

Baxter International Inc

BAX opening door to sale vs spin for KidneyCo

Reiterate Rating: NEUTRAL | PO: 45.00 USD | Price: 42.29 USD

BAX now pursuing a sale for KidneyCo

This morning BAX issued an 8K that said it has been in recent discussion with select private equity investors to explore a potential sale of kidney care asset in lieu of the proposed spinoff. Previously, BAX had planned a tax-free spin in July 2024. We run a new sum of the parts for selling this asset (see inside). The overall financial impact of a sale is about the same as a spin but we think a sale is likely better for BAX shareholders.

Key conclusion: sale/spin model similar; but sale preferred

Our “KidneyCo Sale” sum of the parts has RemainCo 2025 EPS at \$2.74. This is about the same as our [KidneyCo spin](#) sum of the parts of \$2.71. We think the debt pay down will be similar in both instances. The cash proceeds of a sale (~\$2bn) is about equal to what BAX could get from a spin with a \$600m retained stake and \$1.2bn dividend back to parent. We prefer a sale even if the model is similar as it can maximize value upfront; we see little long term value creation in the public markets for KidneyCo. The sale also puts the risk of stand-up dilution on private equity instead of BAX shareholders.

We see \$2.5bn deal value possible; \$2bn in cash for BAX

Bloomberg reported in Sept 2022 that BAX tried to sell two of its renal businesses (renal-care services and hemodialysis) for well under \$1bn (see [Renal divestiture Sept 2022](#)). Since then, BAX has added the \$2.8bn revenue PD business and \$800m revenue acute therapies business to the planned divestiture/spin asset. We think the value of a sale could now be around \$2.5bn (putting after tax proceeds to BAX closer to \$2bn). We estimate Renal generates about \$500m in EBITDA under BAX but as a standalone entity post stand up costs/TSAs it would generate around \$350m in EBITDA. The \$2.5bn sale value is around 7x this standalone EBITDA of \$350m.

BAX PO up slightly to \$45 – maintain Neutral

We maintain our Neutral rating on BAX as the dilution from exiting KidneyCo takes about a year of BAX’s EPS growth away. BAX likely needs to get through the divestiture and see better EPS growth on RemainCo EPS to move higher. We do raise our BAX PO slightly as we shift our valuation out to 2025E. Our BAX PO goes to \$45 from \$42 as we use the same 15x multiple on our official pre-divestiture 2025 EPS (2024 EPS prior).

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|--------|--------|-------|-------|-------|
| EPS | 3.50 | 2.60 | 2.89 | 3.11 | 3.41 |
| GAAP EPS | (4.83) | (0.15) | 0.89 | 1.13 | 1.44 |
| EPS Change (YoY) | -3.0% | -25.7% | 11.2% | 7.6% | 9.6% |
| Consensus EPS (Bloomberg) | | | 2.90 | 3.23 | 3.65 |
| DPS | 1.13 | 1.15 | 1.23 | 1.31 | 1.39 |
| Valuation (Dec) | | | | | |
| P/E | 12.1x | 16.3x | 14.6x | 13.6x | 12.4x |
| GAAP P/E | NM | NM | 47.5x | 37.4x | 29.4x |
| Dividend Yield | 2.7% | 2.7% | 2.9% | 3.1% | 3.3% |
| EV / EBITDA* | 9.9x | 11.7x | 11.2x | 10.5x | 9.8x |
| Free Cash Flow Yield* | 2.5% | 4.0% | 5.0% | 5.4% | 6.3% |

* For full definitions of *IQmethod*SM measures, see page 7.

04 March 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|------------|----------|---------|
| Price Obj. | 42.00 | 45.00 |

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 42.29 USD |
| Price Objective | 45.00 USD |
| Date Established | 4-Mar-2024 |
| Investment Opinion | B-2-7 |
| 52-Week Range | 31.01 USD - 50.21 USD |
| Mkt Val (mn) / Shares Out (mn) | 21,476 USD / 507.8 |
| Free Float | 99.7% |
| Average Daily Value (mn) | 152.01 USD |
| BofA Ticker / Exchange | BAX / NYS |
| Bloomberg / Reuters | BAX US / BAX.N |
| ROE (2024E) | 18.0% |
| Net Dbt to Eqty (Dec-2023A) | 107.4% |
| ESGMeter TM | High |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

