



Becton, Dickinson & Co. (BDX)

Updated November 7th, 2021 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|--------------|
| Current Price: | \$244 | 5 Year CAGR Estimate: | 10.1% | Market Cap: | \$70 billion |
| Fair Value Price: | \$231 | 5 Year Growth Estimate: | 10.0% | Ex-Dividend Date: | 12/9/2021 |
| % Fair Value: | 106% | 5 Year Valuation Multiple Estimate: | -1.1% | Dividend Payment Date: | 12/31/2021 |
| Dividend Yield: | 1.4% | 5 Year Price Target: | \$371 | Years Of Dividend Growth: | 50 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 4.8% |

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 72,000 employees across 190 countries. The company generates about \$19 billion in annual revenue, with approximately 43% of revenues coming from outside of the U.S. BD is 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 what used to be Bard.

BD released earnings results for the fourth quarter and fiscal year 2021 on 11/4/2021 (the company's fiscal year ends 9/30). Revenue grew 7.5% to \$5.1 billion, beating estimates by \$230 million. Adjusted earnings-per-share of \$2.59 compared unfavorably to adjusted earnings-per-share of \$2.79 in the prior year, but was \$0.14 better than expected. For the year, revenue grew 18.4% to \$20.3 billion. Adjusted earnings-per-share of \$13.08 was a 28.2% increase from the prior year.

All results are listed on a currency neutral basis. COVID-19 diagnostic revenue totaled \$316 million, or 6.2% of total revenue, for the quarter and \$2 billion, or 9.7% of total revenue, for the fiscal year. The Medical segment grew 7.7% to \$2.5 billion due to gains in Medication Delivery Solutions and Pharmaceutical Systems. Life Science was up 1.5%, or nearly 16% when not including COVID-19 testing, to \$1.5 billion. Demand for COVID-19 testing devices wasn't nearly as high as the prior year. Biosciences remain strong due to demand for research reagents and instrument as lab utilization levels normalize. Interventional increased 8.3% to \$1.1 billion. Growth was once again attributed to gains in Surgery as elective procedures continue to pick up. Each region once again showed growth. The U.S. was higher by 1.9% while international markets were up 11.3%. BD remains on track for its planned spinoff of its Diabetes business (\$1.1 billion in revenue in FY 2020), which is most likely to take place in the first half of calendar year 2022.

BD offered guidance for fiscal year 2022, expecting adjusted earnings-per-share of \$12.30 to \$12.50 for the year. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$5.36 | \$5.81 | \$6.25 | \$7.16 | \$8.59 | \$9.48 | \$11.01 | \$11.68 | \$10.19 | \$13.08 | \$12.40 | \$19.97 |
| DPS | \$1.80 | \$1.98 | \$2.18 | \$2.40 | \$2.64 | \$2.92 | \$3.02 | \$3.08 | \$3.16 | \$3.32 | \$3.48 | \$5.60 |
| Shares¹ | 197 | 194 | 192 | 211 | 213 | 228 | 265 | 265 | 293 | 289 | 289 | 265 |

BD has increased earnings-per-share 10.4% 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 fiscal 2027 due to a combination of mid-single-digit organic sales growth, revenue gains due to Bard, and a lower projected tax rate.

Following a 4.8% increase for the upcoming 12/31/2021 payment date, BD has now increased its dividend for 50 consecutive years. This makes the company a member of the Dividend Kings. While this is 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

¹ In millions of shares

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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 future.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 14.1 | 15.6 | 18.1 | 19.5 | 18.4 | 19.4 | 20.8 | 20.8 | 24.7 | 18.8 | 19.7 | 18.6 |
| Avg. Yld. | 2.4% | 2.2% | 1.9% | 1.7% | 1.7% | 1.7% | 1.3% | 1.3% | 1.3% | 1.4% | 1.4% | 1.5% |

BD's stock has gained \$5, or 2.1%, since our 8/11/2021 report. Based on estimates for fiscal 2022, BD's stock currently has a price-to-earnings ratio of 19.7. Our target price-to-earnings ratio for fiscal year 2026 is 18.6, which matches the stock's 10-year average earnings multiple. Valuation could be a 1.1% headwind to annual returns over the next five years. BD's current yield of 1.4% is low by historical standards.

