

BAXTER INTERNATIONAL INC

Form 10-Q

November 07, 2016

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-4448

BAXTER INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: BAXTER INTERNATIONAL INC - Form 10-Q

Delaware
(State or other jurisdiction of

36-0781620
(I.R.S. Employer

incorporation or organization)

Identification No.)

One Baxter Parkway, Deerfield, Illinois
(Address of principal executive offices)

60015
(Zip Code)

224-948-2000

(Registrant's telephone number,
including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock, par value \$1.00 per share, outstanding as of October 31, 2016 was 543,919,936 shares.

Table of Contents

BAXTER INTERNATIONAL INC.

FORM 10-Q

For the quarterly period ended September 30, 2016

TABLE OF CONTENTS

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Statements of Income</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
<u>Review by Independent Registered Public Accounting Firm</u>	42
<u>Report of Independent Registered Public Accounting Firm</u>	43
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	44
Item 6. <u>Exhibits</u>	45
<u>Signature</u>	46

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Baxter International Inc.

Condensed Consolidated Statements of Income (unaudited)

(in millions, except per share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales	\$2,558	\$2,487	\$7,518	\$7,365
Cost of sales	1,487	1,453	4,510	4,291
Gross margin	1,071	1,034	3,008	3,074
Marketing and administrative expenses	726	794	2,076	2,361
Research and development expenses	159	148	490	442
Operating income	186	92	442	271
Net interest expense	14	34	53	94
Other expense (income), net	44	91	(4,286)	(46)
Income (loss) from continuing operations before income taxes	128	(33)	4,675	223
Income tax expense (benefit)	1	(35)	(51)	13
Income from continuing operations	127	2	4,726	210
Income (loss) from discontinued operations, net of tax	3	(1)	(4)	553
Net income	\$ 130	\$ 1	\$4,722	\$ 763
Income from continuing operations per common share				
Basic	\$ 0.23	\$ 0.00	\$ 8.64	\$ 0.39
Diluted	\$ 0.23	\$ 0.00	\$ 8.56	\$ 0.38
Income (loss) from discontinued operations per common share				
Basic	\$ 0.01	\$ 0.00	\$ (0.01)	\$ 1.01
Diluted	\$ 0.01	\$ 0.00	\$ (0.01)	\$ 1.01
Net income per common share				
Basic	\$ 0.24	\$ 0.00	\$ 8.63	\$ 1.40
Diluted	\$ 0.24	\$ 0.00	\$ 8.55	\$ 1.39
Weighted-average number of common shares outstanding				
Basic	544	546	547	544
Diluted	551	549	552	548

Edgar Filing: BAXTER INTERNATIONAL INC - Form 10-Q

Cash dividends declared per common share	\$ 0.13	\$0.115	\$0.375	\$1.155
--	---------	---------	---------	---------

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Baxter International Inc.

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	\$ 130	\$ 1	\$ 4,722	\$ 763
Other comprehensive income (loss), net of tax:				
Currency translation adjustments, net of tax benefit of (\$2) and (\$10) for the three months ended September 30, 2016 and 2015, respectively, and (\$12) and (\$78) for the nine months ended September 30, 2016 and 2015, respectively	10	(271)	(16)	(985)
Pension and other employee benefits, net of tax expense of \$11 and \$16 for the three months ended September 30, 2016 and 2015, respectively, and \$32 and \$150 for the nine months ended September 30, 2016 and 2015, respectively	21	31	61	212
Hedging activities, net of tax (benefit) expense of zero and (\$1) for the three months ended September 30, 2016 and 2015, respectively, and \$(5) and \$9 for the nine months ended September 30, 2016 and 2015, respectively	1	(2)	(10)	16
Available-for-sale securities, net of tax expense of zero and \$2 for the three months ended September 30, 2016 and 2015, respectively, and zero and \$6 for the nine months ended September 30, 2016 and 2015		3,418	(4,431)	3,440
Total other comprehensive income (loss), net of tax	32	3,176	(4,396)	2,683
Comprehensive income	\$ 162	\$ 3,177	\$ 326	\$ 3,446

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Baxter International Inc.