Acronym glossary

PD = Peritoneal Dialysis
rev = revenue
TSA = transition service agreement

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Timestamp: 04 March 2024 12:58PM EST

iQprofileSM Baxter International Inc

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 7.7% | 7.3% | 8.4% | 9.6% | 10.4% |
| Return on Equity | 23.6% | 18.8% | 18.0% | 19.2% | 20.6% |
| Operating Margin | 17.1% | 14.3% | 14.9% | 15.4% | 16.0% |
| Free Cash Flow | 532 | 863 | 1,074 | 1,170 | 1,360 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|--------|--------|--------|-------|-------|
| Cash Realization Ratio | 0.7x | 1.2x | 1.2x | 1.2x | 1.2x |
| Asset Replacement Ratio | 0.5x | 0.5x | 0.6x | 0.6x | 0.6x |
| Tax Rate | 19.9% | 21.0% | 22.2% | 23.0% | 23.0% |
| Net Debt-to-Equity Ratio | 234.3% | 107.4% | 100.5% | 92.0% | 81.1% |
| Interest Cover | 6.5x | 4.8x | 6.2x | 7.0x | 8.1x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|---------------|--------------|--------------|--------------|
| Sales | 15,113 | 14,813 | 15,105 | 15,628 | 16,170 |
| % Change | 18.2% | -2.0% | 2.0% | 3.5% | 3.5% |
| Gross Profit | 6,497 | 6,107 | 6,342 | 6,642 | 6,953 |
| % Change | 17.3% | -6.0% | 3.8% | 4.7% | 4.7% |
| EBITDA | 3,233 | 2,736 | 2,840 | 3,033 | 3,259 |
| % Change | 8.1% | -15.4% | 3.8% | 6.8% | 7.4% |
| Net Interest & Other Income | (356) | (444) | (349) | (330) | (305) |
| Net Income (Adjusted) | 1,772 | 1,320 | 1,476 | 1,591 | 1,749 |
| % Change | -3.5% | -25.5% | 11.8% | 7.8% | 9.9% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|---------------|--------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 1,772 | 1,320 | 1,476 | 1,591 | 1,749 |
| Depreciation & Amortization | 1,403 | 1,265 | 1,267 | 1,311 | 1,356 |
| Change in Working Capital | (2,046) | 272 | (216) | (310) | (285) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 82 | (1,309) | (744) | (689) | (701) |
| Capital Expenditure | (679) | (684) | (709) | (733) | (759) |
| Free Cash Flow | 532 | 863 | 1,074 | 1,170 | 1,360 |
| % Change | -64.0% | 62.3% | 24.4% | 9.0% | 16.2% |
| Share / Issue Repurchase | 95 | 102 | 64 | 64 | 64 |
| Cost of Dividends Paid | (573) | (586) | (629) | (672) | (715) |
| Change in Debt | (899) | (2,933) | (2,669) | (662) | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 1,718 | 3,033 | 873 | 773 | 1,482 |
| Trade Receivables | 2,659 | 2,658 | 2,737 | 2,833 | 2,932 |
| Other Current Assets | 3,634 | 3,561 | 3,611 | 3,712 | 3,787 |
| Property, Plant & Equipment | 4,979 | 4,305 | 4,431 | 4,538 | 4,625 |
| Other Non-Current Assets | 15,297 | 14,173 | 13,489 | 12,805 | 12,121 |
| Total Assets | 28,287 | 27,730 | 25,141 | 24,661 | 24,947 |
| Short-Term Debt | 299 | 514 | 514 | 514 | 514 |
| Other Current Liabilities | 4,446 | 5,580 | 5,601 | 5,644 | 5,675 |
| Long-Term Debt | 15,232 | 11,273 | 8,604 | 7,942 | 7,942 |
| Other Non-Current Liabilities | 2,415 | 2,214 | 2,214 | 2,214 | 2,214 |
| Total Liabilities | 22,392 | 19,581 | 16,933 | 16,314 | 16,345 |
| Total Equity | 5,895 | 8,149 | 8,208 | 8,347 | 8,602 |
| Total Equity & Liabilities | 28,287 | 27,730 | 25,141 | 24,661 | 24,947 |

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Medical Technology

Company Description

Baxter manufactures a broad range of essential healthcare products across the continuum of care including chronic dialysis therapies, premixed drugs, IV nutrition products, infusion pumps, inhalation anesthetics, patient monitoring devices, and care communications devices. The company acquired Hillrom in December 2021.

