

Solventum Corporation (SOLV)

Value Fit 8 / 10

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

Analyst: Alondra Chavez

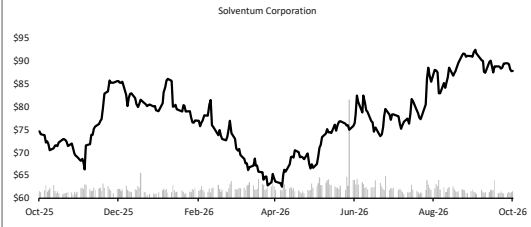
Recommendation: BUY

Philosophy Fit 4 / 5

As of: 10/03/2026

WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke	14.8% vs 8.1% → Above ke
Change in performance — ΔROIC	+8.5 pts, FY2026E vs FY2025A → Improving
Lifecycle phase	Phase III — highest expectations
Valuation gap — target vs. price	+41.1% → Price below our value



BUSINESS DESCRIPTION

Solventum Corp. operates as a health care company. It gives better, smarter, safer healthcare to improve lives. The company was founded on January 24, 2023 and is headquartered in Maplewood, MN.

INVESTMENT THESIS

Solventum trades at about 12 times FY2026E EPS, well below the comp median P/E, because the market still prices it as a leveraged, slow-growth 3M spin-off. The market is missing that the Purification and Filtration sale has already funded debt paydown, the planned Health Information Systems separation leaves a focused MedTech business in markets growing 3% to 5%, and ROIC on consensus earnings is about 15% against an 8.1% cost of equity. The gap closes as separation costs roll off from Q4 2026, margins expand in 2027 and buybacks under the \$1 billion authorization hold the share count flat.

MARKET SNAPSHOT

Current Price	\$87.85	Market Cap (\$B)	\$15.0	Beta	0.78
52-Week Range	\$62 – \$92	Inst. Ownership	75.3%	Insider Own.	15.1%
Shares Out. (mm)	174.1	Short Interest (% float)	3.3%	Dividend Yield	0.0%
Consensus L-T Growth	10.8%	Payout Ratio	0.0%	Cost of Equity	8.1%
Price Target	\$124.00	Upside to Target	41.1%	Value Range	\$101 – \$148

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$126.57	44.1%	16.0x P/E
Equity DCF – terminal P/S	\$101.16	15.1%	1.8x P/S
Equity DCF – terminal P/B	\$147.73	68.2%	2.1x P/B
Equity DCF – constant growth	\$120.14	36.8%	2.0% g, 8.1% ke
Average of methods	\$123.90	41.0%	Equal-weighted
Analyst price target	\$124.00	41.1%	Blue = analyst override

PHILOSOPHY FIT — Five pillars · Score: 4 / 5

	Fit?
1. Fundamental improvement & valuation discipline	ΔROIC +8.5 pts; price is 0.71x our average value Yes
2. Investing through company cycles	Phase III; EBIT margin 8.6% → 24.0% Yes
3. Initial position sizing & risk limits	Half weight at entry; review if 20% below cost Yes
4. Capital allocation discipline	Net debt/invested capital 38.9%; net debt/EBIT 6.1x Yes
5. Identifiable catalysts & conservative underwriting	Catalysts: Q4 cost roll-off, HIS terms, March LRP reset No

VALUE CRITERIA — 10-Point Checklist · Score: 8 / 10

	Pass?
1. Catalyst / Investment Drivers	Yes
Driver 1 — Margin Recovery	Separation and stranded costs from the 3M spin peak in 2026, and management expects meaningful improvement as they decline beginning in Q4. The 2026 guide is a 21.0% to 21.5% operating margin, with expansion again in 2027 despite a tough tariff refund comparison. Model EBIT margin of about 23% to 24% is backed out of consensus EPS at a 21% statutory tax rate, so treat it as an upper bound.
Driver 2 — Portfolio Focus	Separating Health Information Systems (2Q26 sales of \$354 million, up 5% organically) leaves MedSurg and Dental, which are more than 80% of the company and sit in markets growing about 4% to 5% and 3% to 5%. Management expects to return a substantial portion of any proceeds while keeping an investment grade rating. Monitor: separation terms, targeted within 12 to 18 months.
Driver 3 — Growth Acceleration	Organic growth rose from about 1% in 2023 and 2024 to about 3% in 2025, and is tracking 3% to 4% in 2026 excluding about 100 basis points of SKU rationalization. Acera grew 48% in 2Q26 and becomes organic in 2027. Launches in advanced wound care, negative pressure wound therapy and aesthetic dentistry support the 4% to 5% organic target for 2028.
What does management say?	Management raised 2026 guidance on the Q2 beat, expects 2027 growth to accelerate from the 3.5% to 4.0% 2026 guide, and will reset its long-range plan at a March analyst day. Capital allocation is balanced: P&F proceeds went mainly to debt paydown, buybacks continue under the \$1 billion authorization (\$355 million in 1H26), tuck-in M&A is a priority, and dividends may be considered over time.

