



Baxter International (BAX)

Updated May 27th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	20.0%	Market Cap:	\$21 B
Fair Value Price:	\$59	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/01/23
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.4%	Dividend Payment Date:	07/03/23
Dividend Yield:	2.8%	5 Year Price Target	\$94	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 \$21 billion company that's increased dividend payments to shareholders for 6 consecutive years and paid dividends to shareholders for 32 consecutive years.

On April 27th, 2023, Baxter International reported Q1 2023 results for the period ending March 31st, 2023. For the quarter, revenue fell 1.6% to \$3.65 billion, but this was \$50 million more than expected. Adjusted earnings-per-share of \$0.59 compared unfavorably to \$0.93 in the prior year, but was \$0.06 ahead of estimates.

Results were mostly positive for the quarter. Renal Care, the largest segment within the company, grew 4% despite lower in-center sales following the exit of a distribution agreement last year. Advanced Surgery improved 11% due to a higher number of global procedures. Clinical Nutrition increased 3% as international demand for vitamins and nutritional products remains strong. Medication Delivery was flat as international growth was offset by lower U.S. sales following difficult comparable period in the previous year. Pharmaceuticals was up 5%, driven by double-digit growth in injectables in the U.S. and higher demand for drug compounding services in international markets. BioPharma Solutions fell 9% due to lower Covid-19 vaccine related sales. Patient Support Systems decreased 8% due to a slowdown in capital spending and lower rental rates.

Baxter provided updated guidance for 2023 as well. The company now expects adjusted earnings-per-share in a range of \$2.85 to \$3.00 for the year, up from \$2.75 to \$2.95 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
EPS	\$4.67	\$4.90	\$1.38	\$1.96	\$2.48	\$3.05	\$3.31	\$3.09	\$3.61	\$3.50	\$2.93	\$4.72
DPS	\$1.88	\$2.02	\$1.68	\$0.49	\$0.58	\$0.70	\$0.82	\$0.93	\$1.05	\$1.14	\$1.16	\$1.87
Shares	543	542	548	540	541	513	506	505	502	500	500	500

Over the past 5 years, Baxter International has grown earnings-per-share at an average rate of 3.5% 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 maintain our five-year projected earnings-per-share growth rate of 10% due to the quality of the company as well as the low base of earnings that 2023 is expected to see.

Over the past 5 years, dividends have grown at 10.6% annually. Over the next 5 years, we forecast that dividends will grow at about 10% annually, in line with earnings-per-share growth. We do note that the company has now paid the same quarterly dividend of \$0.29 for five consecutive quarters. To be conservative, we did not forecast any share buybacks. The business accrued a lot of debt in the Hillrom acquisition, so Baxter could be conservative in share buybacks.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Baxter International (BAX)

Updated May 27th, 2023, by Nathan Parsh

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.9	14.7	40.5	22.4	23.3	22.9	24.1	27.3	22.4	14.6	14.0	20.0
Avg. Yld.	2.7%	2.8%	3.0%	1.1%	1.0%	1.0%	1.0%	1.1%	1.3%	2.2%	2.8%	2.0%

Shares of Baxter have increased \$1, or 2.5%, since our February 24th, 2023 update. Over the past 5 years, Baxter International has averaged a P/E ratio of 22.3, and over the past 10 years, the stock has averaged a P/E of 22.7. Today, the stock trades at a P/E ratio of 14.0. We maintain our target P/E ratio of 20. 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. Reaching our target valuation by 2028 would add 7.4% to annual returns over this period of time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

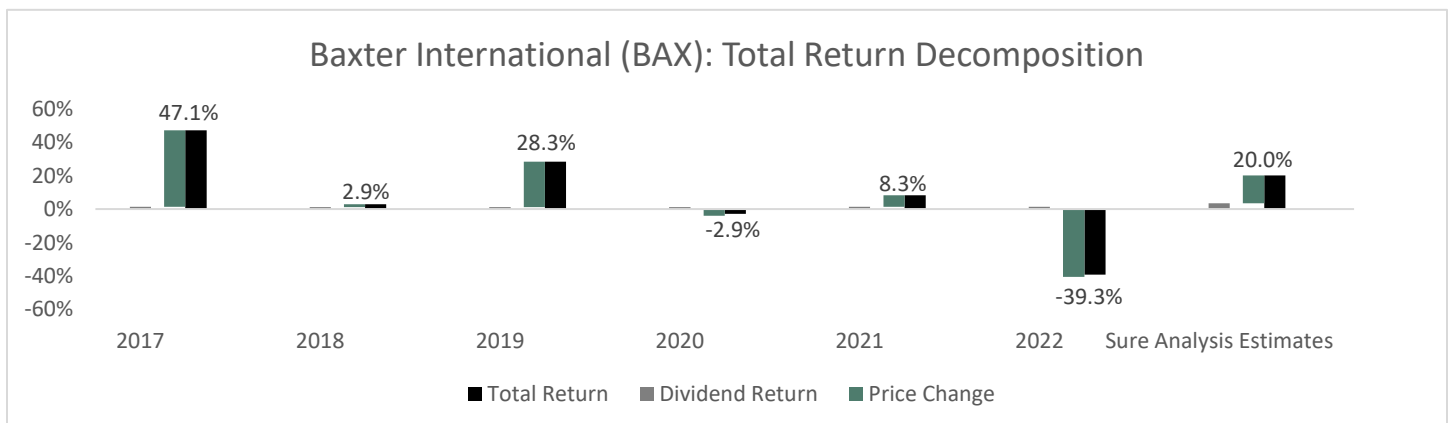
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	41%	122%	25%	23%	23%	25%	30%	29%	33%	40%	40%

