outside the United States and potential taxes associated with the Base Erosion and Anti-Abuse Tax; actions taken by tax authorities in connection with ongoing tax audits; the outcome of pending or future litigation, including the opioid litigation, ethylene oxide litigation and litigation related to our internal investigation of foreign exchange gains and losses; current or worsening economic conditions; fluctuations in foreign exchange and interest rates; and other risks identified in Baxter's most recent filings on Form 10-K and Form 10-Q and other SEC filings, all of which are available on Baxter's website. Baxter does not undertake to update its forward-looking statements unless otherwise required by the federal securities laws.

Use of Non-GAAP Financial Measures

To supplement Baxter's consolidated financial statements presented on a U.S. GAAP basis, the Company discloses certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with generally accepted accounting principles in the United States.

A reconciliation of the non-GAAP financial measures included in this document to the corresponding U.S. GAAP measures follows in the section titled Non-GAAP Reconciliations. In addition, an explanation of the ways in which Baxter management uses these supplemental non-GAAP measures to evaluate its business and the substantive reasons why Baxter management believes that these non-GAAP measures provide useful information to investors is included in the Company's most recent earnings release filed with the SEC on Form 8-K on July 29, 2021. This information should be considered in addition to, and not as substitutes for, information prepared in accordance with U.S. GAAP.

Baxter strongly encourages investors to review its consolidated financial statements and publicly filed reports in their entirety and cautions investors that the non-GAAP measures used by the Company may differ from similar measures used by other companies, even when similar terms are used to identify such measures.

Non-GAAP financial measures used in this presentation include constant currency and operational sales growth, adjusted gross margin, adjusted operating margin, adjusted diluted EPS, free cash flow, adjusted selling, general, and administrative (SG&A) expense, and adjusted research and development (R&D) expense. A reconciliation to comparable U.S. GAAP measures can be found herein and is available at www.baxter.com.

Top Quartile Goals



Patient safety and Quality



Best place to work



Growth through innovation



Industry leading performance

Our Strategy

Strengthen our portfolio and extend our impact through transformative innovation that spans prevention to recovery



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Performance Highlights

Second-Quarter 2021

\$3.1B
Sales

+14% Reported
+9% Constant Currency¹
+8% Operational²

Key Metrics`	GAAP	Adjusted ³
Gross Margin	39.8%	42.6%
YOY Change	+160 bps	+100 bps
Operating Margin	13.7%	17.2%
YOY Change	+150 bps	+120 bps
Diluted EPS	\$0.59	\$0.80
YOY Change	+23%	+25%

First-Half 2021

\$6.0B
Sales

+9% Reported
+5% Constant Currency¹
+4% Operational²

Key Metrics	GAAP	Adjusted ³
Gross Margin	39.3%	42.3%
YOY Change	(60 bps)	(70 bps)
Operating Margin	13.5%	17.1%
YOY Change	+10 bps	(40 bps)
Diluted EPS	\$1.17	\$1.56
YOY Change	+4%	+7%

¹Constant currency sales growth excludes the impact of foreign exchange. ²Operational sales growth excludes the impact of foreign exchange and the acquisition of rights to Caelyx/Doxil.

³Non-GAAP financial metrics referenced in this slide include constant currency sales growth and operational sales growth, adjusted gross margin, adjusted operating margin, and adjusted diluted EPS. A reconciliation to comparable U.S. GAAP measures can be found herein and is available at www.baxter.com.

Executing On Our Strategy

Recent Highlights

Demonstrating Underlying Portfolio Resilience In Dynamic Environment¹

- Delivered operational sales growth of 8% and adjusted diluted EPS growth of 25% in Q2 2021, reflecting the steady impact of pandemic recovery in many global markets compared to the same period last year

Investing In Growth Opportunities And Executing On A Robust Pipeline Of Launches²

- Announced the global launch of PrisMax 2, the latest version of the company's leading-edge critical care technology, designed to help simplify delivery of continuous renal replacement therapy (CRRT) and other organ support therapies
- Launched the Sharesource Analytics 1.0 premium module, a new clinical management resource within the Sharesource remote patient management platform

Delivering Enhanced Value For Shareholders

- Returned value directly to shareholders with ~\$300 million of share repurchases in Q2 2021
- Increased quarterly dividend to \$0.28 per share, reflecting strong financial position and commitment to driving value for investors

Creating A Best Place To Work And Demonstrating Leadership In Corporate Social Responsibility

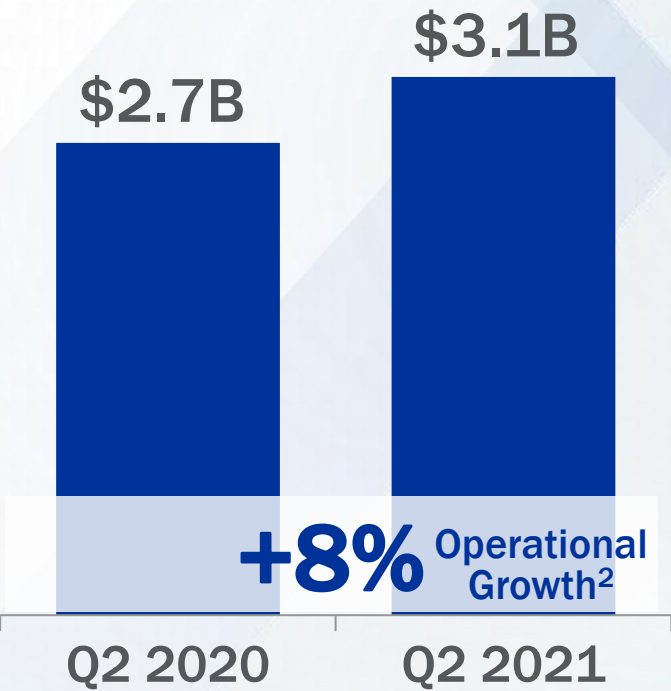
- Released 2020 Corporate Responsibility Report, outlining final achievement toward Baxter's 2015-2020 corporate responsibility goals; the report also marked the launch of Baxter's new 2030 Corporate Responsibility Commitment to drive ESG³ efforts over the next decade and beyond
- As part of ACT⁴, recently announced \$1.2 million in new scholarship and grant programs to support Black students pursuing health and science degrees; funding will be distributed over three years to three historically Black colleges and universities (HBCUs)
- Recognized by Seramount on its 2021 list of Best Companies for Multicultural Women; recognized by Disability:IN as a top-scoring company and 2021 Best Place to Work according to Disability Equality Index benchmarking

