



# Baxter International (BAX)

Updated November 15<sup>th</sup>, 2023, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	21.6%	<b>Market Cap:</b>	\$17.4 B
<b>Fair Value Price:</b>	\$51	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	11/30/23
<b>% Fair Value:</b>	66%	<b>5 Year Valuation Multiple Estimate:</b>	8.6%	<b>Dividend Payment Date:</b>	01/02/24
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$83	<b>Years Of Dividend Growth:</b>	6
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 ~\$17 billion company that has increased dividend payments to shareholders for 6 consecutive years and paid dividends to shareholders for 32 consecutive years.

On May 9<sup>th</sup>, 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 November 2<sup>nd</sup>, 2023, Baxter International reported Q3 2023 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue increased 3% to \$3.71 billion, but this was \$11 million more than expected. Adjusted earnings-per-share of \$0.68 compared unfavorably to \$0.82 in the prior year, but this was in-line with estimates.

Starting with the most recent quarter, the company now has four business segments. Despite headline figures, most businesses within the company showed growth from the prior or had similar sales totals. Excluding the impact of currency exchange, Kidney Care revenue was flat at \$1.1 billion. The company is planning to spin this business off into a standalone publicly traded company by July of 2024. Medical Products & Therapies grew 4% to \$1.3 billion, Healthcare Systems & Technologies was unchanged at \$744 million, and Pharmaceuticals grew 9% to \$580 million.

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 \$2.57 to \$2.60, down from \$2.87 to \$2.95, \$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
<b>EPS</b>	\$4.67	\$4.90	\$1.38	\$1.96	\$2.48	\$3.05	\$3.31	\$3.09	\$3.61	\$3.50	<b>\$2.57</b>	<b>\$4.14</b>
<b>DPS</b>	\$1.88	\$2.02	\$1.68	\$0.49	\$0.58	\$0.70	\$0.82	\$0.93	\$1.05	\$1.14	<b>\$1.16</b>	<b>\$1.87</b>
<b>Shares</b>	543	542	548	540	541	513	506	505	502	500	<b>507</b>	<b>500</b>

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 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.*



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Avg. P/E</b>	14.9	14.7	40.5	22.4	23.3	22.9	24.1	27.3	22.4	14.6	<b>13.2</b>	<b>20.0</b>
<b>Avg. Yld.</b>	2.7%	2.8%	3.0%	1.1%	1.0%	1.0%	1.0%	1.1%	1.3%	2.2%	<b>3.4%</b>	<b>2.3%</b>

Shares of Baxter have declined \$8, or 19%, since our August 20<sup>th</sup>, 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 13.2. 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 8.6% to annual returns over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

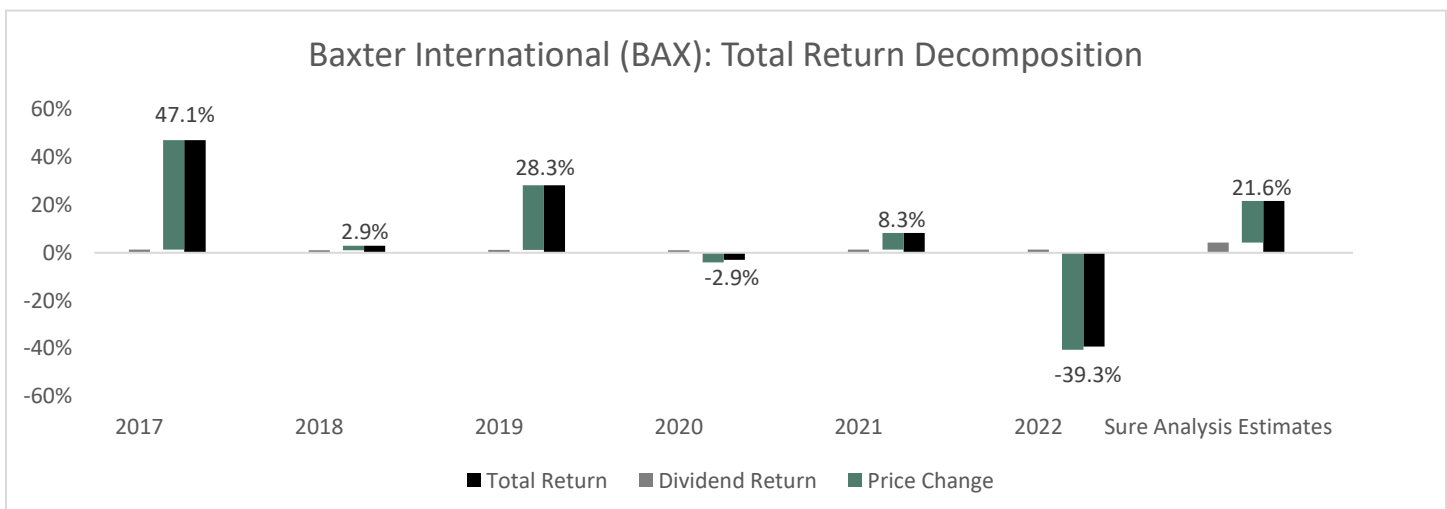
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	40%	41%	122%	25%	23%	23%	25%	30%	29%	33%	<b>45%</b>	<b>45%</b>