2. Low P/E Ratio							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
EPS (model)	\$7.79	\$2.77	\$8.94	\$7.16	\$7.31	\$8.07	
P/E at current price	11.3x	31.8x	9.8x	12.3x	12.0x	10.9x	
Comp median P/E (FactSet, incl. SOLV)	21.7x	FY2026E P/E vs. peer median		(43%)			
3. Low Price / Cash Flow							Yes
FCFE / share	\$8.96	\$53.90	-\$2.59	\$7.61	\$5.77	\$6.24	
Price / FCFE	9.8x	1.6x	NM	11.5x	15.2x	14.1x	
Comp median P/CF (FactSet, incl. SOLV)	12.1x	P/FCFE vs. peer median (FY2026E)		(4%)			
4. Low Price / Book Value							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Book value / share	\$67.55	\$17.08	\$29.00	\$36.16	\$43.48	\$51.55	
Price / Book	1.3x	5.1x	3.0x	2.4x	2.0x	1.7x	
ROE (EOY book)	11.5%	16.2%	30.8%	19.8%	16.8%	15.7%	
Comp median P/B (FactSet, incl. SOLV)	2.1x	Price / book (today) vs. peer median		+47%			

Solventum Corporation (SOLV) — Value Criteria, continued

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	98	8,183	5,247	5,219	5,314	5,427	
Net debt (\$mm)	-96	7,421	4,369	2,982	2,040	1,034	
Total debt / equity (gross)	0.8%	276.5%	103.9%	82.9%	70.2%	60.5%	
Total debt / assets (gross)	0.7%	56.6%	36.7%	33.6%	31.2%	29.0%	
Net debt / invested capital	-0.8%	61.6%	38.9%	23.9%	14.7%	6.7%	
Net debt / EBIT	-0.1x	6.8x	6.1x	1.5x	1.0x	0.5x	
Tax rate	9.2%	Book equity (\$mm)	5,049	Net debt \$4.4B after P&F paydown; IG rating a priority			
6. Positive Earnings Dynamics							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	0.8%	0.7%	0.9%	(1.0%)	3.6%	4.1%	
EBIT margin	20.6%	13.3%	8.6%	23.4%	23.0%	24.0%	
EPS growth	0.2%	(64.5%)	223.2%	(19.9%)	2.1%	10.4%	
7. Business Strategy & Segment Mix							Yes
Strategy	Narrow the portfolio to higher-growth MedSurg and Dental after selling Purification and Filtration and separating Health Information Systems, then use the Transform for the Future efficiency program, specialized sales teams, new launches and tuck-in M&A to lift organic growth to 4% to 5% and expand margins.						
Segment / geography mix	FY2025 sales: MedSurg 58%, Health Information Systems 16%, Dental 16%, Purification and Filtration 8% (sold)						
8. Capable Management & Insider Ownership							Yes
Insider ownership	15.1%	Inst. ownership	75.3%	Buybacks, % of NOPAT (FY1E)			—
Insider activity / governance	Insider ownership of 15.1% largely reflects 3M's retained spin-off stake, a possible overhang as it is sold down. Buybacks under the \$1 billion authorization offset stock-based dilution.						
9. Valuation — Value Creation (ROIC vs. ke)							Yes
ROIC (FY1E)	14.8%	Cost of equity (ke)	8.1%	EVA spread (ROIC – ke)		6.7%	
Price target / upside	\$124.00	41.1%	Value / share range (low–high)			\$101 – \$148	
10. Uses of Capital — allocation discipline							Yes
Reinvestment -7% of NOPAT, dividends + buybacks 0% in FY2026E; no dividend yet, buybacks offset dilution, P&F proceeds repaid debt. Detail in the Uses of Capital table below.							
VALUE FIT SCORE — criteria met							8 / 10