Safety, Quality, Competitive Advantage, & Recession Resiliency

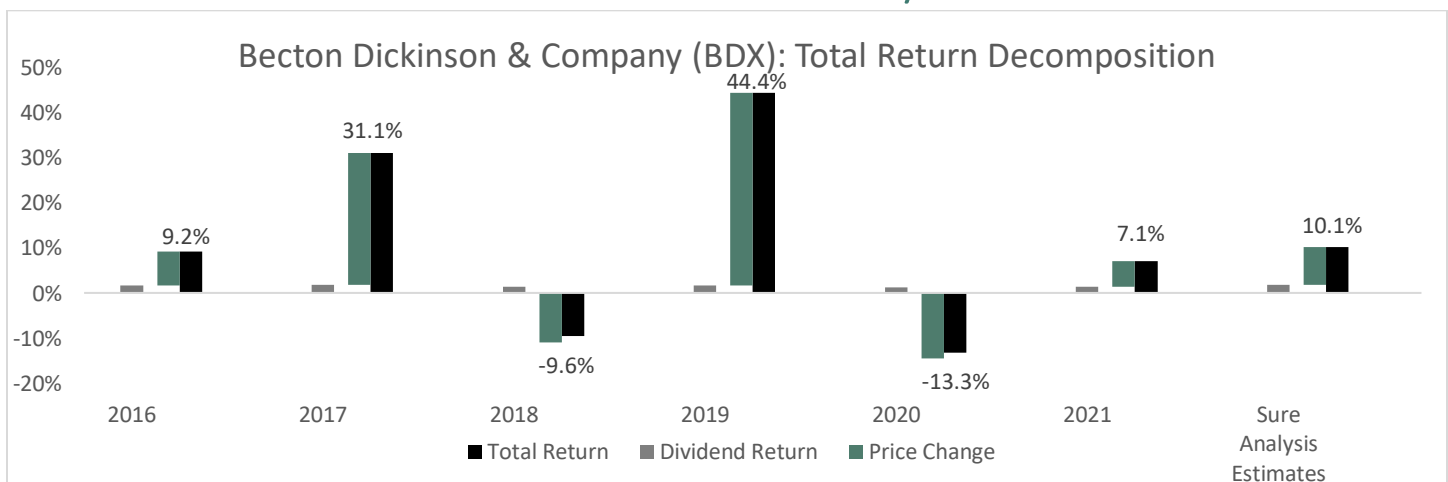
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 34% | 34% | 35% | 34% | 31% | 31% | 27% | 26% | 31% | 25% | 28% | 28% |

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 has added to both the top and bottom lines and increases the company's exposure to China.