Addressing Today's Unique Challenges While Continuing To Identify Opportunities To Drive Additional Value For All Stakeholders Over The Long-Term

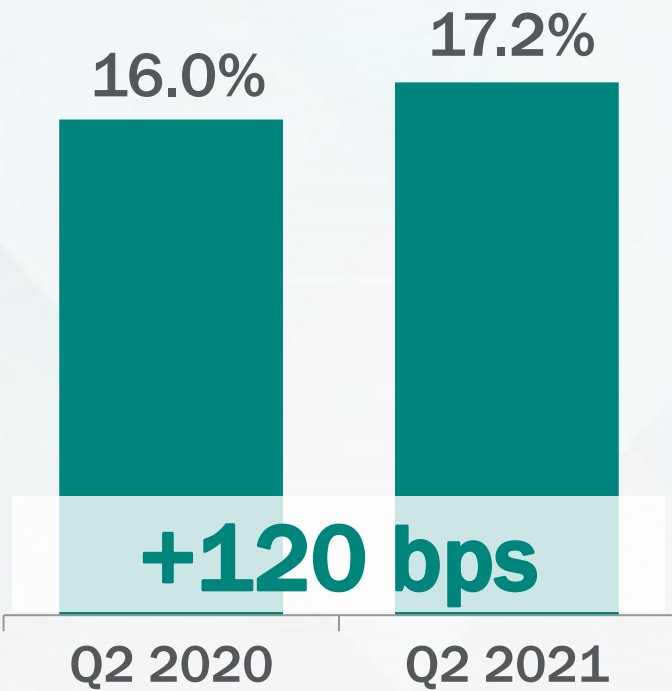
Key Financial Metrics

Second-Quarter 2021 Snapshot¹

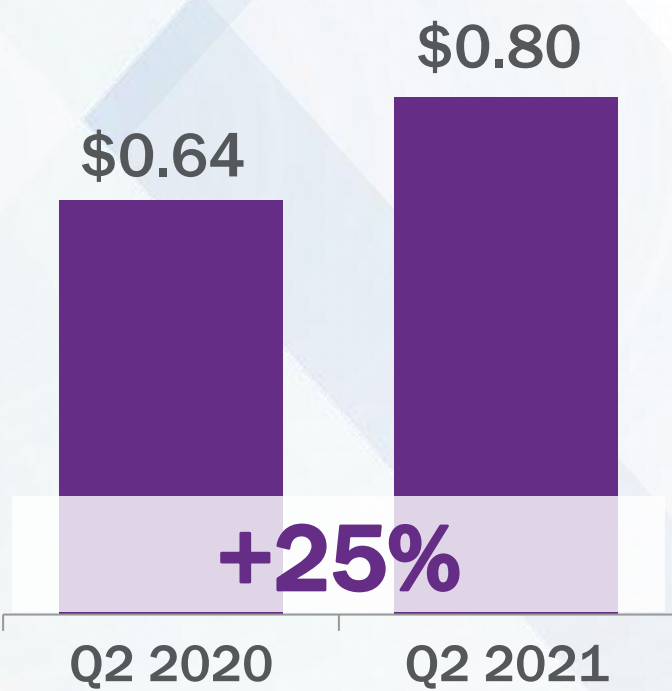
Global Reported Sales



Adjusted Operating Margin



Adjusted Diluted EPS

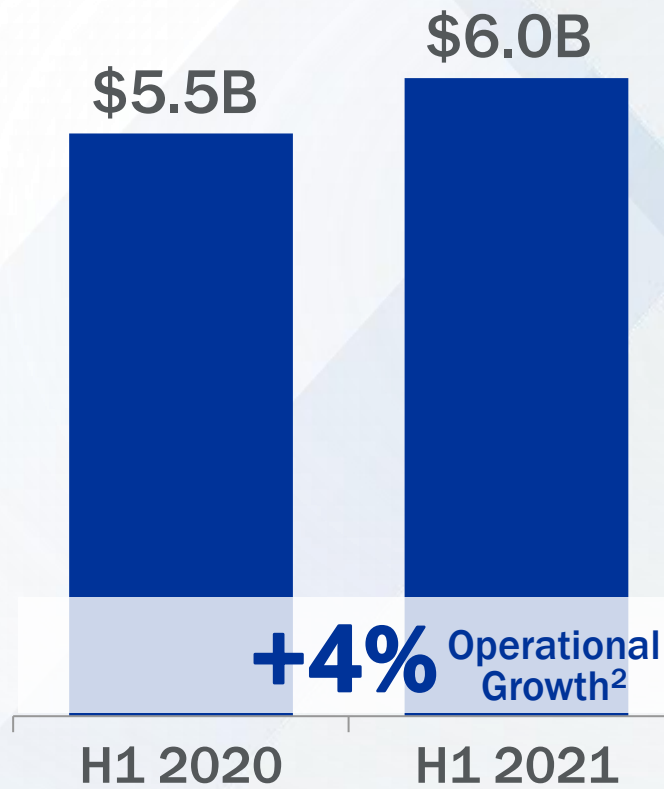


¹Non-GAAP financial metrics referenced in this slide include operational sales growth, adjusted operating margin, and adjusted diluted EPS. A reconciliation to comparable U.S. GAAP measures can be found herein and is available at www.baxter.com. ²Q2 2021 operational sales growth excludes the impact of foreign exchange of approximately 5% and the acquisition of rights to Caelyx/Doxil for specified territories outside the U.S. of approximately 1%; U.S. GAAP sales growth for the period was approximately 14% compared to Q2 2020.