FINANCIAL SUMMARY (\$mm except per share)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	CAGR 2023–2028
Sales	8,197	8,254	8,325	8,239	8,532	8,879	1.6%
Gross margin	57.3%	55.9%	53.6%	53.6%	53.6%	53.6%	
EBIT	1,692	1,098	719	1,924	1,960	2,134	4.8%
Net income	1,346	479	1,556	1,247	1,273	1,405	0.9%
EPS (basic)	\$7.79	\$2.77	\$8.94	\$7.16	\$7.31	\$8.07	0.7%
Dividend / share	—	—	—	—	—	—	
FCFE / share	\$8.96	\$53.90	-\$2.59	\$7.61	\$5.77	\$6.24	(7.0%)
Invested capital	12,244	12,041	11,228	12,480	13,882	15,433	4.7%
ROIC	11.3%	7.7%	6.3%	14.8%	14.6%	15.3%	
NOPAT margin	16.7%	10.5%	7.8%	18.5%	18.1%	19.0%	
Sales / NWC	13.09x	116.25x	-97.94x	-97.94x	-97.94x	-97.94x	
Sales / NFA	0.72x	0.74x	0.80x	0.80x	0.80x	0.80x	
Sales / invested capital (ex cash)	0.68x	0.73x	0.80x	0.80x	0.80x	0.80x	

USES OF CAPITAL — full range, as % of cash generated (NOPAT)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	1,366	869	653	1,520	1,548	1,686	
<i>Uses, as % of NOPAT</i>							
CapEx & acquisitions (Δ NFA)	4.5%	(24.8%)	(118.4%)	(7.1%)	23.7%	25.8%	(16.1%)
Working capital (Δ NWC)	(19.0%)	(63.8%)	(23.9%)	0.1%	(0.2%)	(0.2%)	(17.9%)
Dividends	—	—	—	—	—	—	—
Share buybacks	104.1%	1056.7%	(81.8%)	0.0%	0.0%	0.0%	179.8%
Debt repaid (neg. = borrowing)	(0.2%)	(930.0%)	449.5%	1.8%	(6.2%)	(6.7%)	(82.0%)
Cash & securities build	9.7%	65.3%	17.8%	89.4%	67.0%	66.4%	52.6%
Interest & other (residual)	1.0%	(3.3%)	(143.3%)	15.8%	15.6%	14.7%	(16.6%)
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	(14.6%)	(88.7%)	(142.2%)	(7.0%)	23.5%	25.6%	(33.9%)
Dividends + buybacks, % of NOPAT	104.1%	1056.7%	(81.8%)	0.0%	0.0%	0.0%	179.8%

Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)						
Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT
SOLV	Solventum Corporation	10.7x	1.8x	3.1x	72.8x	25.1x
BDX	Becton, Dickinson and Company	53.3x	2.3x	2.0x	14.9x	21.4x
BAX	Baxter International Inc.		1.1x	2.0x	9.2x	24.9x
STE	STERIS plc	25.5x	3.4x	2.8x	15.8x	20.3x
SNN	Smith & Nephew plc Sponsored ADR	17.8x	1.8x	2.2x	8.5x	16.1x
XRAY	DENTSPLY SIRONA, Inc.		0.5x	1.3x	5.4x	16.9x
Median	Comp median (incl. SOLV)	21.7x	1.8x	2.1x	12.1x	20.9x
SOLV	Subject, at current price	9.8x	1.8x	3.0x	NM	27.3x
Premium / (discount) to comp median		(55%)	+1%	+47%	n/a	+31%

Comp set from AutoTearSheet-5PageID14:DI9, with SOLV listed first. Median includes SOLV and excludes blanks.

KEY RISKS

1. HIS separation dilutes margins more than expected: management sees about 400 basis points of full-year operating margin dilution after TSAs and cost actions, and the gross figure is likely higher. If stranded costs persist past 2027, the margin driver fails.
2. Growth stalls in the slow half of the portfolio: about 50% of sales still grows slowly, so the 4% to 5% organic target for 2028 depends on launches and tuck-in M&A landing on time. Watch MedSurg against its 3.5% to 4.0% guide.
3. Leverage and costs: gross debt was about 4x EBITDA after the spin and tariffs cost \$100 million to \$120 million in 2026, so weaker free cash flow would slow debt paydown and buybacks. Exit discipline: sell if the stock reaches our \$124 target without a higher fair value, if organic growth falls below 3% for two quarters, or if the HIS terms leave net debt above 3x EBITDA.