Investment Rationale

We see BAX revenues growing below the medtech average particularly with hospitals potentially pulling back on replacement capital spending. We do not see any major upside revenue growth catalysts for BAX.

Stock Data

Average Daily Volume 3,594,544

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 0.59A | 0.61E |
| Q2 | 0.55A | 0.66E |
| Q3 | 0.68A | 0.77E |
| Q4 | 0.88A | 0.85E |

Our Sale SOTP model: \$2.74 in 2025 EPS

Exhibit 1: BAX SOTP under KidneyCo sale assumption

Post-sale, in 2025, we model RemainCo at \$2.74.

| | 2024 ex sale KidneyCo (unlevered) | | | 2025 post sale (assumes Jan 1 sale) | | |
|----------------------------|---|--------------|---------------|-------------------------------------|--------------|---------------|
| | RemainCo | | Total | RemainCo | KidneyCo | Total |
| Revenue | 10,717 | 4,388 | 15,105 | 11,131 | 4,498 | 15,628 |
| Revenue growth | | | | 3.9% | 2.5% | 3.5% |
| Pre-spin Op Income | 1,950 | 307 | 2,257 | 2,069 | 335 | 2,404 |
| Pre-spin Op Margin | 18.2% | 7.0% | 14.9% | 18.6% | 7.5% | 15.4% |
| <u>Spin Items</u> | | | | | | |
| Stand up costs | | | | | | 0 |
| Stranded Costs | | | | | | 0 |
| TSAs | | | | | | 0 |
| Post-spin Op Income | 1,950 | 307 | 2,257 | 2,069 | 335 | 2,404 |
| Post-spin Op Margin | 18.2% | 7.0% | 14.9% | 18.6% | 7.5% | 15.4% |
| Depreciation | 429 | 176 | 604 | 445 | 180 | 625 |
| EBITDA | 2,378 | 483 | 2,861 | 2,515 | 515 | 3,030 |
| EBITDA margin | 22.2% | 11.0% | 18.9% | 22.6% | 11.5% | 19.4% |
| Int/other | (349) | | (349) | (240) | | |
| Effective interest rate | 4.2% | | 4.2% | 4.2% | | |
| Pretax income | 1,601 | 307 | 1,908 | 1,829 | 335 | |
| Tax expense | (356) | (68) | (424) | (421) | (77) | |
| Tax rate | (22.2%) | (22.2%) | (22.2%) | (23.0%) | (23.0%) | |
| Net income | 1,245 | 239 | 1,484 | 1,408 | 258 | |
| Non-controlling interest | (8) | 0 | (8) | (8) | | |
| Net income to shareholders | 1,237 | 239 | 1,476 | 1,400 | | |
| EPS | 2.43 | 0.47 | 2.89 | 2.74 | | |
| Shares | 510 | 510 | 510 | 512 | | |
| EPS growth | | | | 12.9% | | |
| Total Cash | 873 | | 873 | 773 | | |
| Scheduled debt paydown | | | | (662) | | |
| Cash from KidneyCO | | | | (2,000) | | |
| Total Debt | 9,118 | | 9,118 | 6,456 | | |
| Net Debt | 8,245 | | 8,245 | 5,683 | | |
| Net Debt/EBITDA | 3.5x | | 2.9x | 2.3x | | |

Source: Company filings, BofA Global Research

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Our Spin SOTP model: \$2.71 in 2025 EPS

Exhibit 2: BAX SOTP under KidneyCo spin assumption

Post-spin, in 2025, we model RemainCo at \$2.71 and KidneyCo at \$0.16 for a total of \$2.87 (\$0.24 less than \$3.11 pre-spin EPS).

