



Becton, Dickinson & Co. (BDX)

Updated February 6th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$243	5 Year CAGR Estimate:	9.5%	Volatility Percentile:	17.8%
Fair Value Price:	\$222	5 Year Growth Estimate:	10.0%	Momentum Percentile:	70.8%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Growth Percentile:	90.6%
Dividend Yield:	1.3%	5 Year Price Target	\$358	Valuation Percentile:	30.2%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	49.6%

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 across 190 countries. The company has a market capitalization of \$65 billion and generates more than \$17 billion in annual revenue.

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 released financial results for the first quarter of fiscal 2019 on 2/5/19. The company earned \$2.70 per share, beating consensus estimates by \$0.08 and improving 9% from the previous year. Revenue grew 35% to \$4.2 billion, \$40 million above estimates. Excluding Bard, revenues improved 5.2% from the previous year.

U.S. sales increased 44.1% (6% without Bard) while international sales grew 24.6% (4.1% without Bard). Revenues for the Medical segment increased 15.3% (5.2% excluding Bard). The Medication Delivery Solutions' growth of 29.1% was due primarily to Bard's portfolio of products. Medication Management and Pharmaceuticals Systems showed strong comparable growth rates of 6.7% and 15.7%, respectively. Life Sciences sales grew 1% overall, mostly due to 4.7% growth for the Preanalytical Systems unit. On a comparable basis, revenues for the Interventional division grew almost 6%. Adjusted gross margins improved 140 basis points to 56.3%. BD reaffirmed its fiscal year guidance on the conference call. If the company matches expectations, earnings-per-share would grow 10% from the previous fiscal year.

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	\$3.02	\$3.08	\$5.33
Shares	237	230	215	197	194	192	211	213	228	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 2024 due to a combination of mid-single digit organic sales growth, revenue gains due to Bard and a lower projected tax rate. This growth rate is higher than the historical average.

BD has increased dividends for 47 years, and at a rate of 11.6% per year over the past decade. BD increased its dividend 2.7% on November 19th, 2018, which was the same increase as the previous year. 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. We believe that the company's dividend growth rate will eventually be more in line with its historical average once BD's cash position improves. BD has a very low payout ratio allowing for 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	20.1	18.4
Avg. Yld.	1.9%	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.6%	1.3%	1.5%

Shares of BD have increased \$2 since our November 7th report. Based on guidance for fiscal 2019, BD's stock currently has a price-to-earnings ratio of 20.1. Our target price-to-earnings ratio for 2024 is 18.4, which is a result of factoring in the forecasted 10% rise in earnings-per-share. If the stock reverts to our valuation target, annual returns could be reduced by 1.8% per year through 2024. BD's current yield of 1.3% is below the stock's five-year average of 1.7%. The low yield is due to a combination of gains in share price and a lower than usual dividend growth rate in 2017 and 2018.

Safety, Quality, Competitive Advantage, & Recession Resiliency

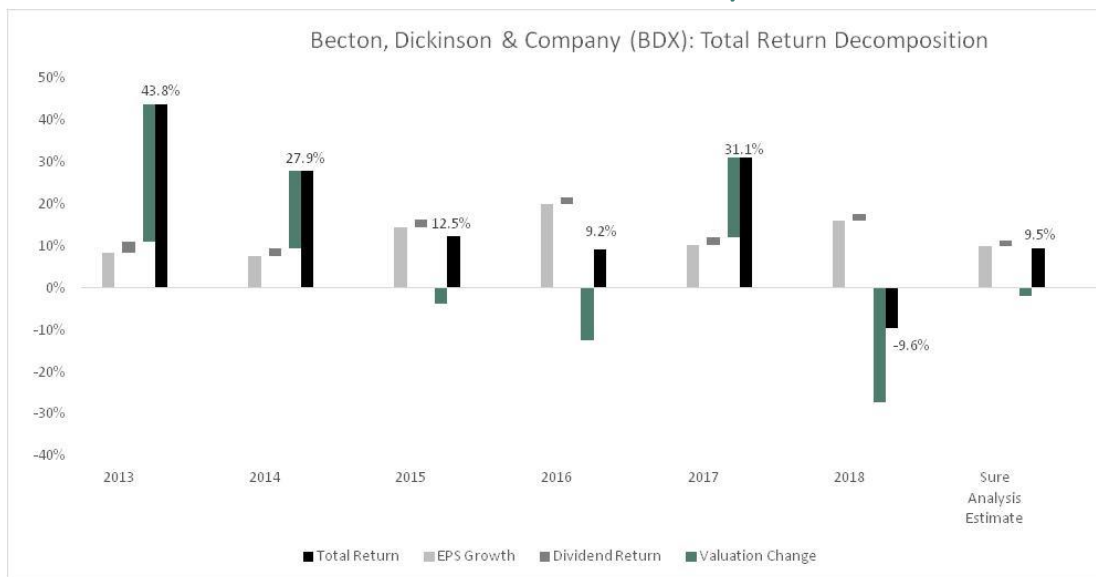
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	27%	30%	29%	34%	34%	35%	34%	31%	31%	27%	26%	27%