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 ~45% 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 third quarter results, Baxter is expected to provide an annual return of 21.6% through 2028, up from our prior estimate of a 19.3% return. This projection stems from expected earnings growth of 10%, the starting dividend yield of 3.4%, 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. Most businesses performed well during the most recent quarter. The company also expects that the spinoff of its Kidney Care business will unlock value for shareholders. 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
<b>Revenue</b>	9,413	10,719	9,968	10,163	10,584	11,099	11,362	11,673	12,784	15,113
<b>Gross Profit</b>	4,162	4,581	4,146	4,116	4,474	4,759	4,761	4,587	5,105	5,397
<b>Gross Margin</b>	44.2%	42.7%	41.6%	40.5%	42.3%	42.9%	41.9%	39.3%	39.9%	35.7%
<b>SG&amp;A Exp.</b>	3,084	3,315	3,094	2,746	2,629	2,621	3,290	2,515	2,878	3,862
<b>D&amp;A Exp.</b>	635	792	759	800	750	771	789	823	890	1,403
<b>Operating Profit</b>	496	656	449	724	1,286	1,583	1,017	1,551	1,693	930
<b>Op. Margin</b>	5.3%	6.1%	4.5%	7.1%	12.2%	14.3%	9.0%	13.3%	13.2%	6.2%
<b>Net Profit</b>	2,012	2,497	968	4,965	602	1,546	1,001	1,102	1,284	(2,433)
<b>Net Margin</b>	21.4%	23.3%	9.7%	48.9%	5.7%	13.9%	8.8%	9.4%	10.0%	-16.1%
<b>Free Cash Flow</b>	2,492	2,290	860	935	1,098	1,358	1,408	1,159	1,479	532
<b>Income Tax</b>	60	33	35	(12)	491	65	(41)	182	182	68

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	25,224	26,138	20,962	15,546	17,111	15,720	18,193	20,019	33,521	28,287
<b>Cash &amp; Equivalents</b>	2,733	2,925	2,213	2,801	3,394	1,838	3,335	3,730	2,951	1,718
<b>Acc. Receivable</b>	2,911	1,884	1,731	1,691	1,793	1,840	1,896	2,007	2,629	2,659
<b>Inventories</b>	3,499	1,577	1,604	1,430	1,475	1,667	1,653	1,916	2,453	2,718
<b>Goodwill &amp; Int.</b>	6,499	4,547	4,036	3,706	4,473	4,412	4,501	4,888	17,628	13,636
<b>Total Liabilities</b>	16,738	17,982	12,097	7,266	7,995	7,854	10,281	11,293	24,400	22,392
<b>Accounts Payable</b>	1,103	677	716	791	920	998	892	1,043	1,246	1,139
<b>Long-Term Debt</b>	9,166	9,029	6,507	2,782	3,512	3,485	5,350	6,192	17,660	16,636
<b>Total Equity</b>	8,463	8,120	8,846	8,290	9,124	7,844	7,882	8,689	9,077	5,833
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	8.8%	9.7%	4.1%	27.2%	3.7%	9.4%	5.9%	5.8%	4.8%	-7.9%
<b>Return on Equity</b>	26.1%	30.1%	11.4%	57.9%	6.9%	18.2%	12.7%	13.3%	14.5%	-32.6%
<b>ROIC</b>	13.2%	14.3%	5.9%	37.6%	5.1%	12.9%	8.1%	7.8%	6.2%	-9.9%
<b>Shares Out.</b>	543	542	548	540	541	513	506	505	502	500
<b>Revenue/Share</b>	17.15	19.60	18.16	18.44	19.07	20.33	21.89	22.58	25.17	29.99
<b>FCF/Share</b>	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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