



Baxter International (BAX)

Updated August 20th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	19.3%	Market Cap:	\$21 B
Fair Value Price:	\$58	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	08/31/23
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.7%	Dividend Payment Date:	10/02/23
Dividend Yield:	2.8%	5 Year Price Target	\$94	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 has increased dividend payments to shareholders for 6 consecutive years and paid dividends to shareholders for 32 consecutive years.

On May 9th, 2023, Baxter International announced that it had agreed to sell its BioPharma Solutions business to private equity investor Advent International and growth investor Warburg Pincus for \$4.25 billion in cash.

On July 27th, 2023, Baxter International reported Q2 2023 results for the period ending June 30th, 2023. For the quarter, revenue grew 3.3% to \$3.71 billion, but this was \$80 million below estimates. Adjusted earnings-per-share of \$0.55 compared unfavorably to \$0.87 in the prior year and was \$0.06 less than expected.

Despite headline figures, most businesses within the company showed growth compared to the prior year. Excluding the impact of currency exchange, Renal Care, the largest segment within the company, grew 2% despite weakness for the in-center dialysis business. Advanced Surgery was higher by 4% due to an ongoing increase in global procedures. Clinical Nutrition grew 7% as weakness in the U.S. only partially offset gains in international markets. Medication Delivery was also up 7% due to strength in infusion and IV products. Pharmaceuticals improved 6% as the injectables portfolio continues to see high demand in the U.S. New products also aided results. BioPharma Solutions decreased 7%, once again as a result of lower Covid-19 vaccine related sales. Patient Support Systems declined 1% as rental revenues and hospital capital spending were down.

Baxter provided updated guidance for 2023 as well. Assuming the divestiture of the BioPharma Solutions business closes in 2023, the company now expects adjusted earnings-per-share in a range of \$2.87 to \$2.95 for the year, compared to \$2.85 to \$3.00 and \$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	\$2.91	\$4.69
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 six consecutive quarters. 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 Baxter could be conservative in share buybacks.

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	14.4	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 2.4%, since our May 27th, 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 14.4. 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. Reaching our target valuation by 2028 could add 6.7% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

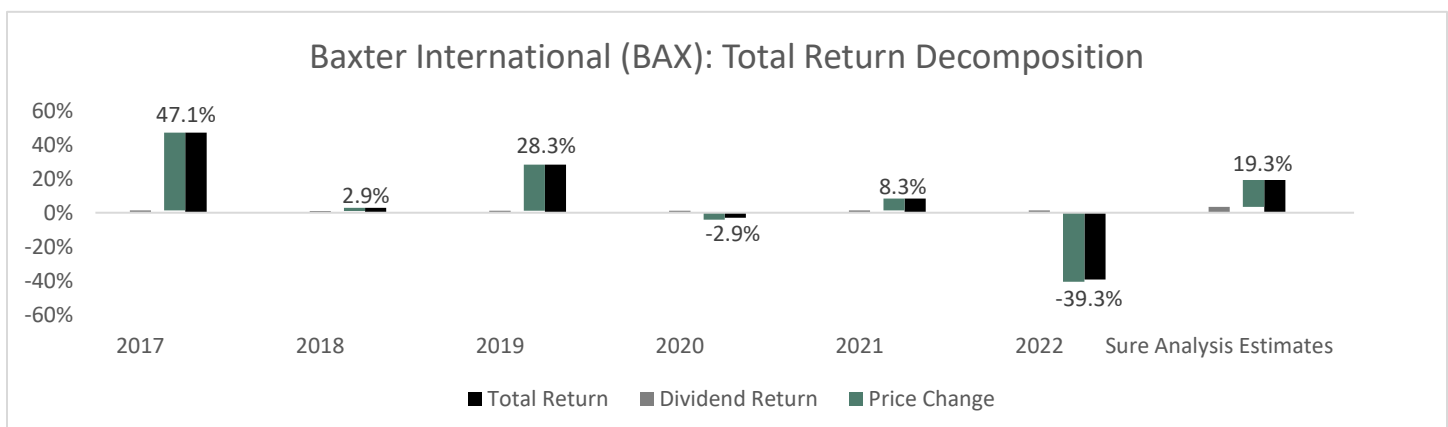
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	41%	122%	25%	23%	23%	25%	30%	29%	33%	40%	40%

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

Following second quarter results, Baxter is expected to provide an annual return of 19.3% through 2028, down slightly from our prior estimate of a 20% return. This projection stems from expected earnings growth of 10%, the starting dividend yield of 2.8%, and a mid-single-digit tailwind from multiple expansion. Shares of Baxter trade below their long-term average valuation and the stock offers a solid yield. Most businesses performed well during the most recent quarter and the sale of the BioPharma Solutions business will enable the company to pay down debt. Baxter continues to receive a buy rating due to projected returns, which remain among the highest in our coverage universe.

Total Return Breakdown by Year



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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.

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