



# Becton, Dickinson & Co. (BDX)

Updated April 3<sup>rd</sup>, 2018 by Nate Parsh

## Key Metrics

<b>Current Price:</b> \$217	<b>5 Year CAGR Estimate:</b> 10.0%	<b>Quality Percentile:</b> N/A
<b>Fair Value Price:</b> \$202	<b>5 Year Growth Estimate:</b> 10.1%	<b>Momentum Percentile:</b> N/A
<b>% Fair Value:</b> 108%	<b>5 Year Valuation Multiple Estimate:</b> -1.5%	<b>Total Return Percentile:</b> N/A
<b>Dividend Yield:</b> 1.4%	<b>5 Year Price Target:</b> \$324	<b>Valuation Percentile:</b> N/A

## Overview & Current Events

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

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 earnings for Q1 of 2018 on 2/6/2018. Adjusting for a charge related to tax reform, the company earned \$2.48 per share, almost 4% from Q1 2017 on a currency neutral basis. Revenue grew 3.7% year over year to \$3.08 billion. BD topped analysts' estimates on both earnings and revenue. BD has managed to beat EPS estimates for 16 consecutive quarters. U.S. sales improved just 1.6% during the quarter, but international revenues saw growth of 6.3%. Approximately 45% of BD's revenues come from markets outside of the U.S.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$4.46	\$4.95	\$4.94	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	<b>\$10.93</b>	<b>\$17.60</b>
<b>DPS</b>	\$1.14	\$1.32	\$1.48	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	<b>\$3.00</b>	<b>\$5.19</b>

BD has increased EPS 7.8% per year over the past 10 years. BD has grown earnings in 9 out of the last 10 years. 2010's EPS saw a \$0.01 decline from the previous year. The company expects growth to continue in 2018 and beyond. During the Q1 conference call, management provided an updated guidance for 2018 inclusive of Bard. BD's expects to earn between \$10.85-\$11.00 per share this year. This is 14%-16% above 2017's figure and almost twice the company's average EPS growth over the past decade. Let's assume that the Bard acquisition enables the company to grow earnings at 10% per year, slightly above their 10-year average rate. Based off of the 2018 guidance midpoint of \$10.93, BD is expected to earn \$17.60 by 2023.

BD's dividend has grown by 11.6% per year over the past decade. The company most recently raised its dividend 2.7% on 11/21/2017. 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
<b>Avg. P/E</b>	19	13.7	14.9	14.5	14.1	15.6	18.1	19.5	18.4	19.4	<b>19.8</b>	<b>18.4</b>
<b>Avg. Yld.</b>	1.3%	1.9%	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	<b>1.4%</b>	<b>1.9%</b>

Shares of BD are currently trading at a multiple (19.8) that is 18.5% above its 10-year historical average of 16.7. BD's P/E has expanded in recent years, making shares seem unattractive relative to its history. The expected 2023 P/E of 18.4 is a result of factoring in the forecasted 10% rise in EPS. Based off this estimate, shares are only slightly overvalued at current levels. If the company reverts to the P/E of 18.4, shares of BD could see share price reduced by 1.5% through 2023. Even with nearly 12% annual dividend growth for the past 10 years, shares have yielded 2.0% or lower for almost all of the last decade. This means that the share prices have been rising steadily. Investors shouldn't expect that to change going forward.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	45.9%	39.5%	38.3%	38%	34.8%	34.3%	34.6%	17.7%	23.4%	15.7%	<b>17.3%</b>	<b>25.1%</b>
<b>Debt/A</b>	37.6%	44.7%	43.7%	53.7%	63.6%	58.5%	59.4%	72.9%	70.2%	65.7%	<b>63.5%</b>	<b>65.3%</b>
<b>Int. Cov.</b>	---	223.6	100.3	41.7	18.9	13.3	18.6	3.1	4.0	3.4	<b>5.0</b>	<b>10.0</b>
<b>Payout</b>	25.6%	26.7%	30%	29.2%	33.6%	34.1%	34.9%	33.5%	30.7%	30.8%	<b>27.4%</b>	<b>29.5%</b>
<b>Std. Dev.</b>	30.7%	25.3%	16.2%	22.2%	13.4%	13.8%	16.7%	17.9%	18.7%	15.7%	<b>16.4%</b>	<b>19.0%</b>

BD showed that it can perform well in less than ideal economic conditions 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 in demand 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 will only add to the company's growth 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 P/E when compared to its historical average, there is a lot of growth potential for the company. BD's acquisition of Bard will help the company gain access to different markets, especially in China. The combined company has the potential to grow earnings at a 10% rate through 2023. This estimate is based off a combination of growth (10.1%), dividends (1.4%) and multiple mean revision (1.5%). This should help fuel a return to double digit dividend growth rate. Investors looking for share price appreciation should consider BD while those who prefer higher yielding investments might pass on this low yielding stock.

## Total Return Breakdown by Year