| | 2024 ex spin KidneyCo (unlevered) | | | 2025 post spin (assumes Jan 1 spin) | | |
|----------------------------|---|--------------|---------------|-------------------------------------|--------------|---------------|
| | RemainCo | | Total | RemainCo | KidneyCo | Total |
| Revenue | 10,717 | 4,388 | 15,105 | 11,131 | 4,498 | 15,628 |
| Revenue growth | | | | 3.9% | 2.5% | 3.5% |
| Pre-spin Op Income | 1,950 | 307 | 2,257 | 2,081 | 360 | 2,440 |
| Pre-spin Op Margin | 18.2% | 7.0% | 14.9% | 18.7% | 8.0% | 15.6% |
| <u>Spin Items</u> | | | | | | |
| Stand up costs | | | | | (90) | (90) |
| Stranded Costs | | | | (100) | | (100) |
| TSAs | | | | 80 | (80) | 0 |
| Post-spin Op Income | 1,950 | 307 | 2,257 | 2,061 | 190 | 2,250 |
| Post-spin Op Margin | 18.2% | 7.0% | 14.9% | 18.5% | 4.2% | 14.4% |
| Depreciation | 429 | 176 | 604 | 445 | 180 | 625 |
| EBITDA | 2,378 | 483 | 2,861 | 2,506 | 370 | 2,876 |
| EBITDA margin | 22.2% | 11.0% | 18.9% | 22.5% | 8.2% | 18.4% |



Exhibit 2: BAX SOTP under KidneyCo spin assumption

Post-spin, in 2025, we model RemainCo at \$2.71 and KidneyCo at \$0.16 for a total of \$2.87 (\$0.24 less than \$3.11 pre-spin EPS).

| | 2024 ex spin | | | 2025 post spin (assumes Jan 1 spin) | | |
|---------------------------------|--------------|-------------|-------------|-------------------------------------|-------------|-------------|
| Int/other | (349) | | (349) | (249) | (87) | (336) |
| Effective interest rate | 4.2% | | 4.2% | 4.2% | 7.2% | 4.7% |
| Pretax income | 1,601 | 307 | 1,908 | 1,811 | 103 | 1,914 |
| Tax expense | (356) | (68) | (424) | (417) | (24) | (440) |
| Tax rate | (22.2%) | (22.2%) | (22.2%) | (23.0%) | (23.0%) | 23.0% |
| Net income | 1,245 | 239 | 1,484 | 1,395 | 79 | 1,474 |
| Non-controlling interest | (8) | 0 | (8) | (8) | 0 | (8) |
| Net income to shareholders | 1,237 | 239 | 1,476 | 1,387 | 79 | 1,466 |
| EPS | 2.43 | 0.47 | 2.89 | 2.71 | 0.16 | 2.87 |
| Shares | 510 | 510 | 510 | 512 | 512 | 512 |
| EPS growth | | | | 11.8% | (66.9%) | (0.9%) |
| Total Cash | 873 | | 873 | 773 | 500 | |
| Scheduled debt paydown | | | | (662) | | |
| Dividend from KidneyCO | | | | (1,200) | | |
| Retained Stake 20% of 8x EBITDA | | | | (592) | | |
| Total Debt | 9,118 | | 9,118 | 6,664 | 1,700 | |
| Net Debt | 8,245 | | 8,245 | 5,891 | 1,200 | |
| Net Debt/EBITDA | 3.5x | | 2.9x | 2.4x | 3.2x | |

Source: Company filings, BofA Global Research

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Exhibit 3: Data points on stand-up, transition services agreement (TSA), and stranded costs from recent spin-offs

Below we review company commentary on stand-up, TSA, and stranded costs from recent spin-offs

