



Becton, Dickinson & Co. (BDX)

Updated June 30th, 2018 by Nate Parsh

Key Metrics

Current Price: \$240	5 Year CAGR Estimate: 8.0%	Volatility Percentile: 15.2%
Fair Value Price: \$203	5 Year Growth Estimate: 10.0%	Momentum Percentile: 78.1%
% Fair Value: 118%	5 Year Valuation Multiple Estimate: -3.3%	Valuation Percentile: 26.9%
Dividend Yield: 1.3%	5 Year Price Target \$325	Total Return Percentile: 47.3%

Overview & Current Events

Around since 1897, Becton, Dickinson & Co., or BD, is a global leader in the medical supply industry with sales of more than \$12 billion in 2017. The company has almost 50,000 employees and does business in 190 countries.

BD is composed of two segments. Approximately 67% of sales come from the company's Medical Division. Products sold from this division include needles for diabetes care, drug delivery systems, hypodermic syringes and surgical blades. The Life Sciences division is responsible for the remainder of sales and sells products that include those used in the collection and transportation of diagnostic specimens.

BD has been very active on the acquisition front in recent years. In 2015, the company acquired CareFusion, a leading supplier of diagnostic products and medical devices. BD completed its \$24 billion purchase of C.R. Bard at the end of 2017. Bard's four divisions, Vascular, Oncology, Urology and Surgical Specialties, all saw mid to high single digit growth in the last quarter as an independent company. Bard should help BD grow sales in China by mid double digits.

BD reported Q2 earnings on May 3rd. The company earned \$2.65 per share, topping estimates by \$0.02. Thanks to BD's purchase of Bard, revenues grew 42.1% to \$4.22 billion. This came in \$100 million ahead of expectations.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.46	\$4.95	\$4.94	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$10.98	\$17.68
DPS	\$1.14	\$1.32	\$1.48	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.00	\$5.19

BD has increased earnings-per-share 7.8% per year over the past 10 years. BD has grown earnings in 9 out of the last 10 years. 2010's earnings-per-share saw a \$0.01 decline from the previous year. The company expects growth to continue in 2018 and beyond. This has already been the case in the first half of the company's fiscal 2018. We continue to feel that BD can grow earnings at a rate of 10% per year through 2023, higher than the historical average. If Bard continues to be a catalyst for the company that it so far has been, then we might raise our forecasted earnings growth rate. For now, we are comfortable leaving it as is. If BD is able to hit our target earnings-per-share growth rate, the company could earn \$17.68 per share by 2023.

Medical sales grew 19.7% year over year while Life Sciences improved 11.8%. U.S. sales grew 4% while international increased 7.9% in constant currency. ~45% of sales come from markets outside the U.S. Due to Q2 strength, BD raised its guidance for revenue growth to 31%-31.5% from 30%-31%. The company also increased its EPS midpoint to \$10.98 from \$10.93.

BD's dividend has grown by 11.6% per year over the past decade. The company most recently raised its dividend 2.7% on November 21st. While this raise is well below the company's long term average, investors need to keep in mind that the Bard acquisition is the largest in the company's history and that 70% of the purchase price was paid for in cash. BD has a very low payout ratio (~31% in 2017) and investors should see double digit dividend growth resume in the future.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19	13.7	14.9	14.5	14.1	15.6	18.1	19.5	18.4	19.4	21.8	18.4
Avg. Yld.	1.3%	1.9%	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.3%	1.6%

Shares of BD have returned more than 10% since our April 3rd report. Based on updated guidance for the year, BD's stock currently has a price to earnings multiple of 21.8. The stock's 10-year historical average is 16.7. BD's P/E has expanded in recent years, making shares seem unattractive relative to its history. Our targets P/E for 2023 is 18.4, which is a result of factoring in the forecasted 10% rise in EPS. Based off this estimate, shares are overvalued at current levels. If the company reverts to the P/E of 18.4, shares of BD could see share price reduced by 3.3% through 2023.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	45.9%	39.5%	38.3%	38%	34.8%	34.3%	34.6%	17.7%	23.4%	15.7%	17.3%	25.1%
Debt/A	37.6%	44.7%	43.7%	53.7%	63.6%	58.5%	59.4%	72.9%	70.2%	65.7%	63.5%	65.3%
Int. Cov.	---	223.6	100.3	41.7	18.9	13.3	18.6	3.1	4.0	3.4	5.0	10.0
Payout	25.6%	26.7%	30%	29.2%	33.6%	34.1%	34.9%	33.5%	30.7%	30.8%	27.4%	29.4%
Std. Dev.	30.7%	25.3%	16.2%	22.2%	13.4%	13.8%	16.7%	17.9%	18.7%	15.7%	16.4%	19.0%

BD showed that it can perform well in less than ideal economic conditions during the last recession and managed to show growth at a time most other companies saw an earnings decline. The company's products are in high demand as medical devices and other healthcare products are still sought out during a recession. This ability to grow or maintain earnings in any economic climate makes BD a quality company and a relatively safe stock. The addition of Bard's portfolio of products has already contributed to the company's earnings and should continue to do so in future years. BD's has a very low payout, which could allow the company to quickly raise payments to shareholders.

Final Thoughts & Recommendation

While shares of BD trade with an elevated price-to-earnings ratio when compared to its historical average, there is still a decent amount of growth potential for the company. BD has the potential to offer an annual return of 8% through 2023. This estimate is based off a combination of growth (10%), dividends (1.3%) and multiple mean revision (3.3%). While the recent increase in share price has reduced our annual expected return going forward, we remain confident that BD is a quality company that investors should consider adding to their portfolio.

Total Return Breakdown by Year