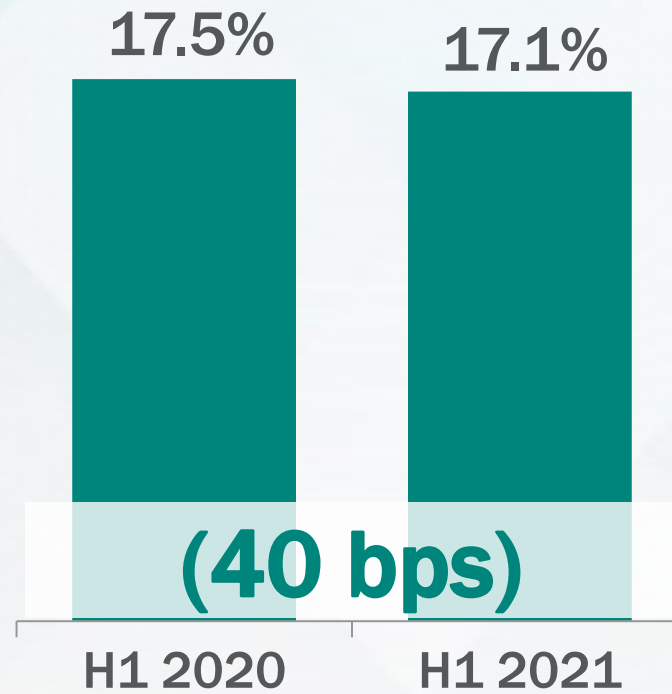
Key Financial Metrics

First-Half 2021 Snapshot¹

Global Reported Sales



Adjusted Operating Margin



Adjusted Diluted EPS



Second-Quarter 2021 Performance¹


Metric	Q2 2021 Guidance	Q2 2021 Actual
Sales Growth <i>Reported</i>	14% - 15%	+14%
Sales Growth <i>Constant Currency</i>	8% - 9%	+9%
Sales Growth <i>Operational</i>	7% - 8%	+8%
Adjusted Diluted EPS <i>Growth vs. Prior-Year Period</i>	\$0.72 - \$0.75 13% - 17%	\$0.80 +25%

Disciplined Operational Execution And A Lower-Than-Expected Tax Rate Contributed To EPS Outperformance

Demonstrating Portfolio Resiliency Amid COVID-19

Second-Quarter 2021 Business Drivers¹

Product Category	Sales	CC Growth ²	Quarterly Performance Drivers
Renal Care	\$964M	(0%)	Growth in PD therapies offset by declines in international ICHD business; continue to monitor the impact of excess mortality among ESRD patients and delays in new patient diagnoses resulting from the pandemic
Medication Delivery	\$697M	+12%	Global growth driven by improving rates of hospital admissions versus prior year; estimate U.S. hospital admissions were down high single digits compared to pre-COVID levels
Pharmaceuticals	\$546M	+5%	OUS sales of Caelyx/Doxil contributed \$28M; recovery in surgical procedures and hospital admissions and strength in international pharmacy compounding was partially offset by headwinds in U.S. generic injectables portfolio
Clinical Nutrition	\$237M	+3%	Performance driven primarily by growth in the U.S. partially offset by lower international sales of vitamins resulting from supply constraints
Advanced Surgery	\$256M	+48%	Strong recovery in surgical procedures compared to height of the pandemic in Q2 2020; estimate U.S. surgical procedures were at or slightly above pre-COVID levels
Acute Therapies	\$188M	(4%)	Mid-single digit decline reflects challenging year-over-year comparison due to surging product demand this time last year related to the COVID-19 pandemic
BioPharma Solutions	\$183M	+49%	Strong performance driven by multiple collaborations to help manufacture COVID-19 vaccines on a contract basis

The background of the slide features a photograph of a person wearing a white protective suit, a blue face mask, and safety glasses. They are working with a complex robotic arm or piece of scientific equipment. The scene is set in a laboratory or industrial environment. The image is overlaid with a semi-transparent white box containing the title and date information. The overall color scheme is dominated by light blues and whites, with some darker blue accents from the equipment and the person's mask.

Financial Results

Second-Quarter 2021 Earnings

July 29, 2021

Second-Quarter 2021 Sales By Product Category¹

	Q2 2021 Revenue			Total Growth		
<i>\$ In Millions</i>	U.S.	International	Total	Reported	Constant	Operational
Renal Care	\$217	\$747	\$964	+5%	(0%)	(0%)
Medication Delivery	\$444	\$253	\$697	+15%	+12%	+12%
Pharmaceuticals	\$162	\$384	\$546	+14%	+5%	(0%)
Clinical Nutrition	\$84	\$153	\$237	+10%	+3%	+3%
Advanced Surgery	\$144	\$112	\$256	+52%	+48%	+48%
Acute Therapies	\$61	\$127	\$188	+1%	(4%)	(4%)
BioPharma Solutions	\$65	\$118	\$183	+58%	+49%	+49%
Other	\$21	\$6	\$27	+0%	+4%	+4%
Total Baxter	\$1,198	\$1,900	\$3,098	+14%	+9%	+8%

First-Half 2021 Sales By Product Category¹

	H1 2021 Revenue			Total Growth		
<i>\$ In Millions</i>	U.S.	International	Total	Reported	Constant	Operational
Renal Care	\$433	\$1,453	\$1,886	+5%	+1%	+1%
Medication Delivery	\$855	\$494	\$1,349	+5%	+3%	+3%
Pharmaceuticals	\$362	\$736	\$1,098	+10%	+3%	(1%)
Clinical Nutrition	\$167	\$304	\$471	+9%	+3%	+3%
Advanced Surgery	\$270	\$203	\$473	+21%	+17%	+17%
Acute Therapies	\$142	\$253	\$395	+15%	+10%	+10%
BioPharma Solutions	\$109	\$209	\$318	+38%	+30%	+30%
Other	\$40	\$14	\$54	+0%	+0%	+0%
Total Baxter	\$2,378	\$3,666	\$6,044	+9%	+5%	+4%

