



Baxter International (BAX)

Updated August 13th, 2024, by Nathan Parsh

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	22.6%	Market Cap:	\$18 B
Fair Value Price:	\$59	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	08/30/24
% Fair Value:	62%	5 Year Valuation Multiple Estimate:	9.9%	Dividend Payment Date:	10/01/24
Dividend Yield:	3.1%	5 Year Price Target	\$96	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 an \$18 billion company that has increased dividend payments to shareholders for 6 consecutive years and paid dividends to shareholders for 32 consecutive years.

On August 6th, 2024, Baxter International reported second quarter earnings results for the period ending June 30th, 2024. For the quarter, revenue grew 2.8% to \$3.81 billion, which was \$60 million above estimates. Adjusted earnings-per-share of \$0.68 compared favorably to \$0.55 in the prior year and was \$0.02 better than expected.

Starting with Q3 2023, the company now has four reportable business segments. All of the businesses within the company showed year-over-year growth on a constant currency basis. Excluding the impact of currency exchange, Kidney Care revenue was higher by 3% to \$1.1 billion. Management had previously indicated it would spin off this business, but has now agreed to sell the segment (see below). Medical Products & Therapies grew 5% to \$1.32 billion, Healthcare Systems & Technologies was up 1% to \$748 million, and Pharmaceuticals increased 9% to \$602 million. The adjusted gross margin expanded 80 basis points to 41.2%.

Baxter provided updated guidance for 2024 as well. The company now expects adjusted earnings-per-share in a range of \$2.93 to \$3.01, up from \$2.88 to \$2.98 and \$2.85 to \$2.95 previously. We have updated our forecast accordingly.

On August 13th, 2024, Baxter International announced that it had agreed to sell its Kidney Care business to Carlyle Group (CG) for \$3.8 billion. The transaction is expected to close in late 2024 or early 2025. Proceeds from this sale will be used to pay down debt.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.90	\$1.38	\$1.96	\$2.48	\$3.05	\$3.31	\$3.09	\$3.61	\$3.50	\$2.60	\$2.97	\$4.78
DPS	\$2.02	\$1.68	\$0.49	\$0.58	\$0.70	\$0.82	\$0.93	\$1.05	\$1.14	\$1.16	\$1.16	\$1.48
Shares	542	548	540	541	513	506	505	502	500	508	510	510

Over the past 5 years, Baxter International's earnings-per-share decreased at an annual rate of 6.8% for the 2014 to 2023 period. 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 2024 is expected to see.

Over the past 5 years, dividends have grown at 7.2% annually. Over the next 5 years, we now forecast that dividends will grow at about 5% annually, down from 10%, due to the lack of increases in the near-term. We note that the company has now distributed or scheduled to distribute the same quarterly dividend of \$0.29 for 10 consecutive quarters. Because of the timing of the payments, the company's dividend growth streak remains intact. To be conservative, we

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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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	14.7	40.5	22.4	23.3	22.9	24.1	27.3	22.4	14.6	14.9	12.5	20.0
Avg. Yld.	2.8%	3.0%	1.1%	1.0%	1.0%	1.0%	1.1%	1.3%	2.2%	3.0%	3.1%	1.5%

Shares of Baxter have increased \$2, or 5.7%, since our May 18th, 2024 update. Over the past 5 years, Baxter International has averaged a P/E ratio of 20.7, 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 12.5. We maintain our target P/E ratio of 20. We estimate that over the intermediate term, the stock will rerate towards a 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 2029 could add 9.9% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

