



Becton, Dickinson & Co. (BDX)

Updated November 5th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$247	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	26.0%
Fair Value Price:	\$231	5 Year Growth Estimate:	10.0%	Momentum Percentile:	36.0%
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Growth Percentile:	93.4%
Dividend Yield:	1.2%	5 Year Price Target	\$373	Valuation Percentile:	58.4%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	78.6%

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 \$66 billion and generates more than \$18 billion in annual revenue. Approximately 45% of revenues come from outside of the U.S.

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. In addition, 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.

On 11/5/2019, BD reported earnings results for the fourth quarter and fiscal year 2019. The company earned \$3.31 per share in the quarter, in-line with estimates and a 13% increase from previous year. Revenue grew 4.1% to \$4.6 billion, topping estimates by \$10 million. For the full fiscal year, adjusted earnings-per-share grew 6.1% to \$11.68, which was \$0.02 below our estimates. Revenue was higher by 8.3% to \$17.3 billion. On a comparable and currency-neutral basis, revenues were up 5.1% year-over-year.

The Medical segment reported constant currency growth of 5.3% for the quarter and 5.1% for the fiscal year. Pharmaceutical systems and medication management solutions were the primary drivers of growth. Life Sciences revenues were up 6.9% during the quarter and 4.9% year-over-year. Biosciences and diagnostic systems both performed very well during the quarter, though currency exchange lowered results by 11.3% and 1.8%, respectively. The Interventional segment was up 7.7%, led by strong results in each product category, especially in the areas of urology and critical care. U.S. sales were up 4.9% for the quarter and 4.5% for the year. International markets saw nearly 8% growth in the fourth quarter, led by 8.8% gains in emerging markets. Expenses as a percentage of revenues declined 1.4% in the quarter while adjusted gross margins increased 50 bps to 57.1%. Adjusted operating margins improved 200 bps to 27.4%. For fiscal 2020, BD expects revenue to grow 4% to 5% and adjusted earnings-per-share to fall in a range of \$12.50 to \$12.65. Achieving the midpoint of adjusted guidance would result in an 8% increase from fiscal 2019's result.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.94	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$11.01	\$11.68	\$12.58	\$20.26
DPS	\$1.48	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.02	\$3.08	\$3.08	\$4.96
Shares¹	230	215	197	194	192	211	213	228	265	265	287	265

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 2025 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.

¹ In millions of shares

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BD has increased dividends for 47 years. The company increased its dividend by 2.7% for the 12/31/2019 payment, 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 low payout ratio, allowing for plenty of room for additional increases in the coming years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.9	14.5	14.1	15.6	18.1	19.5	18.4	19.4	22.7	21.7	19.6	18.4
Avg. Yld.	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.6%	1.2%	1.2%	1.3%

Shares of BD have increased \$2, or 0.8%, since our 8/7/2019 report. Based on guidance for fiscal 2020, BD's stock currently has a price-to-earnings ratio of 19.6. 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 P/E target by 2025, valuation would be a 1.3% headwind to annual returns over this time period. BD's current yield of 1.2% 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

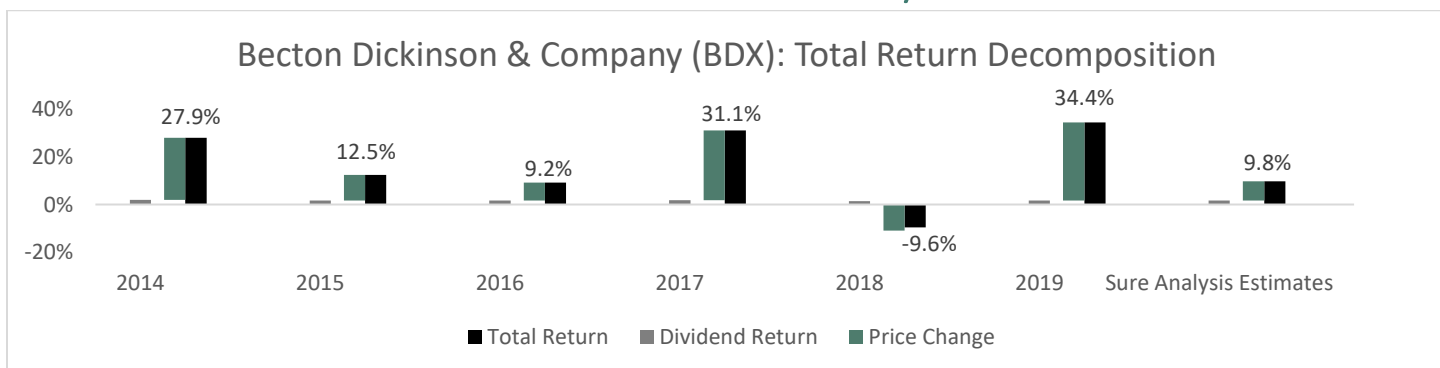
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	30%	29%	34%	34%	35%	34%	31%	31%	27%	26%	25%	25%