| ZBH /ZIMV | GE /GEHC | BDX /EMBC |
|--|---|--|
| <p>Stand-up costs: ZIMV talked about \$61m in stand-up costs: "there's about \$61m stand-up cost at corporate. And what that \$61m represents is, it represents obviously standing up the business as a standalone company including of course, executive management, public company costs, and then also the cost of standing up insurance. And so, in that \$61m that number just from like a high-level perspective, is probably about \$10m to \$13m higher than what it would be under Zimmer Biomet embedded in that company" - 2/7/22</p> <p>TSAs: ZBH talked about ZIMV TSAs being lower than the stranded costs: "[Q:] TSA should be equal to the stranded cost, right, 75-ish, Suky? [A:] I wouldn't say it's a complete one-for-one there ... It'll be substantially lower than their stranded cost" - 2/7/22</p> <p>Stranded costs: ZBH talked about \$70-75m stranded costs for \$1bn-revenue ZIMV</p> | <p>Stand-up costs: GEHC estimated \$228m in stand-up costs for 2022 and \$200m for 2023; in addition, GEHC estimated \$113m in recurring costs for 2022 and \$200m for 2023: "incur approximately \$341m of total expenses (including one-time expenses of approximately \$228m and recurring expenses of \$113m) for the year ended December 31, 2022" - 6/8/23; and " \$200m of standalone costs, in 2023, we expect an estimated \$200m of those recurring incremental expenses ... expect we'll see leverage against these \$200m of incremental recurring spin costs as we go into 2025 and '26, as we have fully exited on the TSA side" - 4/25/23</p> | <p>TSAs: EMBC expected TSAs of \$70m in the first 12mos (4/1/22-4/1/23), weighted \$35m in fiscal 2H22 and \$35m in fiscal 1H23: "assuming we maintain every TSA during the first 12-month period, we will be charged a total of \$70m or approximately \$35m during the second half of 2022" - 5/13/22. EMBC disclosed \$63m in TSAs in FY23 and guided for \$30m-\$35m in TSAs for FY24: "we incurred about \$63m worth of TSA expense in 2023. And then our guidance assumes for 2024, inclusive of an extension being granted, that we would incur somewhere between, let's call it \$30m to \$35m worth of TSA expense in 2024" - 11/21/23; and "from a stand-up cost standpoint, I think we're not necessarily going to provide specific dollar amounts associated with each individual line item. ... obviously, from a TSA standpoint, as we begin to kind of stand up the company. Some of the TSAs could fall off" - 8/15/22</p> <p>Stranded costs: BDX talked about TSAs offsetting BDX stranded costs: "Diabetes Care business ... we are establishing TSAs that will offset stranded costs" - 11/4/21</p> |

Source: Company filings, BofA Global Research

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Exhibit 4: BAX operating margin expansion, by segment

BAX operating margin expansion, by segment

| BY SEGMENT (\$m) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 2022 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 |
|---|-------|-------|-------|-------|-------------|--------------|-------------|--------------|--------------|--------------|
| MEDICAL PRODUCTS & THERAPIES | | | | | | | | | | |
| Revenues | 1,161 | 1,203 | 1,203 | 1,248 | 4,815 | 1,157 | 1,276 | 1,258 | 1,320 | 5,011 |
| Operating Income | 243 | 203 | 257 | 259 | 962 | 197 | 264 | 245 | 266 | 972 |
| Operating Margin | 20.9% | 16.9% | 21.4% | 20.8% | 20.0% | 17.0% | 20.7% | 19.5% | 20.2% | 19.4% |
| Operating Margin Change y/y | | | | | 0.2% | -3.9% | 3.8% | -1.9% | -0.6% | -0.6% |