Final Thoughts & Recommendation

Becton, Dickinson & Co. is expected to offer a total return of 10.1% annually over the next five years, down from 11.3% previously. This is due to a 10% expected earnings growth rate and a 1.4% dividend yield that are offset by a low single-digit headwind from valuation compression. COVID-19 contributed a smaller portion to overall results, but the company still posted revenue gains excluding this benefit. The stock's yield is low, but the most recent increase allows BD to join just a handful of companies with at least 50 consecutive years of dividend growth. We have lowered our five-year price target \$15 to \$371 due to EPS estimates for the fiscal year, but continue to rate shares of BD as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 7584 | 7708 | 8054 | 8446 | 10282 | 12483 | 12093 | 15983 | 17290 | 17117 |
| Gross Profit | 3959 | 3953 | 4171 | 4301 | 4695 | 5991 | 5965 | 7269 | 8288 | 7577 |
| Gross Margin | 52.2% | 51.3% | 51.8% | 50.9% | 45.7% | 48.0% | 49.3% | 45.5% | 47.9% | 44.3% |
| SG&A Exp. | 1824 | 1923 | 2422 | 2145 | 2563 | 3005 | 2953 | 4029 | 4334 | 4318 |
| D&A Exp. | 494 | 511 | 546 | 562 | 891 | 1114 | 1088 | 1978 | 2253 | 2154 |
| Operating Profit | 1665 | 1558 | 1255 | 1606 | 1500 | 2158 | 1832 | 2236 | 2238 | 1800 |
| Operating Margin | 22.0% | 20.2% | 15.6% | 19.0% | 14.6% | 17.3% | 15.1% | 14.0% | 12.9% | 10.5% |
| Net Profit | 1271 | 1170 | 1293 | 1185 | 695 | 976 | 1100 | 311 | 1233 | 874 |
| Net Margin | 16.8% | 15.2% | 16.1% | 14.0% | 6.8% | 7.8% | 9.1% | 1.9% | 7.1% | 5.1% |
| Free Cash Flow | 1117 | 1209 | 1131 | 1091 | 1133 | 1866 | 1823 | 1970 | 2373 | 2729 |
| Income Tax | 417 | 363 | 236 | 337 | 44 | 97 | (124) | 862 | (57) | 111 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 10430 | 11361 | 12149 | 12447 | 26478 | 25586 | 37734 | 53904 | 51765 | 54012 |
| Cash & Equivalents | 1175 | 1671 | 1890 | 1861 | 1424 | 1541 | 14179 | 1140 | 536 | 2825 |
| Accounts Receivable | 1229 | 1250 | 1240 | 1187 | 1618 | 1618 | 1744 | 2319 | 2345 | 2398 |
| Inventories | 1245 | 1241 | 1402 | 1495 | 1959 | 1719 | 1818 | 2451 | 2579 | 2743 |
| Goodwill & Int. Ass. | 2106 | 2235 | 2315 | 2217 | 14924 | 13700 | 13456 | 40041 | 38353 | 37433 |
| Total Liabilities | 5602 | 7225 | 7107 | 7394 | 19313 | 17952 | 24786 | 32910 | 30683 | 30247 |
| Accounts Payable | 305 | 350 | 333 | 401 | 631 | 665 | 797 | 1106 | 1092 | 1355 |
| Long-Term Debt | 2720 | 4166 | 3970 | 3971 | 12822 | 11551 | 18870 | 21495 | 19390 | 17930 |
| Shareholder's Equity | 4828 | 4136 | 5042 | 5053 | 7165 | 7634 | 12946 | 20992 | 21080 | 23763 |
| D/E Ratio | 0.56 | 1.01 | 0.79 | 0.79 | 1.79 | 1.51 | 1.46 | 1.02 | 0.92 | 0.75 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 12.7% | 10.7% | 11.0% | 9.6% | 3.6% | 3.7% | 3.5% | 0.7% | 2.3% | 1.7% |
| Return on Equity | 24.8% | 26.1% | 28.2% | 23.5% | 11.4% | 13.2% | 10.7% | 1.8% | 5.9% | 3.9% |
| ROIC | 17.3% | 14.8% | 14.9% | 13.1% | 4.8% | 5.0% | 4.3% | 0.8% | 3.0% | 2.1% |
| Shares Out. | 197 | 194 | 192 | 211 | 213 | 228 | 265 | 265 | 293 | 289 |
| Revenue/Share | 33.52 | 36.85 | 40.43 | 42.72 | 49.55 | 57.38 | 54.09 | 60.40 | 62.92 | 60.61 |
| FCF/Share | 4.94 | 5.78 | 5.68 | 5.52 | 5.46 | 8.58 | 8.15 | 7.44 | 8.64 | 9.66 |

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

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