BD showed that it can perform well in less than ideal economic conditions during the last recession. The company's key competitive 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. The acquisition of Bard should also add to both the top and bottom lines going forward and increases the company's exposure to China.

Final Thoughts & Recommendation

After fourth quarter and fiscal year results, Becton, Dickinson & Co. is expected to offer a total return of 9.8% through fiscal 2025, up from 8.8% previously. Currency exchange remains a headwind, especially in the Life Sciences segment, but BD saw strong currency neutral growth in every segment. BD is also performing well in each region, particularly in emerging markets. The company's yield is below its longer-term average, but BD is closing in on Dividend King status. Due to projected returns, BD continues to receive a buy recommendation from Sure Dividend. We have increased our 2025 price target \$26 to \$373 due to guidance for the current fiscal year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7124	7584	7708	8054	8446	10282	12483	12092	15983	17290
Gross Profit	3696	3959	3953	4171	4301	4695	5991	5941	7262	8288
Gross Margin	51.9%	52.2%	51.3%	51.8%	50.9%	45.7%	48.0%	49.1%	45.4%	47.9%
SG&A Exp.	1691	1824	1923	2422	2145	2563	3005	2925	4015	4332
D&A Exp.	491	494	511	546	562	891	1114	1088	1978	2253
Operating Profit	1582	1665	1558	1255	1606	1500	2158	1832	2241	2240
Operating Margin	22.2%	22.0%	20.2%	15.6%	19.0%	14.6%	17.3%	15.2%	14.0%	13.0%
Net Profit	1318	1271	1170	1293	1185	695	976	1100	311	1220
Net Margin	18.5%	16.8%	15.2%	16.1%	14.0%	6.8%	7.8%	9.1%	1.9%	7.1%
Free Cash Flow	1118	1117	1207	1129	1093	1134	1866	1823	1970	2373
Income Tax	452	417	363	236	337	44	97	-124	862	-57

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	9651	10430	11361	12149	12447	26478	25586	37734	53904	51842
Cash & Equivalents	1216	1175	1671	1890	1861	1424	1541	14179	1140	536
Accounts Receivable	1205	1229	1250	1240	1187	1618	1618	1744	2319	2335
Inventories	1145	1245	1241	1402	1495	1959	1719	1818	2451	2579
Goodwill & Int. Ass.	1557	2106	2235	2315	2217	14924	13700	13456	40041	38463
Total Liabilities	4216	5602	7225	7106	7394	19314	17953	24786	32910	30665
Accounts Payable	325	305	350	333	401	631	665	797	1106	
Long-Term Debt	1698	2720	4166	3970	3971	12822	11551	18870	21495	19390
Shareholder's Equity	5435	4828	4136	5042	5053	7165	7634	12946	20992	21177
D/E Ratio	0.31	0.56	1.01	0.79	0.79	1.79	1.51	1.46	1.02	0.92

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.9%	12.7%	10.7%	11.0%	9.6%	3.6%	3.7%	3.5%	0.7%	2.3%
Return on Equity	24.9%	24.8%	26.1%	28.2%	23.5%	11.4%	13.2%	10.7%	1.8%	5.8%
ROIC	18.6%	17.3%	14.8%	14.9%	13.1%	4.8%	5.0%	4.3%	0.8%	2.9%
Shares Out.	230	215	197	194	192	211	213	228	265	265
Revenue/Share	29.67	33.52	36.85	40.43	42.72	49.55	57.38	54.08	60.40	62.92
FCF/Share	4.66	4.94	5.77	5.67	5.53	5.46	8.58	8.15	7.44	8.64

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

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