

# Supply Chain Challenges are a Global Concern

## Baxter continues to take action for customers

The COVID-19 pandemic has affected every industry in many ways. Widespread illness, worker availability, material shortages, transportation bottlenecks – all these issues are creating a perfect storm of increased demand, rising costs, and decreased production across the globe. Let’s break it down.



### Why is this happening?

**INCREASED DEMAND**

**TRANSPORTATION CHALLENGES**

**STAFFING SHORTAGES**

**COMPETITIVE OUTAGES**

**RAW MATERIALS CONSTRAINTS**

### Product demand is beyond historical levels

#### Ordering patterns across our product portfolio are unusual and unpredictable.

#### Pandemic-related clinical protocols increase demand:

- 250 mL normal saline bags: 50% increase over previous year due to increased usage with various COVID treatments
- Sterile water: 20% increase for irrigation due to ventilator use
- Dexmed: 70% increase due to COVID-19 therapy use
- Mini-Bag PLUS containers: 25% increase over the previous year

#### What is an allocation?

An allocation is not a shortage. If we anticipate a surge in demand, a protective allocation helps enable continuous, reliable supply for Baxter customers. You will receive a similar amount of your typical order, especially for critical products.

#### Moving forward:

- Proactively adding manufacturing capacity. For example, a new premix line was added in our Round Lake plant; we are also adding CRRT capacity in Cuernavaca, Mexico.
- Implementing enhanced forecasting methods, including potential customer projections.
- Consulting with industry experts and academia for additional forecasting models.
- Participating in industry forums that include customers, suppliers, logisticians and others to understand current trends and predict future needs.
- Utilizing new Global Sales and Operations planning tools and processes to guide current and future investment needs.

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### Transportation is slow by air, land and sea

- Incoming port availability challenges are continuing.
- Air shipments are limited due to decreased international travel as compared to early 2020.
- Ground transportation carriers are experiencing challenges with tracking and confirming delivery dates.
- Availability of truck drivers is limited.

- Cost increases are happening in all aspects of transportation.
  - Domestic shipping rates by road and rail in the U.S. are **up 23%** from 2020.\*
  - FedEx and UPS predict rates **will go up an average of 5.9% this year\*** across most services.
  - Shipping containers costs 6x what they did prior to COVID.\*
  - Air shipments are limited due to decreased international travel as compared to early 2020, resulting in prices that are **2- to 3-times higher**.\*

#### The good news:

Baxter opened a new logistics center in Mt. Carmel, Mississippi. Automation has doubled capacity and throughput.

#### Moving forward:

- Our Global Transportation Control Tower connects with multiple vendors, enabling more real-time information to locate products in the supply chain.
- Baxter will continue working with various government agencies to ensure that critical medical products are prioritized through the supply chain and incoming ports.
- We proactively expanded our network of product transportation vendors to enable prioritization of our deliveries within the network, including re-routing, to avoid global/national bottlenecks.

\*HIRC Watch, January 28, 2022

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### Staffing shortages are at an all-time high

- We anticipate this will continue in the near term across all industries.
- You are experiencing worker shortages; so are we. Absenteeism in our manufacturing plants impacts weekly production targets.

- Education and training efforts for recent implementations are impacted. This affects our customers, our vendors and Baxter.
- Onboarding network nurses presents some obstacles and challenges.

#### The good news:

- Our Clinical Center of Excellence is staffed with licensed nurses and pharmacists who provide insights into industry best practices to help optimize product utilization and workflow to help you navigate the current environment.
- To remain competitive and attract/retain talent, we have increased compensation-related benefits across our manufacturing network.

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### Our competitors are experiencing shortages

**Competitive outages lead to increased demand for Baxter products, such as sterile water, standard Mini-Bags, vials, lipids, and amino acids.**

— For example, IV products (i.e., IV solutions, IV sets, drug delivery, nutritionals) are largely supported by 5-7 suppliers in the market. High demand during COVID peaks and flu season can upset the entire category. If one vendor experiences an issue, it has a ripple effect on related products or alternative/substitute products.

- Liquid Premix medication outages cause spikes in demand for IV fluid bags and vials that hospitals need to admix manually
- Syringe outages used for IV push drug delivery increase demand for IV fluid bags

**Due to increased demand in the market, Baxter has taken measures that help protect product supply for our customers.**

We can support competitive outages to a degree, but our customers come first.

#### **The good news:**

Protective allocations based upon historical usage help protect the product supply for Baxter customers.

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### Our suppliers have the same challenges

- The prioritization of critical components used for COVID vaccines and treatments has created a downstream impact on components and raw materials needed for manufacturing of other medical products.
- Baxter needs raw materials and components to create our finished products.
- Our suppliers are also experiencing production issues due to employee absenteeism, supply delays, and other pandemic-related factors.

- As a result, inconsistent deliveries and delays affect our manufacturing process and product releases.
- We have secondary suppliers, but they have the same issues.

#### **Moving forward:**

- Continuing to qualify alternate suppliers where reasonably possible.
- Increasing raw material par levels at all facilities to minimize the risk of a stock out.
- Increasing collaboration with suppliers to understand Baxter's short- and long-term needs, as well as the suppliers' capabilities in those time frames.
- Continuing to work with governmental agencies, including HHS and the FDA, to ensure critical raw materials are prioritized with our suppliers to meet critical customer demand.
- Implementing proactive allocations to enable a consistent product supply for customers.

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### Why is this happening?



Number of container ships waiting off coast of Los Angeles and Long Beach, California:



Source: HIRC Watch, January 28, 2022

Average Asia-U.S. Transit Time (including port handling):



Source: HIRC Watch, January 28, 2022

Resources Available to Support You: [Baxter Supply Resources](#) [eServices](#)