Condensed Consolidated Balance Sheets (unaudited)

(in millions, except shares)

		September 30, 2016	December 31, 2015
Current assets	Cash and equivalents	\$ 2,597	\$ 2,213
	Accounts and other current receivables, net	1,739	1,731
	Inventories	1,568	1,604
	Prepaid expenses and other	634	855
	Investment in Baxalta common stock		5,148
	Current assets held for disposition	51	245
	Total current assets	6,589	11,796
	Property, plant and equipment, net	4,327	4,386
Other assets	Goodwill	2,679	2,687
	Other intangible assets, net	1,180	1,349
	Other	1,020	744
	Total other assets	4,879	4,780
Total assets		\$ 15,795	\$ 20,962
Current liabilities	Short-term debt	\$	\$ 1,775
	Current maturities of long-term debt and lease obligations	6	810
	Accounts payable and accrued liabilities	2,499	2,666
	Current income taxes payable	98	453
	Current liabilities held for disposition	3	46
	Total current liabilities	2,606	5,750
	Long-term debt and lease obligations	2,834	3,922
	Other long-term liabilities	1,691	2,425
Equity	Common stock, \$1 par value, authorized 2,000,000,000 shares, issued 683,494,944 shares in 2016 and 2015	683	683
	Common stock in treasury, at cost, 139,581,579 shares in 2016 and 135,839,938 shares in 2015	(7,813)	(7,646)
	Additional contributed capital	5,930	5,902
	Retained earnings	14,049	9,683
	Accumulated other comprehensive (loss) income	(4,172)	224
	Total Baxter shareholders' equity	8,677	8,846
	Noncontrolling interests	(13)	19
	Total equity	8,664	8,865
Total liabilities and equity		\$ 15,795	\$ 20,962

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Baxter International Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions)

		Nine months ended September 30,	
		2016	2015
Cash flows from operations	Net income	\$4,722	\$ 763
	Adjustments to reconcile income from continuing operations to net cash from operating activities:		
	Loss (income) from discontinued operations, net of tax	4	(553)
	Depreciation and amortization	599	593
	Deferred income taxes	(298)	63
	Stock compensation	84	96
	Realized excess tax benefits from stock issued under employee benefit plans	(36)	(6)
	Net periodic pension benefit and OPEB costs	90	170
	Business optimization items	237	102
	Net realized gains on Baxalta common stock	(4,387)	
	Other	236	(8)
	Changes in balance sheet items		
	Accounts and other current receivables, net	22	5
	Inventories	(11)	(205)
	Accounts payable and accrued liabilities	(326)	14
	Business optimization and infusion pump payments	(119)	(61)
	Other	121	(216)
	Cash flows from operations continuing operations	938	757
	Cash flows from operations discontinued operations	3	290
	Cash flows from operations	941	1,047
Cash flows from investing activities	Capital expenditures	(519)	(658)
	Acquisitions and investments, net of cash acquired	(47)	(27)
	Divestitures and other investing activities	17	56
	Cash flows from investing activities continuing operations	(549)	(629)
	Cash flows from investing activities discontinued operations	13	(946)
	Cash flows from investing activities	(536)	(1,575)
Cash flows from financing activities	Issuances of debt	1,641	6,868
	Payments of obligations	(1,383)	(3,723)
	Debt extinguishment costs	(16)	(114)
	Decrease in debt with original maturities of three months or less, net	(300)	(450)
	Transfer of cash and equivalents to Baxalta		(2,122)

Edgar Filing: BAXTER INTERNATIONAL INC - Form 10-Q

Cash dividends on common stock	(197)	(847)
Proceeds and realized excess tax benefits from stock issued under employee benefit plans	286	174
Purchase of treasury stock	(45)	
Other	(30)	(39)
Cash flows from financing activities	(44)	(253)
Effect of foreign exchange rate changes on cash and equivalents	23	(174)
Increase (decrease) in cash and equivalents	384	(955)
Cash and equivalents at beginning of period		