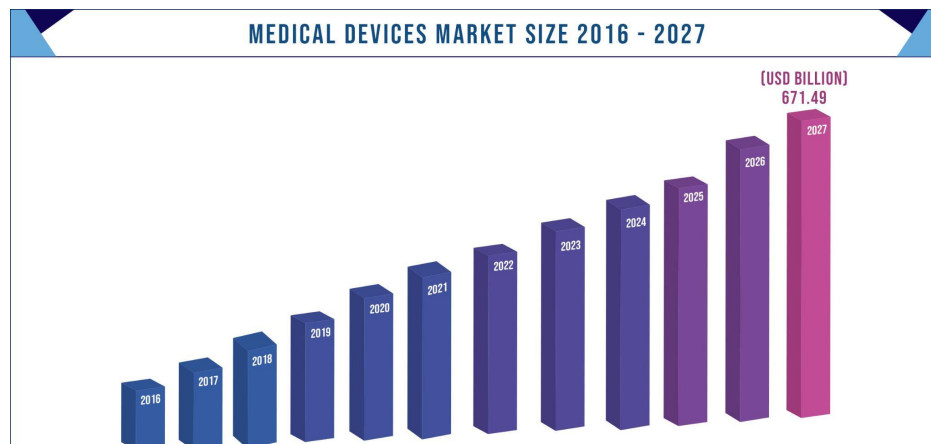


Company Description

Baxter International Inc. develops, manufactures, and markets products that save and sustains the life of people with haemophilia, immune disorders, infectious diseases, kidney disease, trauma, and other chronic and acute medical conditions. As a global, diversified healthcare company Baxter applies a unique combination of expertise in medical devices, pharmaceuticals, and biotechnology to create products that advance patient care worldwide. Its headquarters are located in Deerfield, Illinois, United States and the company is listed on the NYSE (BAX). **69%** of Baxter Customer Companies are in the United States, and **7%** is in the United Kingdom.

Industry Overview

The Global Medical Devices industry is projected to grow at a **CAGR** of **5.4%** from **2021-2028**. This

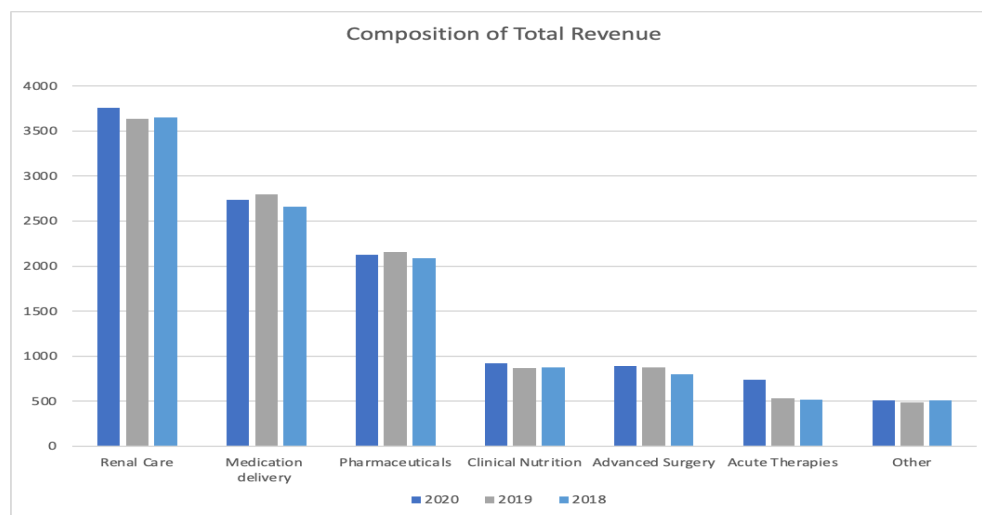


can be attributed to the growth in the geriatric population which is expected to touch **1.41 billion** by **2030**. This has further stimulated a larger prevalence of chronic diseases and has increased the number of people undergoing diagnosis and surgeries. For

example, the global dialysis market size is projected to reach **\$177.56** billion by **2026**, exhibiting a **CAGR** of **7.7%** during the forecast period. The market stood at **\$90.33** billion in **2019**.

