



Baxter International (BAX)

Updated August 3rd, 2022, by Thomas Richmond

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	16.7%	Market Cap:	\$29.4 B
Fair Value Price:	\$73	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	09/01/22
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.7%	Dividend Payment Date:	10/03/22
Dividend Yield:	2.0%	5 Year Price Target	\$118	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Baxter International (BAX) develops and sells a variety of healthcare products, including biological products, medical devices, and connected care services devices used to monitor patients. Its products are used in hospitals, kidney dialysis centers, nursing homes, doctors' offices, and patients at home under physician supervision. Baxter was founded in 1931 and is a nearly \$30 billion company that's increased dividend payments to shareholders for 6 consecutive years and paid dividends to shareholders for 32 consecutive years.

On December 13, 2021, Baxter announced the acquisition of Hillrom to pursue its vision to transform healthcare through technology. Hillrom makes smart technology, like patient beds and smart pumps, for hospitals, which helps to complement Baxter's primary offerings. Management expects the acquisition to generate high single-digit ROIC by year 5, and ~\$250 million in cost synergies by year 3. The total cost of the acquisition was about \$12.5 billion, with \$10.5 billion in cash paid to acquire all of Hillrom's stock and Baxter took on \$2 billion of Hillrom's outstanding debt obligations. Although Baxter is a global medtech company that serves a variety of healthcare needs, the business's strongest product categories for the first half of 2022 were Renal Care, Medication Delivery, and Pharmaceuticals, each delivering over \$1 billion in revenue over H1'22.

On July 28th, 2022, Baxter International reported Q2 2022 results for the period ending June 30th, 2022. These results weren't very positive – the company missed consensus revenue estimates by a wide margin and slashed adjusted earnings guidance. For the quarter, the company reported adjusted diluted earnings-per-share of \$0.87, which represented a year-over-year increase of 9%. Baxter reported a 21% total sales growth when including the Hillrom acquisition, but a more real 3% sales growth when excluding the Hillrom acquisition.

The business's full year guidance for 2022 is 2-3% in operational sales growth, when excluding the Hillrom acquisition. Additionally, the company slashed full year adjusted earnings-per-share guidance from \$4.12 - \$4.20 all the way down to \$3.60 - \$3.75. The business saw adjusted operating margins fall 100 basis points year-over-year to 16.2%. We believe that Baxter had poor results this quarter, but the stock is still cheap enough that shares are attractive.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.53	\$4.67	\$4.90	\$1.38	\$1.96	\$2.48	\$3.05	\$3.31	\$3.09	\$3.61	\$3.65	\$5.88
DPS	\$1.46	\$1.88	\$2.02	\$1.68	\$0.49	\$0.58	\$0.70	\$0.82	\$0.93	\$1.05	\$1.16	\$1.87
Shares	546	543	542	548	540	541	513	506	505	502	500	500

Over the past 5 years, Baxter International has grown earnings-per-share at an average rate of 8.0% annually. Baxter saw a decrease in earnings-per-share in 2015 when it spun off its biotech business as a new company named Baxalta. Baxter has seen growth across its product lines and across its geographic segments over the past 5 years. We forecast that earnings-per-share will grow at about 10% annually, helping earnings-per-share to reach \$5.88 in 2027.

Over the past 5 years, dividends have grown at 14.9% annually. Over the next 5 years, we forecast that dividends will grow at 10% annually, in line with earnings-per-share growth. To be conservative, we did not forecast any share

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buybacks. The business accrued a lot of debt in the Hillrom acquisition, so they will probably be conservative in share buybacks since buybacks add leverage to the balance sheet.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.8	14.9	14.7	40.5	22.4	23.3	22.9	24.1	27.3	22.4	15.9	20.0
Avg. Yld.	2.5%	2.7%	2.8%	3.0%	1.1%	1.0%	1.0%	1.0%	1.1%	1.3%	2.0%	1.6%

Over the past 5 years, Baxter International has averaged a P/E ratio of 24, and over the past 9 years, the stock has averaged a P/E of 22.5. Today, the stock trades at a P/E ratio of 15.9, offering a 2.0% dividend yield, which is better than the historical averages. We estimate that over the intermediate term, the stock will rerate towards a slightly higher P/E ratio as the business is expected to continue to grow earnings-per-share at double-digit rates. The business has seen a trend of declining returns on capital – we think this acquisition will help to fix that through cost synergies and growth opportunities. Therefore, we believe a P/E slightly below the long-term average is reasonable.

