



Becton, Dickinson & Co. (BDX)

Updated November 7th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$241	5 Year CAGR Estimate:	9.6%	Volatility Percentile:	15.2%
Fair Value Price:	\$223	5 Year Growth Estimate:	10.0%	Momentum Percentile:	61.8%
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Growth Percentile:	88.9%
Dividend Yield:	1.2%	5 Year Price Target	\$358	Valuation Percentile:	37.0%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	53.8%

Overview & Current Events

Becton, Dickinson & Co., or BD is a global leader in the medical supply industry. The company was founded in 1897 and has almost 50,000 employees and does business in 190 countries.

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 consisted of four divisions: Vascular, Oncology, Urology and Surgical Specialties.

After the Bard acquisition, BD is now composed of three segments. Products sold by the Medical Division include needles for drug delivery systems and surgical blades. The Life Sciences division provides products for the collection and transportation of diagnostic specimens. The Intervention segment includes several of the products produced by Bard.

BD reported 4th quarter of fiscal 2018 on November 6th. Adjusted earnings-per-share (EPS) was \$2.93, in line with estimates, but an improvement of 22% on a currency neutral basis from the prior year. EPS grew 16% for the year. Revenue grew 38.8% to \$4.4 billion, \$40 million above estimates. Total sales for fiscal 2018 improved more than 32% year-over-year, but growth was 5.8% without including the Bard acquisition.

When you include the Bard acquisition, total U.S. revenues increased nearly 50% and 28% internationally in the quarter. Comparable sales were up 8.7% domestically and 8% internationally. Sales for BD's Medical segment grew 10% for the quarter and 5.6% for the year primarily due to strong demand in Medication Management Solutions and Medication Delivery Solutions. Life Science revenues increased 6.9% in the 4th quarter and 6.8% for the year. All areas of this division showed middle to high single digit sales growth, with Diagnostics Systems leading the way. The BD Interventional segment had 6% quarterly sales growth and a 5.2% improvement for the fiscal year. This includes a nearly 1% negative impact due to impact of Hurricane Maria in Puerto Rico in the 1st quarter. Urology and Critical Care units had increased demand for products. BD expects to earn \$12.10 per share at the midpoint for fiscal 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.95	\$4.94	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$11.01	\$12.10	\$19.48
DPS	\$1.32	\$1.48	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.00	\$3.00	\$5.19
Shares	237.1	229.8	214.8	196.9	194	192	210.7	213.3	227.9	265	260	250

BD has increased earnings-per-share 7.8% per year over the past 10 years, and has grown earnings in 9 out of the last 10 years. We feel that BD can grow earnings at a rate of 10% per year through 2023, higher than the historical average.

BD has increased dividends for 46 years and at a rate of 11.6% per year over the past decade. We have not increased our expected dividend for 2019 because the company has not raised it yet. Given the size of the Bard acquisition, we anticipate that the raise will be similar to last year's 2.7% increase. While this is well below the long-term average, investors should know that the Bard acquisition is the largest in BD's history and that 70% of the purchase price was paid for in cash. BD has a very low payout ratio allowing plenty of room for additional increases in the coming years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.7	14.9	14.5	14.1	15.6	18.1	19.5	18.4	19.4	22.7	19.9	18.4
Avg. Yld.	1.9%	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.6%	1.2%	1.4%

Shares of BD have declined \$9, or 3.6%, since our August 10th report. Based on guidance for fiscal 2019, BD's stock currently has a price to earnings multiple of 19.9. Our target P/E for 2024 is 18.4, which is a result of factoring in the forecasted 10% rise in EPS. If the stock reverts to our target P/E, shares of BD could experience a multiple contraction of 1.6% annually over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