Business Overview

Baxter International Inc., through its subsidiaries, provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile intravenous (IV) solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anaesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. Of these, the two major sources of

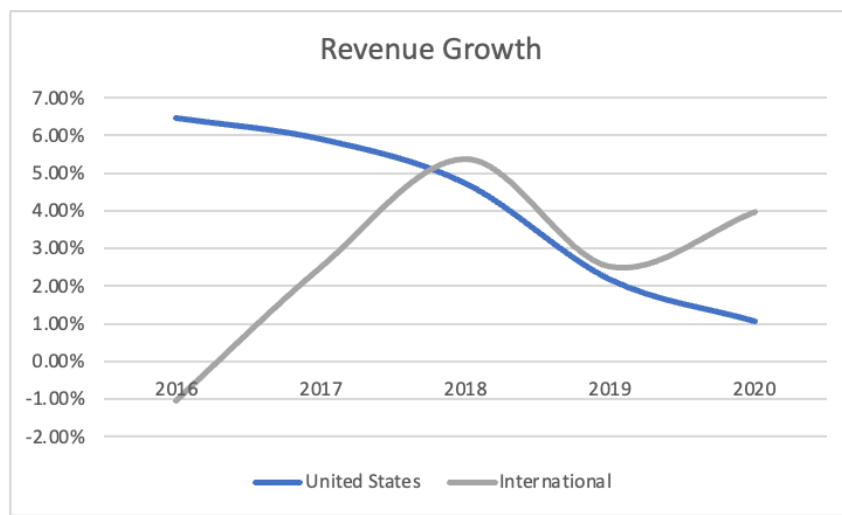


revenue are Renal Care and Medication Delivery which accounts for **32.2%** and **23.4%** respectively. These products are used by hospitals, kidney dialysis centres, nursing

homes, rehabilitation centres, doctors' offices and by patients at home under physician supervision. The global footprint and the critical nature of their products and services play a key role in expanding access to healthcare in emerging and developed countries. As of December 31, 2020, Baxter manufactured products in over **20 countries** and sold them in over **100 countries**.

Business Strategy

The majority of revenues are generated outside of the United States and geographic expansion remains a component of Baxter's strategy. Presence includes operations in Europe, the Middle East, Africa, Asia-Pacific, Latin America and Canada. Even though the strategy is to have a global footprint, Baxter is subject to certain risks inherent in conducting business outside the United States.



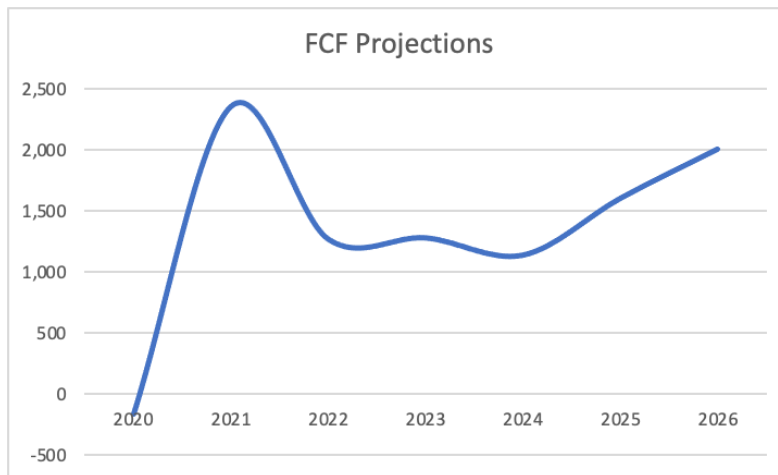
Baxter continues to focus on several key objectives to successfully execute the long-term strategy to achieve sustainable growth and deliver enhanced stockholder value. A diversified and broad portfolio of medical products that treat life-threatening acute or chronic conditions and global presence are core components of the strategy to achieve these objectives.

Baxter is focused on three strategic factors as part of their pursuit of industry-leading performance: optimizing the core portfolio globally; operational excellence focused on streamlining the cost structure and enhancing operational efficiency, and maintaining a disciplined and balanced approach to capital allocation.