BD showed that it can perform well in less than ideal economic conditions during the last recession. The company's top advantage is that its products are in high demand as medical devices and other healthcare products are still sought out during a recession. People will seek medical care regardless of how the economy is performing. This ability to grow or maintain earnings in any economic climate makes BD a quality company and a safe stock.

Final Thoughts & Recommendation

Becton, Dickinson & Co. continues to perform very well. The company posted solid growth rates, both with and without the addition of Bard. We feel that BD has room for further growth. We expect shares of the company to offer a total annual return of 9.5% through 2024, down slightly from our previous forecast of 9.6%. This estimate is based off a combination of expected growth (10%), dividends (1.3%) and multiple mean revision (1.8%). Bard should allow BD to continue to help the company see double digit earnings growth 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 continue to rate BD as a hold at current prices. We recommend investors interested in the company wait until shares trade closer to fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	6987	7124	7584	7708	8054	8446	10282	12483	12092	15983
Gross Profit	3675	3696	3959	3953	4171	4301	4695	5991	5941	7262
Gross Margin	52.6%	51.9%	52.2%	51.3%	51.8%	50.9%	45.7%	48.0%	49.1%	45.4%
SG&A Exp.	1681	1691	1824	1923	2422	2145	2563	3005	2925	4015
D&A Exp.	465	491	494	511	546	562	891	1114	1088	1978
Operating Profit	1590	1582	1665	1558	1255	1606	1500	2158	1832	2241
Operating Margin	22.8%	22.2%	22.0%	20.2%	15.6%	19.0%	14.6%	17.3%	15.2%	14.0%
Net Profit	1232	1318	1271	1170	1293	1185	695	976	1100	311
Net Margin	17.6%	18.5%	16.8%	15.2%	16.1%	14.0%	6.8%	7.8%	9.1%	1.9%
Free Cash Flow	1022	1118	1117	1207	1129	1093	1134	1866	1823	1970
Income Tax	411	452	417	363	236	337	44	97	-124	862

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9305	9651	10430	11361	12149	12447	26478	25586	37734	53904
Cash & Equivalents	1394	1216	1175	1671	1890	1861	1424	1541	14179	1140
Accounts Receivable	1169	1205	1229	1250	1240	1187	1618	1618	1744	2319
Inventories	1157	1145	1245	1241	1402	1495	1959	1719	1818	2451
Goodwill & Int. Ass.	1226	1557	2106	2235	2315	2217	14924	13700	13456	40041
Total Liabilities	4162	4216	5602	7225	7106	7394	19314	17953	24786	32910
Accounts Payable	264	325	305	350	333	401	631	665	797	1106
Long-Term Debt	1891	1698	2720	4166	3970	3971	12822	11551	18870	21495
Shareholder's Equity	5143	5435	4828	4136	5042	5053	7165	7634	12946	20992
D/E Ratio	0.37	0.31	0.56	1.01	0.79	0.79	1.79	1.51	1.46	1.02

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	14.3%	13.9%	12.7%	10.7%	11.0%	9.6%	3.6%	3.7%	3.5%	0.7%
Return on Equity	24.4%	24.9%	24.8%	26.1%	28.2%	23.5%	11.4%	13.2%	10.7%	1.8%
ROIC	18.8%	18.6%	17.3%	14.8%	14.9%	13.1%	4.8%	5.0%	4.3%	0.8%
Shares Out.	237	230	215	197	194	192	211	213	228	265
Revenue/Share	28.31	29.67	33.52	36.85	40.43	42.72	49.55	57.38	54.08	60.40
FCF/Share	4.14	4.66	4.94	5.77	5.67	5.53	5.46	8.58	8.15	7.44

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

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