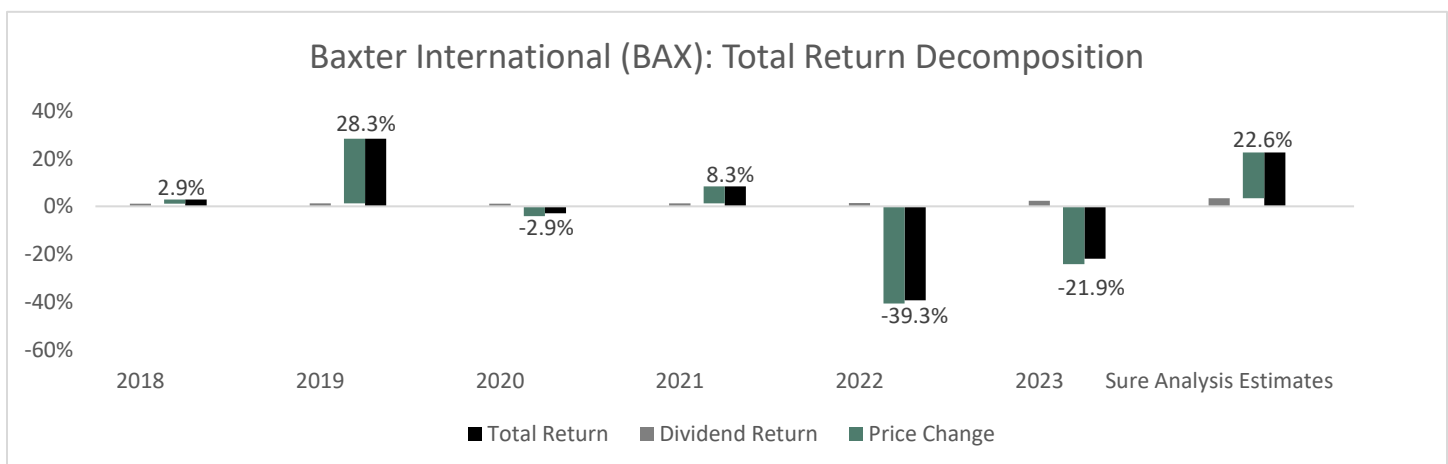
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41%	122%	25%	23%	23%	25%	30%	29%	33%	45%	39%	31%

It is 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 projected 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 22.6% through 2029, down from our prior estimate of a 23.6% return. This projection stems from expected earnings growth of 10%, the starting dividend yield of 3.1%, and a high single-digit tailwind from multiple expansion. Shares of Baxter continue to trade below their long-term average valuation and the stock offers a market-beating yield. All businesses showed growth during the most recent quarter. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,719	9,968	10,163	10,584	11,099	11,362	11,673	12,146	14,506	14,813
Gross Profit	4,581	4,146	4,116	4,474	4,759	4,761	4,587	4,720	5,066	4,975
Gross Margin	42.7%	41.6%	40.5%	42.3%	42.9%	41.9%	39.3%	38.9%	34.9%	33.6%
SG&A Exp.	3,315	3,094	2,746	2,629	2,621	3,290	2,515	2,853	3,833	3,896
D&A Exp.	792	759	800	750	771	789	823	867	1,380	1,263
Operating Profit	656	449	724	1,286	1,583	1,017	1,551	1,336	631	412
Op. Margin	6.1%	4.5%	7.1%	12.2%	14.3%	9.0%	13.3%	11.0%	4.3%	2.8%
Net Profit	2,497	968	4,965	602	1,546	1,001	1,102	1,284	(2,433)	2,656
Net Margin	23.3%	9.7%	48.9%	5.7%	13.9%	8.8%	9.4%	10.6%	-16.8%	17.9%
Free Cash Flow	2,290	860	935	1,098	1,358	1,408	1,159	1,531	591	1,034
Income Tax	33	35	(12)	491	65	(41)	182	83	4	(34)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	26,138	20,962	15,546	17,111	15,720	18,193	20,019	33,521	28,287	28,276
Cash & Equivalents	2,925	2,213	2,801	3,394	1,838	3,335	3,730	2,951	1,718	3,194
Acc. Receivable	1,884	1,731	1,691	1,793	1,840	1,896	2,007	2,629	2,571	2,690
Inventories	1,577	1,604	1,430	1,475	1,667	1,653	1,916	2,453	2,679	2,824
Goodwill & Int.	4,547	4,036	3,706	4,473	4,412	4,501	4,888	17,628	13,245	12,593
Total Liabilities	17,982	12,097	7,266	7,995	7,854	10,281	11,293	24,400	22,392	19,808
Accounts Payable	677	716	791	920	998	892	1,043	1,246	1,110	1,241
Long-Term Debt	9,029	6,507	2,782	3,512	3,485	5,350	6,192	17,660	16,636	13,798
Total Equity	8,120	8,846	8,290	9,124	7,844	7,882	8,689	9,077	5,833	8,402
D/E Ratio	1.11	0.74	0.34	0.38	0.44	0.68	0.71	1.95	2.85	1.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.7%	4.1%	27.2%	3.7%	9.4%	5.9%	5.8%	4.8%	-7.9%	9.4%
Return on Equity	30.0%	11.4%	57.9%	6.9%	18.2%	12.7%	13.2%	14.4%	-32.4%	37.0%
ROIC	14.3%	5.9%	37.6%	5.1%	12.9%	8.1%	7.8%	6.2%	-9.9%	11.9%
Shares Out.	542	548	540	541	513	506	505	502	500	508
Revenue/Share	19.60	18.16	18.44	19.07	20.33	21.89	22.58	23.91	28.78	29.27
FCF/Share	4.19	1.57	1.70	1.98	2.49	2.71	2.24	3.01	1.17	2.04

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

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