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 of ~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

After first quarter results, Baxter is expected to provide an annual return of 20% through 2028, matching our prior estimate. This projection stems from expected earnings growth of 10%, the starting dividend yield of 2.8%, and a high single-digit tailwind from multiple expansion. Shares of Baxter trade below their long-term average valuation and the stock offers a solid yield. Baxter earns a buy rating due to projected returns, which are among the highest in our coverage universe.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Baxter International (BAX)

Updated May 27th, 2023, by Nathan Parsh

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,413	10,719	9,968	10,163	10,584	11,099	11,362	11,673	12,784	15,113
Gross Profit	4,162	4,581	4,146	4,116	4,474	4,759	4,761	4,587	5,105	5,397
Gross Margin	44.2%	42.7%	41.6%	40.5%	42.3%	42.9%	41.9%	39.3%	39.9%	35.7%
SG&A Exp.	3,084	3,315	3,094	2,746	2,629	2,621	3,290	2,515	2,878	3,862
D&A Exp.	635	792	759	800	750	771	789	823	890	1,403
Operating Profit	496	656	449	724	1,286	1,583	1,017	1,551	1,693	930
Op. Margin	5.3%	6.1%	4.5%	7.1%	12.2%	14.3%	9.0%	13.3%	13.2%	6.2%
Net Profit	2,012	2,497	968	4,965	602	1,546	1,001	1,102	1,284	(2,433)
Net Margin	21.4%	23.3%	9.7%	48.9%	5.7%	13.9%	8.8%	9.4%	10.0%	-16.1%
Free Cash Flow	2,492	2,290	860	935	1,098	1,358	1,408	1,159	1,479	532
Income Tax	60	33	35	(12)	491	65	(41)	182	182	68

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	25,224	26,138	20,962	15,546	17,111	15,720	18,193	20,019	33,521	28,287
Cash & Equivalents	2,733	2,925	2,213	2,801	3,394	1,838	3,335	3,730	2,951	1,718
Acc. Receivable	2,911	1,884	1,731	1,691	1,793	1,840	1,896	2,007	2,629	2,659
Inventories	3,499	1,577	1,604	1,430	1,475	1,667	1,653	1,916	2,453	2,718
Goodwill & Int.	6,499	4,547	4,036	3,706	4,473	4,412	4,501	4,888	17,628	13,636
Total Liabilities	16,738	17,982	12,097	7,266	7,995	7,854	10,281	11,293	24,400	22,392
Accounts Payable	1,103	677	716	791	920	998	892	1,043	1,246	1,139
Long-Term Debt	9,166	9,029	6,507	2,782	3,512	3,485	5,350	6,192	17,660	16,636
Total Equity	8,463	8,120	8,846	8,290	9,124	7,844	7,882	8,689	9,077	5,833
D/E Ratio	1.08	1.11	0.74	0.34	0.38	0.44	0.68	0.71	1.95	2.85

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.8%	9.7%	4.1%	27.2%	3.7%	9.4%	5.9%	5.8%	4.8%	-7.9%
Return on Equity	26.1%	30.1%	11.4%	57.9%	6.9%	18.2%	12.7%	13.3%	14.5%	-32.6%
ROIC	13.2%	14.3%	5.9%	37.6%	5.1%	12.9%	8.1%	7.8%	6.2%	-9.9%
Shares Out.	543	542	548	540	541	513	506	505	502	500
Revenue/Share	17.15	19.60	18.16	18.44	19.07	20.33	21.89	22.58	25.17	29.99
FCF/Share	4.54	4.19	1.57	1.70	1.98	2.49	2.71	2.24	2.91	1.06

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.