Second-Quarter 2021 Sales By Operating Segment¹

	Q2 2021 Revenue	Total Growth		
<i>\$ In Millions</i>	Reported	Reported	Constant	Operational
Americas (North and South America)	\$1,624	+11%	+8%	+8%
EMEA (Europe, Middle East and Africa)	\$783	+17%	+8%	+5%
APAC (Asia Pacific)	\$691	+19%	+10%	+9%
Total Baxter	\$3,098	+14%	+9%	+8%

First-Half 2021 Sales By Operating Segment¹

	H1 2021 Revenue	Total Growth		
<i>\$ In Millions</i>	Reported	Reported	Constant	Operational
Americas (North and South America)	\$3,184	+5%	+4%	+4%
EMEA (Europe, Middle East and Africa)	\$1,521	+12%	+4%	+2%
APAC (Asia Pacific)	\$1,339	+19%	+9%	+9%
Total Baxter	\$6,044	+9%	+5%	+4%

Second-Quarter 2021 Adjusted Financial Results¹

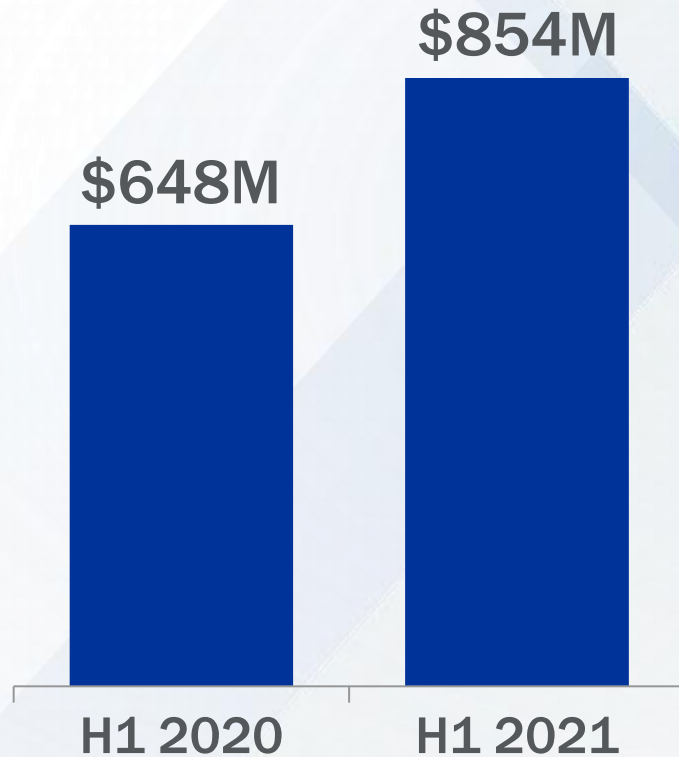
	Q2 2020	Q2 2021	Change
Adjusted Gross Margin	41.6%	42.6%	+100 bps
Adjusted SG&A Expense (% of Sales)	21.2%	20.9%	(30 bps)
Adjusted R&D Expense (% of Sales)	4.3%	4.5%	+20 bps
Adjusted Operating Margin	16.0%	17.2%	+120 bps
Adjusted Diluted EPS	\$0.64	\$0.80	+25%

First-Half 2021 Adjusted Financial Results¹

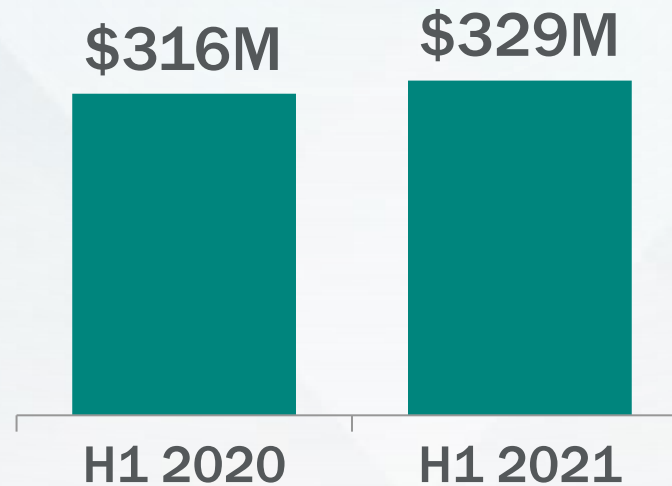
	H1 2020	H1 2021	Change
Adjusted Gross Margin	43.0%	42.3%	(70 bps)
Adjusted SG&A Expense (% of Sales)	21.1%	20.8%	(30 bps)
Adjusted R&D Expense (% of Sales)	4.4%	4.4%	0 bps
Adjusted Operating Margin	17.5%	17.1%	(40 bps)
Adjusted Diluted EPS	\$1.46	\$1.56	+7%