Safety, Quality, Competitive Advantage, & Recession Resiliency

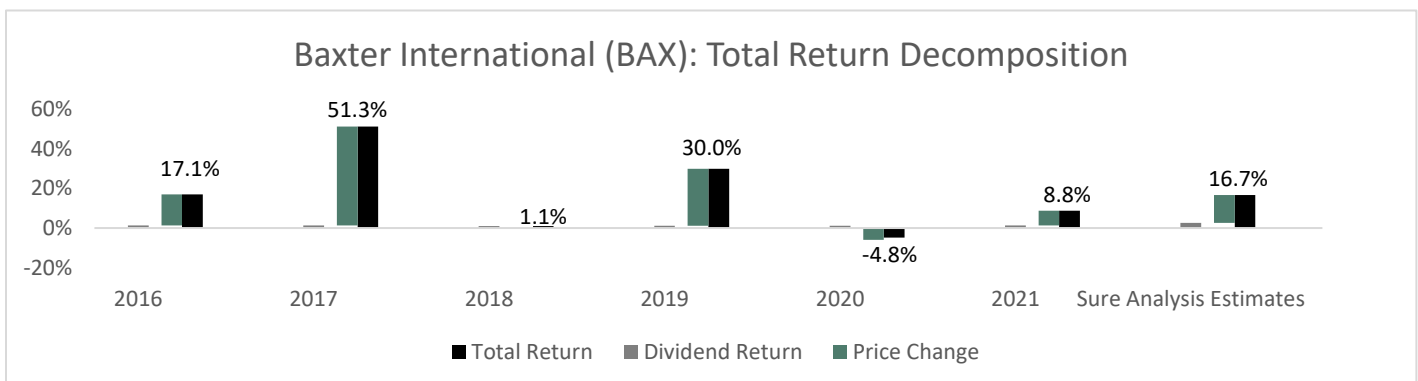
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	32%	40%	41%	122%	25%	23%	23%	25%	30%	29%	32%	32%

It's important to look for high-quality companies that can withstand periods of economic hardship. Even after Baxter International issued long-term debt to finance the \$12.5 billion Hillrom acquisition, we still believe the company has conservative debt ratios, especially as it plans to deleverage over the intermediate term. The company's low payout ratio below 40% makes us believe that the dividend is safe and will continue to grow alongside the 10% projected earnings-per-share growth. Baxter offers recession resiliency as seen by the company's steady growth in sales and operating income during the Covid-19 pandemic. Baxter has competitive advantages due to its large R&D spend that allows the company to stay ahead of its competitors.

Final Thoughts & Recommendation

Even after a rough quarter, shares of Baxter International have the potential to be a solid investment over the intermediate term. Total return prospects come in at 16.7% annually over the next 5 years - based on the combination of 10% annual earnings-per-share growth, continued dividend growth, and a slightly higher P/E multiple. This stock may be particularly attractive due to the Hillrom acquisition because the stock trades at historically low multiples even when management has opportunities to cut costs and explore growth. We rate the stock as a buy because it appears to offer high annual returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13,936	9,413	10,719	9,968	10,163	10,584	11,099	11,362	11,673	12,784
Gross Profit	7,134	4,162	4,581	4,146	4,116	4,474	4,759	4,761	4,587	5,105
Gross Margin	51.2%	44.2%	42.7%	41.6%	40.5%	42.3%	42.9%	41.9%	39.3%	39.9%
SG&A Exp.	3,283	3,084	3,315	3,094	2,746	2,629	2,621	3,290	2,515	2,878
D&A Exp.	712	635	792	759	800	750	771	789	823	890
Operating Profit	2,770	496	656	449	724	1,286	1,583	1,017	1,551	1,693
Op. Margin	19.9%	5.3%	6.1%	4.5%	7.1%	12.2%	14.3%	9.0%	13.3%	13.2%
Net Profit	2,326	2,012	2,497	968	4,965	602	1,546	1,001	1,102	1,284
Net Margin	16.7%	21.4%	23.3%	9.7%	48.9%	5.7%	13.9%	8.8%	9.4%	10.0%
Free Cash Flow	1,945	2,492	2,290	860	935	1,098	1,358	1,408	1,159	1,479
Income Tax	555	60	33	35	(12)	491	65	(41)	182	182

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,390	25,224	26,138	20,962	15,546	17,111	15,720	18,193	20,019	33,521
Cash & Equivalents	3,270	2,733	2,925	2,213	2,801	3,394	1,838	3,335	3,730	2,951
Acc. Receivable	2,425	2,911	1,884	1,731	1,691	1,793	1,840	1,896	2,007	2,629
Inventories	2,803	3,499	1,577	1,604	1,430	1,475	1,667	1,653	1,916	2,453
Goodwill & Int.	3,316	6,499	4,547	4,036	3,706	4,473	4,412	4,501	4,888	17,628
Total Liabilities	13,412	16,738	17,982	12,097	7,266	7,995	7,854	10,281	11,293	24,400
Accounts Payable	766	1,103	677	716	791	920	998	892	1,043	1,246
Long-Term Debt	5,930	9,166	9,029	6,507	2,782	3,512	3,485	5,350	6,192	17,660
Total Equity	6,938	8,463	8,120	8,846	8,290	9,124	7,844	7,882	8,689	9,077
D/E Ratio	0.85	1.08	1.11	0.74	0.34	0.38	0.44	0.68	0.71	1.95

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.8%	8.8%	9.7%	4.1%	27.2%	3.7%	9.4%	5.9%	5.8%	4.8%
Return on Equity	34.4%	26.1%	30.1%	11.4%	57.9%	6.9%	18.2%	12.7%	13.3%	14.5%
ROIC	18.7%	13.2%	14.3%	5.9%	37.6%	5.1%	12.9%	8.1%	7.8%	6.2%
Shares Out.	546	543	542	548	540	541	513	506	505	502
Revenue/Share	25.06	17.15	19.60	18.16	18.44	19.07	20.33	21.89	22.58	25.17
FCF/Share	3.50	4.54	4.19	1.57	1.70	1.98	2.49	2.71	2.24	2.91

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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