Exhibit 4: BAX operating margin expansion, by segment

BAX operating margin expansion, by segment

| BY SEGMENT (\$m) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 2022 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 2023 |
|--|-----------|------------|------------|-----------|---------------|---------------|--------------|--------------|--------------|--------------|
| 2H23 | | | | | | | | -1.2% | | |
| HEALTHCARE SYSTEMS & TECHNOLOGIES | | | | | | | | | | |
| Revenues | 755 | 715 | 735 | 734 | 2,939 | 731 | 743 | 744 | 795 | 3,013 |
| Operating Income | 158 | 101 | 108 | 127 | 494 | 112 | 100 | 115 | 156 | 483 |
| Operating Margin | 20.9% | 14.1% | 14.7% | 17.3% | 16.8% | 15.3% | 13.5% | 15.5% | 19.6% | 16.0% |
| Operating Margin Change y/y | | | | | -11.5% | -5.6% | -0.7% | 0.8% | 2.3% | -0.8% |
| 2H23 | | | | | | | | 1.6% | | |
| PHARMACEUTICALS | | | | | | | | | | |
| Revenues | 521 | 528 | 525 | 552 | 2,126 | 523 | 550 | 580 | 596 | 2,249 |
| Operating Income | 96 | 117 | 82 | 96 | 391 | 87 | 89 | 108 | 117 | 401 |
| Operating Margin | 18.4% | 22.2% | 15.6% | 17.4% | 18.4% | 16.6% | 16.2% | 18.6% | 19.6% | 17.8% |
| Operating Margin Change y/y | | | | | -4.4% | -1.8% | -6.0% | 3.0% | 2.2% | -0.6% |
| 2H23 | | | | | | | | 2.6% | | |
| OTHER | | | | | | | | | | |
| Revenues | 39 | 44 | 46 | 48 | 177 | 30 | 22 | 17 | 18 | 87 |
| Operating Income | 20 | 15 | 17 | 25 | 77 | 7 | 6 | 6 | (1) | 18 |
| Operating Margin | 51.3% | 34.1% | 37.0% | 52.1% | 43.5% | 23.3% | 27.3% | 35.3% | -5.6% | 20.7% |
| Operating Margin Change y/y | | | | | 1.4% | -27.9% | -6.8% | -1.7% | NM | NM |
| 2H23 | | | | | | | | -30.4% | | |
| REMAIN CO | | | | | | | | | | |
| Operating Margin | 20.9% | 17.5% | 18.5% | 19.6% | 19.1% | 16.5% | 17.7% | 18.2% | 19.7% | 18.1% |
| Operating Margin Change y/y | | | | | -2.3% | -4.4% | 0.2% | -0.3% | 0.1% | -1.1% |
| 2H23 | | | | | | | | -0.1% | | |
| KIDNEY CO | | | | | | | | | | |
| Operating Margin | 10.5% | 8.2% | 9.4% | 8.7% | 9.2% | 5.3% | 4.9% | 8.7% | 8.0% | 6.7% |
| Operating Margin Change y/y | | | | | -1.3% | -5.2% | -3.2% | -0.7% | -0.7% | -2.4% |
| 2H23 | | | | | | | | -0.7% | | |
| TOTAL BAX | | | | | | | | | | |
| Operating Margin | 17.7% | 14.6% | 15.7% | 16.2% | 16.1% | 13.1% | 13.9% | 15.4% | 16.2% | 14.7% |
| Operating Margin Change y/y | | | | | 16.1% | -4.6% | -0.8% | -0.3% | 0.0% | -1.4% |
| 2H23 | | | | | | | | -0.2% | | |
| REPORTED | | | | | | | | | | |
| Operating Margin | 16.5% | 14.7% | 15.7% | 15.9% | 15.7% | 12.5% | 13.2% | 15.2% | 16.2% | 14.3% |
| UNALLOCATED | | | | | | | | | | |
| Operating Margin | 1.3% | -0.1% | 0.0% | 0.3% | 0.4% | 0.6% | 0.7% | 0.1% | 0.0% | 0.3% |
| (\$m) | 45 | (3) | (1) | 13 | 54 | 21 | 25 | 5 | - | 51 |

Source: Company filings, BofA Global Research

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Price objective basis & risk

Baxter International Inc (BAX)

Our price objective of \$45 is based on an earnings multiple of approximately 15x our 2025E EPS estimate. This multiple represents a several turn discount to the large cap medtech comp group as we see BAX revenues growing below the medtech average particularly with hospitals likely to pull back on replacement capital spending. We do not see any major upside revenue growth catalysts for BAX.

Upside/Downside risks to our PO are: 1) whether BAX can create value with its portfolio repositioning (business exits/spins) and 2) deflation/inflation given BAX has outsized exposure to inflationary pressures.