Maintaining Focus On Cash Flow Generation¹

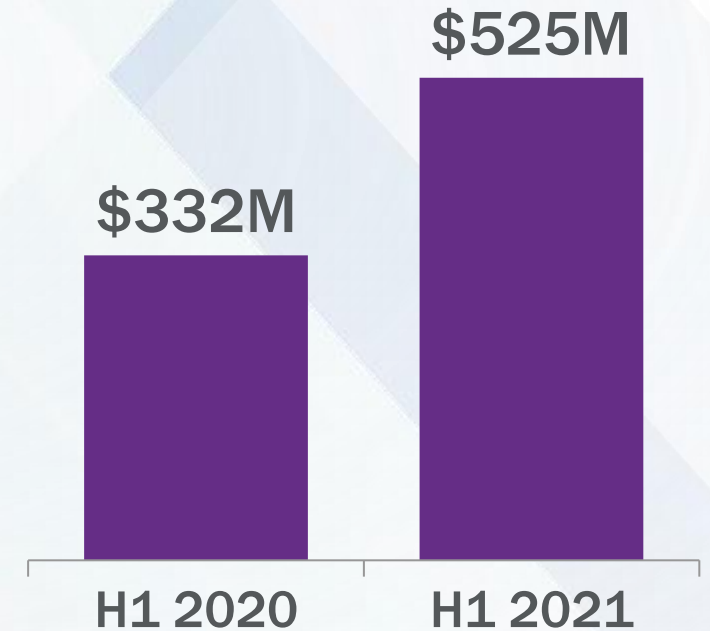
Operating Cash Flow²



Capital Expenditures



Free Cash Flow³



Prioritizing Financial Flexibility While Driving Value For Shareholders Over The Long-Term



Reinvestment In Business

Meeting the needs of patients and providers globally while continuing to invest in long-term innovation and accelerated launch cadence



Dividend Issuance

Increased quarterly dividend to \$0.28 per share; continuing to target ~35% dividend payout ratio over time



Share Repurchase Program

Returned value directly to shareholders with ~\$300 million of share repurchases in Q2 2021; available repurchase authorization stood at ~\$1.3 billion of common stock as of June 30, 2021



Strategic Business Development

Focusing investments on strategic opportunities to augment current portfolio and position the company for continued future success



Enhanced Liquidity

~\$3.1 billion of cash and cash equivalents with access to \$2.0 billion and €200 million of undrawn credit facilities as of June 30, 2021

**Strong Balance Sheet Positioning Baxter For Sustained Durability
In Dynamic Market Environment**



2021 Outlook

Second-Quarter 2021 Earnings

July 29, 2021

Full-Year 2021 Guidance¹

	FY 2021 Guidance
Sales Growth <i>Reported</i>	~8%
Foreign Exchange	↓ (~250 bps)
Sales Growth <i>Constant Currency</i>	5% - 6%
OUS Caelyx and Doxil	↓ (~100 bps)
Sales Growth <i>Operational</i>	4% - 5%
GAAP Diluted EPS <i>Growth vs. Prior-Year Period</i>	\$2.82 - \$2.88 32% - 35%
Adjusted Diluted EPS <i>Growth vs. Prior-Year Period</i>	\$3.49 - \$3.55 13% - 15%

Third-Quarter 2021 Guidance¹

	Q3 2021 Guidance
Sales Growth <i>Reported</i>	~9%
Foreign Exchange	↓ (~200 bps)
Sales Growth <i>Constant Currency</i>	~7%
OUS Caelyx and Doxil	↓ (~100 bps)
Sales Growth <i>Operational</i>	~6%
GAAP Diluted EPS <i>Growth vs. Prior-Year Period</i>	\$0.79 - \$0.81 14% - 17%
Adjusted Diluted EPS <i>Growth vs. Prior-Year Period</i>	\$0.93 - \$0.95 12% - 14%



Non-GAAP Reconciliations

Second-Quarter 2021 Earnings
July 29, 2021

Non-GAAP Reconciliation as of July 29, 2021

Non-GAAP Reconciliations:

As part of its Q2 2021 earnings announcement on July 29, 2021, Baxter presented its financial results for the second quarter of 2021 and the related year-to-date period. Baxter also presented guidance for Q3 2021 and FY 2021. In these presentations, Baxter used non-GAAP financial measures of sales growth (on a constant currency and operational basis), adjusted gross margin, adjusted selling, general and administrative expense, adjusted research and development expense, adjusted operating income, adjusted operating margin, adjusted tax rate, adjusted diluted earnings per share, and free cash flow. The reconciliations set forth below reconcile the non-GAAP measures set forth in this presentation for historical periods to the most directly comparable U.S. GAAP measures.

Description of Adjustments and Reconciliation of U.S. GAAP to Non-GAAP Measures

Three Months Ended June 30, 2021 and 2020

(unaudited)

(in millions, except per share and percentage data)

The company's U.S. GAAP results for the three months ended June 30, 2021 included special items which impacted the U.S. GAAP measures as follows:

	Gross Margin	Selling, General and Administrative Expenses	Research and Development Expenses	Other Operating Income, Net	Operating Income	Income Before Income Taxes	Income Tax Expense	Net Income	Net Income Attributable to Baxter Stockholders	Diluted Earnings Per Share
Reported	\$ 1,233	\$ 675	\$ 139	\$ (5)	\$ 424	\$ 392	\$ 91	\$ 301	\$ 298	\$ 0.59
Reported percent of net sales (or percent of income before income taxes for income tax expense)	39.8 %	21.8 %	4.5 %	(0.2) %	13.7 %	12.7 %	23.2 %	9.7 %	9.6 %	
Intangible asset amortization ¹	67	—	—	—	67	67	14	53	53	0.10
Business optimization items ²	10	(8)	—	—	18	18	3	15	15	0.03
Acquisition and integration expenses ³	—	(1)	—	5	(4)	(4)	(1)	(3)	(3)	(0.01)
European medical devices regulation ⁴	11	—	—	—	11	11	3	8	8	0.02
Investigation and related costs ⁵	—	(17)	—	—	17	17	1	16	16	0.03
Tax matter ⁷	—	—	—	—	—	—	(22)	22	22	0.04
Adjusted	\$ 1,321	\$ 649	\$ 139	\$ —	\$ 533	\$ 501	\$ 89	\$ 412	\$ 409	\$ 0.80
Adjusted percent of net sales (or adjusted percent of income before income taxes for income tax expense)	42.6 %	20.9 %	4.5 %	0.0 %	17.2 %	16.2 %	17.8 %	13.3 %	13.2 %	