As part of a strategy, investments are being shifted to drive innovation in product areas where Baxter have compelling opportunities to serve patients and healthcare professionals while advancing their business and are accelerating the pace at which they bring these advances to market. They are in the midst of launching several new products, geographic expansions and line extensions by 2023 including in such areas as chronic and acute renal care, smart pump technology, hospital pharmaceuticals and Nutritionals, surgical sealants, and more. These comprise a mix of entirely new offerings, improvements on existing technologies, and the expansion of current products into new geographies. Looking at the strategy, company's vision and the Board we expect the company to perform well in the near future and grow at a very good rate and capture the majority of the market capitalisation by the end of 2026.

Financial Analysis

Baxter has a market capitalisation of **\$37.5 billion**. The financial performance of the company has been in line with the competitors even though their profitability and market capitalisation is lower than their direct competitors. Having a smaller market capitalisation relatively can explain the small differences found in the profitability and operating margins. Having a smaller market cap directly translates to Baxter using fewer advantages of scales of operation relative to their competitors. The profitability margin is **9.75%** and the operating margin is **15.93%**. Baxter also has a very good



forward P/E ratio of **18.76** while the healthcare industry as a whole has a P/E ratio of **21.76**. The EV/EBITDA of Baxter stands at **16.67** which still shows tremendous potential for investment as there is a lot of growth potential. The current ratio is about **2.52** which shows a decent ability to meet short term obligations and since Baxter is associated with large scale medical goods production

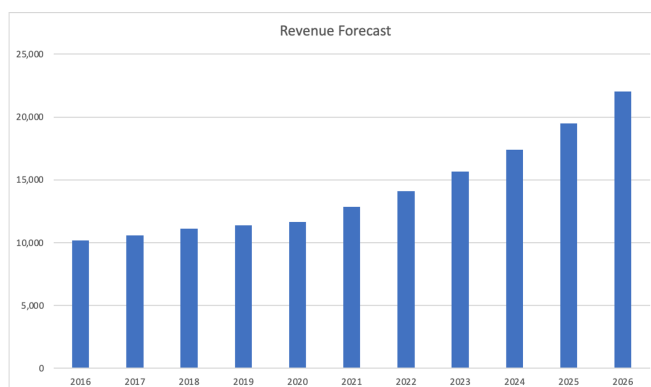
this current ratio does justice. Return on assets stands at **6.21%** which is very good in comparison with the competitors and shows proof of very stable business operations. We expect an unlevered FCF margin of almost **20.71%** and expect it to deteriorate over the years as we expect the supply chain disruptions, possible M&A activity, R&D investments and Capex to have an effect in the possible future.

Competitor Analysis

Baxter being in the medical devices industry has two main competitors: Medtronic and Abbott Laboratories that we have identified. When comparing the forward P/E ratio of Baxter (**18.76**), Medtronic (**18.69**). As the numbers look pretty close they all show very good growth potential. However, when we look at the EV/EBITDA, the P/E analysis is further complemented and we find a lot of growth in Baxter. Baxter has an EV/EBITDA of **16.67** and Medtronic has an EV/EBITDA of **18.91**.

Upon carrying out a similar analysis for Abbott Laboratories, we conclude that due to the presence of a higher P/E ratio for Baxter (**18.76**), it has the potential to be increasingly profitable in the future as compared to Abbott (**27.03**).

Outlook



Having adopted a very conservative approach to our revenue predictions, which we believe can be surpassed by Baxter, the estimated growth rate adopted for revenues is **10%** from 2020-2021, as the demand for medical devices improves amidst the current economic environment. The average revenue growth rate forecasted for 2021-2026 is **11.5%** as the acquisition for Hillrom is expected to generate a high single digit return on invested capital for Baxter by year 5. We have forecasted a

slight increase in operating expense due to the supply chain bottlenecks, possible bull-whip effect, and uncertainty caused due to new strains of Covid-19.

Under this approach, we have a predicted share price of **\$79.2**. However, we believe that Baxter, with its potential, will easily be able to surpass these expectations.