Analyst Certification

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Medical Technology & Devices Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------------|-------------|------------------|--------------|
| BUY | | | | |
| | Abbott Laboratories | ABT | ABT US | Travis Steed |
| | Axonics | AXNX | AXNX US | Travis Steed |
| | Bausch & Lomb | BLCO | BLCO US | Craig Bijou |
| | Becton Dickinson | BDX | BDX US | Travis Steed |
| | Boston Scientific | BSX | BSX US | Travis Steed |
| | Dexcom | DXCM | DXCM US | Travis Steed |
| | Inari Medical | NARI | NARI US | Travis Steed |
| | Inspire Medical | INSP | INSP US | Travis Steed |
| | Insulet | PODD | PODD US | Travis Steed |
| | Intuitive Surgical | ISRG | ISRG US | Travis Steed |
| | Medtronic | MDT | MDT US | Travis Steed |
| | Paragon 28 | FNA | FNA US | Craig Bijou |
| | Procept BioRobotics Corporation | PRCT | PRCT US | Craig Bijou |
| | RxSight | RXST | RXST US | Craig Bijou |
| | Shockwave Medical | SWAV | SWAV US | Travis Steed |
| | Si-Bone | SIBN | SIBN US | Craig Bijou |
| | Stryker | SYK | SYK US | Travis Steed |
| | The Cooper Companies | COO | COO US | Craig Bijou |
| NEUTRAL | | | | |
| | Baxter International Inc | BAX | BAX US | Travis Steed |
| | Conmed | CNMD | CNMD US | Travis Steed |
| | Edwards Lifesciences | EW | EW US | Travis Steed |
| | GE HealthCare | GEHC | GEHC US | Craig Bijou |
| | Integer Holdings Corporation | ITGR | ITGR US | Craig Bijou |
| | Merit Medical | MMSI | MMSI US | Craig Bijou |
| | Teleflex Incorporated | TFX | TFX US | Craig Bijou |
| | Zimmer Biomet | ZBH | ZBH US | Travis Steed |
| UNDERPERFORM | | | | |
| | Embecta | EMBC | EMBC US | Travis Steed |
| | Globus Medical | GMED | GMED US | Craig Bijou |
| | Integra Lifesciences | IART | IART US | Craig Bijou |
| | Nevro | NVRO | NVRO US | Travis Steed |
| | Outset Medical | OM | OM US | Travis Steed |
| | Silk Road Medical | SILK | SILK US | Travis Steed |
| | Tandem Diabetes Care | TNDM | TNDM US | Travis Steed |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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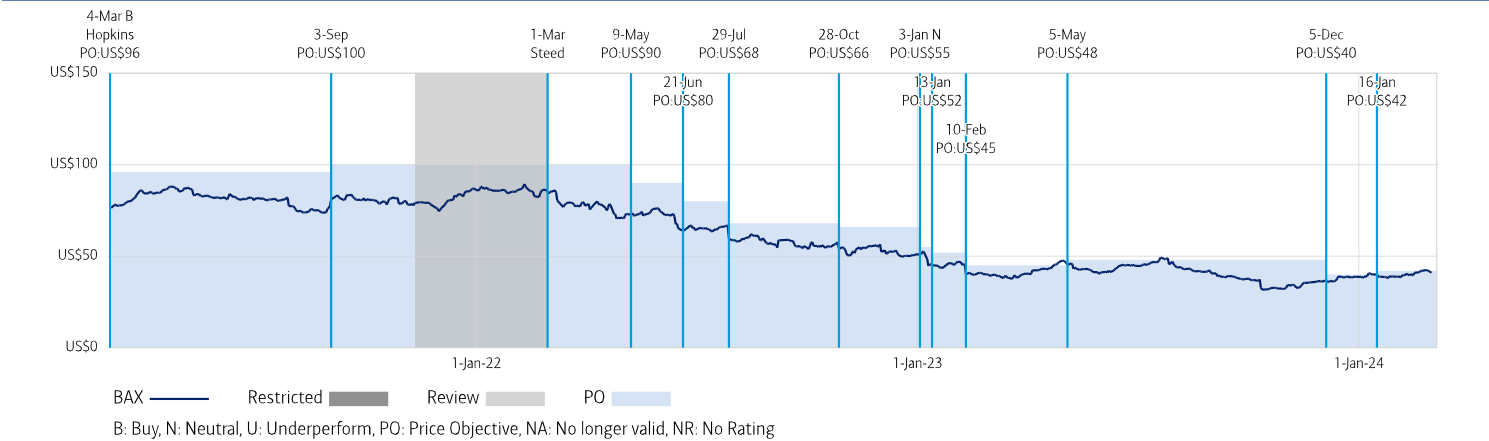
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Baxter (BAX) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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