The company's U.S. GAAP results for the three months ended June 30, 2020 included special items which impacted the U.S. GAAP measures as follows:

	Gross Margin	Selling, General and Administrative Expenses	Research and Development Expenses	Other Operating Income, Net	Operating Income	Income Before Income Taxes	Income Tax Expense	Net Income	Net Income Attributable to Baxter Stockholders	Diluted Earnings Per Share
Reported	\$ 1,038	\$ 590	\$ 117	\$ —	\$ 331	\$ 289	\$ 42	\$ 247	\$ 246	\$ 0.48
Reported percent of net sales (or percent of income before income taxes for income tax expense)	38.2 %	21.7 %	4.3 %	0.0 %	12.2 %	10.6 %	14.5 %	9.1 %	9.1 %	
Intangible asset amortization ¹	56	—	—	—	56	56	12	44	44	0.09
Business optimization items ²	8	(7)	2	—	13	13	2	11	11	0.02
Acquisition and integration expenses ³	4	(4)	(1)	—	9	9	2	7	7	0.01
European medical devices regulation ⁴	8	—	—	—	8	8	2	6	6	0.01
Investigation and related costs ⁵	—	(2)	—	—	2	2	—	2	2	0.00
Intangible asset impairment ⁶	17	—	—	—	17	17	4	13	13	0.03
Adjusted	\$ 1,131	\$ 577	\$ 118	\$ —	\$ 436	\$ 394	\$ 64	\$ 330	\$ 329	\$ 0.64
Adjusted percent of net sales (or adjusted percent of income before income taxes for income tax expense)	41.6 %	21.2 %	4.3 %	0.0 %	16.0 %	14.5 %	16.2 %	12.1 %	12.1 %	

Description of Adjustments and Reconciliation of U.S. GAAP to Non-GAAP Measures

Three Months Ended June 30, 2021 and 2020

(unaudited)

- ¹ The company's results in 2021 and 2020 included intangible asset amortization expense of \$67 million (\$53 million, or \$0.10 per diluted share, on an after-tax basis) and \$56 million (\$44 million, or \$0.09 per diluted share, on an after-tax basis), respectively
- ² The company's results in 2021 and 2020 included charges of \$18 million (\$15 million, or \$0.03 per diluted share, on an after-tax basis) and \$13 million (\$11 million, or \$0.02 per diluted share, on an after-tax basis), respectively, associated with its programs to optimize its organization and cost structure on a global basis.
- ³ The company's results in 2021 included \$4 million (\$3 million, or \$0.01 per diluted share, on an after-tax basis) of benefits from the change in fair value of contingent consideration liabilities that was partially offset by integration expenses related to the acquisition of the rights to **Caelyx** and **Doxil** for specified territories outside of the U.S. The company's results in 2020 included \$9 million (\$7 million, or \$0.01 per diluted share, on an after-tax basis) of acquisition and integration expenses. This included acquisition and integration expenses related to the company's acquisitions of **Cheetah Medical** and **Seprafilm** and the purchase of an in-process R&D asset.
- ⁴ The company's results in 2021 and 2020 included costs of \$11 million (\$8 million, or \$0.02 per diluted share, on an after-tax basis) and \$8 million (\$6 million, or \$0.01 per diluted share, on an after-tax basis) related to updating its quality systems and product labeling to comply with the new medical device reporting regulation and other requirements of the European Union's regulations for medical devices that become effective in stages beginning in 2021.
- ⁵ The company's results in 2021 and 2020 included costs of \$17 million (\$16 million, or \$0.03 per diluted share, on an after-tax basis) and \$2 million (\$2 million, or \$0.00 per diluted share, on an after-tax basis) for investigation and related costs. In 2021, this item primarily included charges related to matters associated with the company's investigation of foreign exchange gains and losses. In 2020, this item primarily included professional fees related to those matters
- ⁶ The company's results in 2020 included a charge \$17 million (\$13 million, or \$0.03 per diluted share, on an after-tax basis) for an asset impairment related to a developed-technology intangible asset.
- ⁷ The company's results in 2021 included a charge of \$22 million, or \$0.04 per diluted share, related to an unfavorable court ruling for an uncertain tax position.

For more information on the company's use of non-GAAP financial measures in this presentation, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this presentation.

Description of Adjustments and Reconciliation of U.S. GAAP to Non-GAAP Measures

Six Months Ended June 30, 2021 and 2020

(unaudited)

(in millions, except per share and percentage data)

The company's U.S. GAAP results for the six months ended June 30, 2021 included special items which impacted the U.S. GAAP measures as follows:

	Gross Margin	Selling, General and Administrative Expenses	Research and Development Expenses	Other Operating Income, Net	Operating Income	Income Before Income Taxes	Income Tax Expense	Net Income	Net Income Attributable to Baxter Stockholders	Diluted Earnings Per Share
Reported	\$ 2,378	\$ 1,302	\$ 267	\$ (5)	\$ 814	\$ 743	\$ 142	\$ 601	\$ 596	\$ 1.17
Reported percent of net sales (or percent of income before income taxes for income tax expense)	39.3 %	21.5 %	4.4 %	(0.1) %	13.5 %	12.3 %	19.1 %	9.9 %	9.9 %	
Intangible asset amortization ¹	131	—	—	—	131	131	26	105	105	0.21
Business optimization items ²	31	(14)	—	—	45	45	10	35	35	0.07
Acquisition and integration expenses ³	—	(2)	—	5	(3)	(3)	(1)	(2)	(2)	(0.00)
European medical devices regulation ⁴	19	—	—	—	19	19	5	14	14	0.03
Investigation and related costs ⁵	—	(28)	—	—	28	28	3	25	25	0.05
Tax matter ⁷	—	—	—	—	—	—	(22)	22	22	0.04
Adjusted	\$ 2,559	\$ 1,258	\$ 267	\$ —	\$ 1,034	\$ 963	\$ 163	\$ 800	\$ 795	\$ 1.56
Adjusted percent of net sales (or adjusted percent of income before income taxes for income tax expense)	42.3 %	20.8 %	4.4 %	0.0 %	17.1 %	15.9 %	16.9 %	13.2 %	13.2 %	