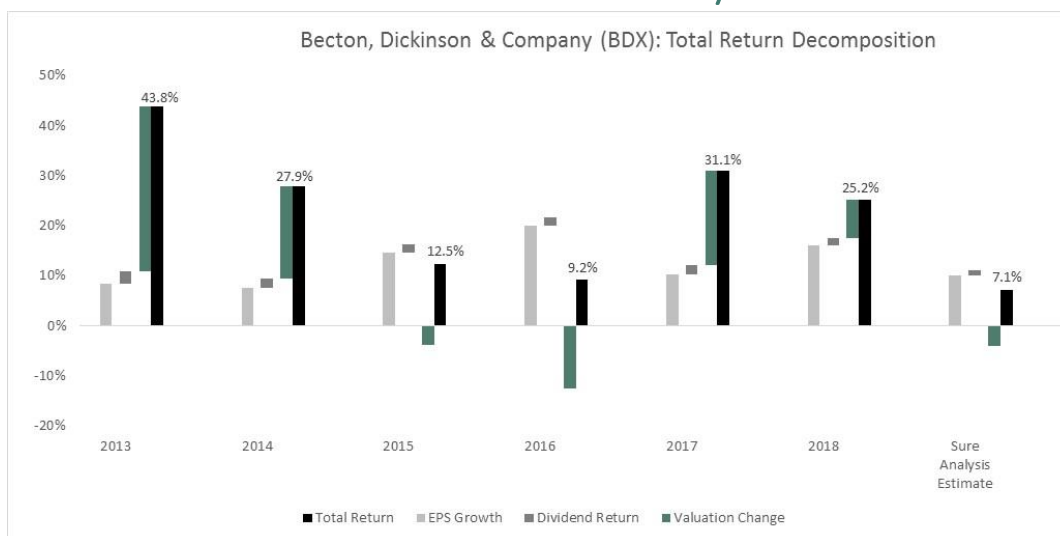
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	39.5%	38.3%	38%	34.8%	34.3%	34.6%	17.7%	23.4%	15.7%	17.3%	19.7%	29.4%
Debt/A	44.7%	43.7%	53.7%	63.6%	58.5%	59.4%	72.9%	70.2%	65.7%	63.5%	62.7%	59.6%
Int. Cov.	223.6	100.3	41.7	18.9	13.3	18.6	3.1	4.0	3.4	5.0	7.0	10.0
Payout	26.7%	30%	29.2%	33.6%	34.1%	34.9%	33.5%	30.7%	30.8%	27.2%	24.8%	26.6%
Std. Dev.	25.3%	16.2%	22.2%	13.4%	13.8%	16.7%	17.9%	18.7%	15.7%	16.4%	16.7%	17.6%

BD showed that it can perform well in less than ideal economic conditions during the last recession. 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 safe stock.

Final Thoughts & Recommendation

Even without Bard, Becton, Dickinson & Co had a very solid fiscal 2018. The company sees a 10% increase in earnings for fiscal 2019. We estimate that shares of BD can offer a total return of 9.6% through 2024, up from our previous estimate of 7.1%. This estimate is based off a combination of expected growth (10%), dividends (1.2%) and multiple mean revision (1.6%). Bard should allow BD to continue to help the company see double digit earnings over the next five years. The stock doesn't offer much in the way of income, but BD does have nearly five decades of dividend growth. We rate BD as a strong hold at current prices. It will be a buy at or below fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	7075	6987	7124	7584	7708	8054	8446	10282	12483	12093
Gross Profit	3628	3675	3696	3959	3953	4171	4301	4695	5991	5942
Gross Margin	51.3%	52.6%	51.9%	52.2%	51.3%	51.8%	50.9%	45.7%	48.0%	49.1%
SG&A Exp.	1696	1681	1691	1824	1923	2422	2145	2563	3005	2925
D&A Exp.	477	465	491	494	511	546	562	891	1114	1088
Operating Profit	1537	1590	1582	1665	1558	1255	1606	1500	2158	1833
Operating Margin	21.7%	22.8%	22.2%	22.0%	20.2%	15.6%	19.0%	14.6%	17.3%	15.2%
Net Profit	1127	1232	1318	1271	1170	1293	1185	695	976	1100
Net Margin	15.9%	17.6%	18.5%	16.8%	15.2%	16.1%	14.0%	6.8%	7.8%	9.1%
Free Cash Flow	1036	1022	1118	1117	1207	1129	1093	1134	1866	1823
Income Tax	423	411	452	417	363	236	337	44	97	-124

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	7913	9305	9651	10430	11361	12149	12447	26478	25586	37734
Cash & Equivalents	830	1394	1216	1175	1671	1890	1861	1424	1541	14179
Accounts Receivable	1079	1169	1205	1229	1250	1240	1187	1618	1618	1744
Inventories	1080	1157	1145	1245	1241	1402	1495	1959	1719	1818
Goodwill & Int. Ass.	1197	1226	1557	2106	2235	2315	2217	14924	13700	13456
Total Liabilities	2977	4162	4216	5602	7225	7106	7394	19314	17953	24786
Accounts Payable	261	264	325	305	350	333	401	631	665	797
Long-Term Debt	1155	1891	1698	2720	4166	3970	3971	12822	11551	18870
Shareholder's Equity	4936	5143	5435	4828	4136	5042	5053	7165	7634	12946
D/E Ratio	0.23	0.37	0.31	0.56	1.01	0.79	0.79	1.79	1.51	1.46

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	14.8%	14.3%	13.9%	12.7%	10.7%	11.0%	9.6%	3.6%	3.7%	3.5%
Return on Equity	24.2%	24.4%	24.9%	24.8%	26.1%	28.2%	23.5%	11.4%	13.2%	10.7%
ROIC	19.4%	18.8%	18.6%	17.3%	14.8%	14.9%	13.1%	4.8%	5.0%	4.3%
Shares Out.	252.7	237.1	229.8	214.8	196.9	194	192	210.7	213.3	227.9
Revenue/Share	28.00	28.31	29.67	33.52	36.85	40.43	42.72	49.55	57.38	54.09
FCF/Share	4.10	4.14	4.66	4.94	5.77	5.67	5.53	5.46	8.58	8.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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