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Baxter International Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. (Operator instructions) Our first question comes from Mike Weinstein of JP Morgan. Your question please.

Mike Weinstein – JP Morgan

Good Morning. Congratulations on another good quarter. Let me start by asking a few financial questions. That's probably helpful. I would say, one with the 2009 guidance if you could, I think it would be helpful for everybody if you could talk a little bit about the gross margin drivers. You're currently for more than 150 basis points of improvement again in 2009. I think added to the commentary as to – as the drivers behind that would probably be helpful for people. To the shares, your stated guidance, since implied of \$550million of net repurchases based on when the stock is at today, is that right? And then third, \$1billion in CapEx in 2009 is higher than what we're modeling. So if I could get some insights on that. Thanks.

Bob Parkinson

Okay. Thanks, Mike. Let me start with the gross margin discussion, and Rob can think a little bit with responding to the buyback question and the CapEx. As we discussed previously, there's a number of factors that give us a basis of optimism, I think, in terms of continued gross margin expansion going forward. It starts with, what I recall, business mix as you listen to a lot of detail on guidance for next year. Clearly, our bioscience businesses projected to grow at a faster rate than the other businesses. As you know, it is a higher margin business. And so, that is a continued contributor to gross margin expansion.

Having said that, with any each of our businesses, particular business units that have higher gross margins are growing at a faster rate. We highlighted, in medication delivery for example, with growth year-to-year '08 versus '07 of our anesthesia business, again our nutrition business. Both of which have higher gross margins than medication delivery overall. And again, for '09 we're projecting these business units to grow at faster rate than medication deliveries. So that was our examples of business units that are higher margin growing at a faster rate.

So again, business mix led by bioscience business unit mix within the various businesses, all of our higher growth vehicles can be business units or businesses that are higher gross margins. Of course, the hallmark of our company is our focus on manufacturing efficiencies, yield improvements in our bioscience business, value improvement programs in medication delivery, in renal, and so on. And we continue to pursue manufacturing efficiencies in our global manufacturing footprint with a passion.

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