The company's U.S. GAAP results for the six months ended June 30, 2020 included special items which impacted the U.S. GAAP measures as follows:

	Gross Margin	Selling, General and Administrative Expenses	Research and Development Expenses	Other Operating Income, Net	Operating Income	Income Before Income Taxes	Income Tax Expense	Net Income	Net Income Attributable to Baxter Stockholders	Diluted Earnings Per Share
Reported	\$ 2,201	\$ 1,218	\$ 263	\$ (20)	\$ 740	\$ 667	\$ 87	\$ 580	\$ 578	\$ 1.12
Reported percent of net sales (or percent of income before income taxes for income tax expense)	39.9 %	22.1 %	4.8 %	(0.4) %	13.4 %	12.1 %	13.0 %	10.5 %	10.5 %	
Intangible asset amortization ¹	108	—	—	—	108	108	23	85	85	0.16
Business optimization items ²	18	(28)	1	17	28	28	5	23	23	0.04
Acquisition and integration expenses ³	11	(7)	(22)	3	37	37	8	29	29	0.06
European medical devices regulation ⁴	14	—	—	—	14	14	4	10	10	0.02
Investigation and related costs ⁵	3	(16)	(1)	—	20	20	4	16	16	0.03
Intangible asset impairment ⁶	17	—	—	—	17	17	4	13	13	0.03
Adjusted	\$ 2,372	\$ 1,167	\$ 241	\$ —	\$ 964	\$ 891	\$ 135	\$ 756	\$ 754	\$ 1.46
Adjusted percent of net sales (or adjusted percent of income before income taxes for income tax expense)	43.0 %	21.1 %	4.4 %	0.0 %	17.5 %	16.1 %	15.2 %	13.7 %	13.7 %	

Description of Adjustments and Reconciliation of U.S. GAAP to Non-GAAP Measures

Six Months Ended June 30, 2021 and 2020

(unaudited)

- ¹ The company's results in 2021 and 2020 included intangible asset amortization expense of \$131 million (\$105 million, or \$0.21 per diluted share, on an after-tax basis) and \$108 million (\$85 million, or \$0.16 per diluted share, on an after-tax basis), respectively.
- ² The company's results in 2021 and 2020 included charges of \$45 million (\$35 million, or \$0.07 per diluted share, on an after-tax basis) and \$45 million (\$40 million, or \$0.07 per diluted share, on an after-tax basis), respectively, associated with its programs to optimize its organization and cost structure on a global basis. Additionally, we recorded a gain of \$17 million (\$17 million, or \$0.03 per diluted share, on an after-tax basis) in 2020 for property we sold in conjunction with our business optimization initiatives.
- ³ The company's results in 2021 included \$3 million (\$2 million, or \$0.00 per diluted share, on an after-tax basis) of benefits from the change in fair value of contingent consideration liabilities that was partially offset by integration expenses related to the acquisition of the rights to **Caelyx** and **Doxil** for specified territories outside of the U.S. The company's results in 2020 included \$37 million (\$29 million, or \$0.06 per diluted share, on an after-tax basis) of acquisition and integration expenses. This included acquisition and integration expenses related to the company's acquisitions of **Cheetah Medical** and **Seprafilm** and the purchase of in-process R&D assets, partially offset by the change in the estimated fair value of contingent consideration liabilities.
- ⁴ The company's results in 2021 and 2020 included costs of \$19 million (\$14 million, or \$0.03 per diluted share, on an after-tax basis) and \$14 million (\$10 million, or \$0.02 per diluted share, on an after-tax basis) related to updating its quality systems and product labeling to comply with the new medical device reporting regulation and other requirements of the European Union's regulations for medical devices that become effective in stages beginning in 2021.
- ⁵ The company's results in 2021 and 2020 included costs of \$28 million (\$25 million, or \$0.05 per diluted share, on an after-tax basis) and \$20 million (\$16 million, or \$0.03 per diluted share, on an after-tax basis) for investigation and related costs. In 2021, this item primarily included charges related to matters associated with the company's investigation of foreign exchange gains and losses. In 2020, this item primarily included professional fees related to those matters, as well as incremental stock compensation expense as it extended the terms of certain stock options that were scheduled to expire in the first quarter of 2020.
- ⁶ The company's results in 2020 included a charge of \$17 million (\$13 million, or \$0.03 per diluted share, on an after-tax basis) for an asset impairment related to a developed-technology intangible asset.
- ⁷ The company's results in 2021 included a charge of \$22 million, or \$0.04 per diluted share, related to an unfavorable court ruling for an uncertain tax position.

For more information on the company's use of non-GAAP financial measures in this presentation, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this presentation.

Reconciliation of Non-GAAP Financial Measure

Operating Cash Flow to Free Cash Flow

(unaudited)
(in millions)

	Six Months Ended June 30,	
	2021	2020
Cash flows from operations – continuing operations	\$ 854	\$ 648
Cash flows from investing activities	(726)	(758)
Cash flows from financing activities	(707)	909
Cash flows from operations - continuing operations	\$ 854	\$ 648
Capital expenditures	(329)	(316)
Free cash flow - continuing operations	\$ 525	\$ 332

Free cash flow is a non-GAAP measure. For more information on the company's use of non-GAAP financial measures in this presentation, please see the company's Current Report on Form 8-K filed with the Securities Exchange Commission on the date of this presentation.

