



# Becton, Dickinson & Co. (BDX)

Updated February 6<sup>th</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$252	<b>5 Year CAGR Estimate:</b>	8.3%	<b>Market Cap:</b>	\$68.4 billion
<b>Fair Value Price:</b>	\$221	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	3/9/2020
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.6%	<b>Dividend Payment Date</b>	3/31/2020
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$356	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.6%

## 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 generates around \$18 billion in annual revenue, with approximately 45% of revenues coming 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. 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 2/6/2020, BD reported earnings results for the first quarter of fiscal 2020. The company earned \$2.65 per share in the quarter, \$0.01 above estimates, but a 2% decrease from the prior year. Revenue grew 1.6% to \$4.2 billion, topping estimates by \$40 million. Currency reduced results by 0.9%.

The Medical segment had a revenue decline of 2.1% in the quarter. Medication Management Solutions was down 8%, primarily due to a lack of installations for the Alaris System pumps, which have been recalled due to software issues. The Alaris System pump is used in 70% of patients undergoing infusion therapy. Medication Delivery Solutions was down 0.9% as strength in vascular care and devices was offset by sales in China. Pharmaceutical Systems improved 6.8% on higher demand for pre-fillable syringes. Life Sciences grew 6.4%. Diagnostic Systems increased 5.3% due to gains made across the portfolio, with particular strength due to a strong start to flu season. Revenue for the Interventional segment improved 4.4%. Areas of strength included Surgery, Urology and Critical Care.

Following first quarter results, BD lowered its guidance for earnings-per-share to a range of \$11.90 to \$12.10 from \$12.50 to \$12.65 previously. Revenue is now expected to grow 1.5% to 2.5% for the fiscal year, down from 4% to 4.5% previously. Shares closed down nearly 12% following the release of earnings.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$4.94	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$11.01	\$11.68	<b>\$12.00</b>	<b>\$19.33</b>
<b>DPS</b>	\$1.48	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.02	\$3.08	<b>\$3.08</b>	<b>\$4.96</b>
<b>Shares<sup>1</sup></b>	230	215	197	194	192	211	213	228	265	265	<b>275</b>	<b>265</b>

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.

BD has increased dividends for 48 years. The company increased its dividend by 2.6% for the 12/31/2019 payment, which was the in-line with the increase from the previous year. While this is well below the long-term average, investors

<sup>1</sup> In millions of shares

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.



# Becton, Dickinson & Co. (BDX)

Updated February 6<sup>th</sup>, 2020 by Nathan Parsh

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	<b>21.0</b>	<b>18.4</b>
Avg. Yld.	2.0%	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.6%	1.2%	<b>1.2%</b>	<b>1.4%</b>

Even after the recent decline in share price, BD's stock has increased \$5, or 2%, since our 11/5/2019 report. Based on updated guidance for fiscal 2020, BD's stock currently has a price-to-earnings ratio of 21. Our target price-to-earnings ratio for 2025 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 2.6% 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 over the past few years and a lower than usual dividend growth rate in 2017 through 2019.

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

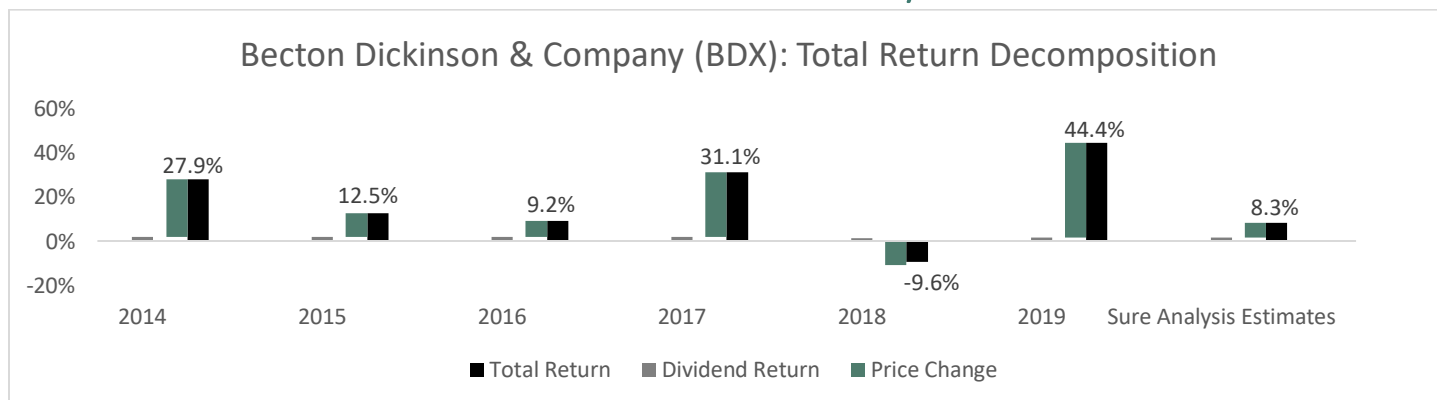
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	30%	29%	34%	34%	35%	34%	31%	31%	27%	26%	<b>26%</b>	<b>26%</b>

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

Following first quarter results, Becton, Dickinson & Co. is expected to offer a total return of 8.3% through 2025, down from 9.8% previously. The recall of the company's Alaris System pumps will be a headwind to results this fiscal year. This was the main reason that the company cut its earnings and revenue guidance for the fiscal year. Currency exchange also negatively impacted results. BD did see strength in other areas, but not enough to overcome these headwinds. With expectations for growth lowered and the yield likely not attractive to income investors, we have lowered our rating on shares of BD to hold from buy. We have also decreased our 2025 price target \$17 to \$356.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Becton, Dickinson & Co. (BDX)

Updated February 6<sup>th</sup>, 2020 by Nathan Parsh

## 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.