Reconciliation of Non-GAAP Financial Measure

Change in Net Sales Growth As Reported to Operational Sales Growth

From The Three Months Ended June 30, 2020 to The Three Months Ended June 30, 2021

(unaudited)

Sales By Product Category:

	Net Sales Growth As Reported	Caelyx and Doxil	FX	Operational Sales Growth*
Renal Care	5%	0%	(5)%	(0)%
Medication Delivery	15%	0%	(3)%	12%
Pharmaceuticals	14%	(6)%	(9)%	(0)%
Clinical Nutrition	10%	0%	(7)%	3%
Advanced Surgery	52%	0%	(4)%	48%
Acute Therapies	1%	0%	(5)%	(4)%
BioPharma Solutions	58%	0%	(9)%	49%
Other	0%	0%	4%	4%
Total Baxter	14%	(1)%	(5)%	8%
U.S.	6%	0%	0%	6%
International	19%	(2)%	(9)%	8%

*Totals may not add across due to rounding

Sales By Operating Segment:

	Net Sales Growth As Reported	Caelyx and Doxil	FX	Operational Sales Growth*
Americas	11%	0%	(3)%	8%
EMEA	17%	(3)%	(9)%	5%
APAC	19%	(1)%	(9)%	9%
Total Baxter	14%	(1)%	(5)%	8%

*Totals may not add across due to rounding

Change in operational sales growth is a non-GAAP measure. For more information on the company's use of non-GAAP financial measures in this presentation, please see the company's Current Report on Form 8-K filed with the Securities Exchange Commission on the date of this presentation.

Reconciliation of Non-GAAP Financial Measure

Change in Net Sales Growth As Reported to Operational Sales Growth

From The Six Months Ended June 30, 2020 to The Six Months Ended June 30, 2021

(unaudited)

Sales By Product Category:

	Net Sales Growth As Reported	Caelyx and Doxil	FX	Operational Sales Growth*
Renal Care	5%	0%	(4)%	1%
Medication Delivery	5%	0%	(2)%	3%
Pharmaceuticals	10%	(4)%	(7)%	(1)%
Clinical Nutrition	9%	0%	(6)%	3%
Advanced Surgery	21%	0%	(4)%	17%
Acute Therapies	15%	0%	(5)%	10%
BioPharma Solutions	38%	0%	(8)%	30%
Other	0%	0%	0%	0%
Total Baxter	9%	(1)%	(4)%	4%
U.S.	1%	0%	0%	1%
International	15%	(1)%	(8)%	6%

*Totals may not add across due to rounding

Sales By Operating Segment:

	Net Sales Growth As Reported	Caelyx and Doxil	FX	Operational Sales Growth*
Americas	5%	0%	(1)%	4%
EMEA	12%	(2)%	(8)%	2%
APAC	19%	(1)%	(10)%	9%
Total Baxter	9%	(1)%	(4)%	4%

*Totals may not add across due to rounding

Change in operational sales growth is a non-GAAP measure. For more information on the company's use of non-GAAP financial measures in this presentation, please see the company's Current Report on Form 8-K filed with the Securities Exchange Commission on the date of this presentation.

Reconciliation of Non-GAAP Financial Measure

Projected Third Quarter and Full Year 2021 U.S. GAAP Sales Growth to Projected Operational Sales Growth, and Projected Full Year 2021 U.S. GAAP Operating Margin to Projected Adjusted Operating Margin

(unaudited)

Sales Growth Guidance	Q3 2021*	FY 2021*
Sales Growth - U.S. GAAP	9%	8%
OUS Caelyx and Doxil	(1)%	(1)%
Foreign exchange	(2)%	(3)% - (2)%
Sales Growth - Operational	6%	4% - 5%

*Totals may not foot due to rounding

Operating Margin Guidance	FY 2021*
Operating Margin - U.S. GAAP	15.2% - 15.4%
Estimated intangible asset amortization	2.1%
Estimated business optimization charges	0.5%
Estimated investigation and related costs	0.2%
Estimated European medical devices regulation	0.3%
Operating Margin - Adjusted	18.4% - 18.6%

*Totals may not foot due to rounding

Reconciliation of Non-GAAP Financial Measure

Projected Full Year 2021 U.S. GAAP Tax Rate to Projected Adjusted Tax Rate, and Projected Third Quarter and Full Year 2021 U.S. GAAP Earnings Per Share to Projected Adjusted Earnings Per Share

(unaudited)

The projected FY 2021 U.S. GAAP tax rate of approximately 18.1% has been adjusted for the impact of a tax matter and to reflect the tax impact of projected special items, consisting of intangible asset amortization, business optimization charges, acquisition and integration expenses, investigation and related costs and the European medical devices regulation expenses, to arrive at a projected adjusted tax rate of approximately 17.5%.

Earnings Per Share Guidance	Q3 2021*	FY 2021*
Earnings per Diluted Share - U.S. GAAP	\$0.79 - \$0.81	\$2.82 - \$2.88
Estimated intangible asset amortization	\$0.11	\$0.42
Estimated business optimization charges	\$0.01	\$0.09
Estimated investigation and related costs	\$0.00	\$0.06
Estimated European medical devices regulation	\$0.02	\$0.06
Tax matter	\$0.00	\$0.04
Earnings per Diluted Share - Adjusted	\$0.93 - \$0.95	\$3.49 - \$3.55

*Totals may not foot due to rounding.

The company's outlook for U.S. GAAP operating margin, income tax rate and earnings per share only includes the impact of special items that are known or expected as of the date of this presentation. Accordingly, actual U.S. GAAP operating margin, income tax rate and earnings per share for the third quarter and full year of 2021 may differ significantly from those amounts. For example, the company's outlook does not reflect the potential impact of future business or asset acquisitions or dispositions, intangible asset impairments, restructuring actions, developments related to gain or loss contingencies, debt extinguishment gains or losses, or unusual or infrequently occurring items that may occur during the remainder of 2021.

A photograph of a man and a young girl walking outdoors at sunset. The man is carrying the girl on his shoulders, and both are smiling. The background is a warm, golden light from the setting sun, creating a soft glow. The image is partially covered by a white rectangular box on the right side, which contains the text.

Baxter

Second-Quarter 2021 Earnings

Baxter International Inc.

July 29, 2021