



Becton, Dickinson & Co. (BDX)

Updated February 4th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$271	5 Year CAGR Estimate:	8.6%	Market Cap:	\$72 billion
Fair Value Price:	\$240	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	3/9/2022
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	3/31/2022
Dividend Yield:	1.3%	5 Year Price Target:	\$386	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 more than \$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.

On 2/1/2022, BD's board of directors voted to approve the spinoff of the company's diabetes care business, which will be known as Embecta. The spinoff will occur on 4/1/2022.

BD released earnings results for the first quarter of fiscal year 2022 on 2/3/2022 (the company's fiscal year ends 9/30/2022). Revenue decreased 6% to \$5 billion, but topped estimates by \$240 million. Adjusted earnings-per-share of \$3.64 compared unfavorably to adjusted earnings-per-share of \$4.55 in the prior year, but was \$0.79 better than expected.

All results are listed on a currency neutral basis unless otherwise noted. COVID-19 diagnostic revenue totaled \$185 million, or 3.7% of total revenue for the quarter. The Medical segment 5.5% grew to \$2.4 billion due once again to gains in Medication Delivery Solutions and Pharmaceutical Systems. Life Science reported sales fell 24.8% to \$1.5 billion. Demand for COVID-19 testing devices wasn't nearly as high as the prior year. Currency neutral organic growth was up more than 17% due to strength in Integrated Diagnostic Solutions. Biosciences remain strong due to demand for research reagents and instruments as lab utilization levels normalize. Interventional increased 2.9% to \$1.1 billion. Surgery and Urology and Critical Care both performed well. Regional performance was mixed. The U.S. fell 8.9%, international markets were down 1.7% and developed markets were lower by 9%. On the other hand, emerging markets grew nearly 17%, with China growing 14.5%.

BD also provided an updated outlook for fiscal year 2022, with the company expecting revenue in the range of \$19.55 billion to \$19.75 billion, up from \$19.3 billion to \$19.5 billion previously. Adjusted earnings-per-share are now projected to be in a range of \$12.80 to \$13.00, up from \$12.30 to \$12.50 previously. We have updated our forecast 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	\$12.90	\$20.78
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	287	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.

¹ In millions of shares

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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 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	21.0	18.6
Avg. Yld.	2.4%	2.2%	1.9%	1.7%	1.7%	1.7%	1.3%	1.3%	1.3%	1.4%	1.3%	1.5%

BD's stock has increased \$27, or 11.1%, since our 11/7/2021 report. Based off of estimates for fiscal 2022, BD's stock currently has a price-to-earnings ratio of 21. Our target price-to-earnings ratio for fiscal year 2027 is 18.6, which matches the stock's 10-year average earnings multiple. Valuation could be a 2.4% headwind to annual returns over the next five years. BD's current yield of 1.3% is low by historical standards.

Safety, Quality, Competitive Advantage, & Recession Resiliency

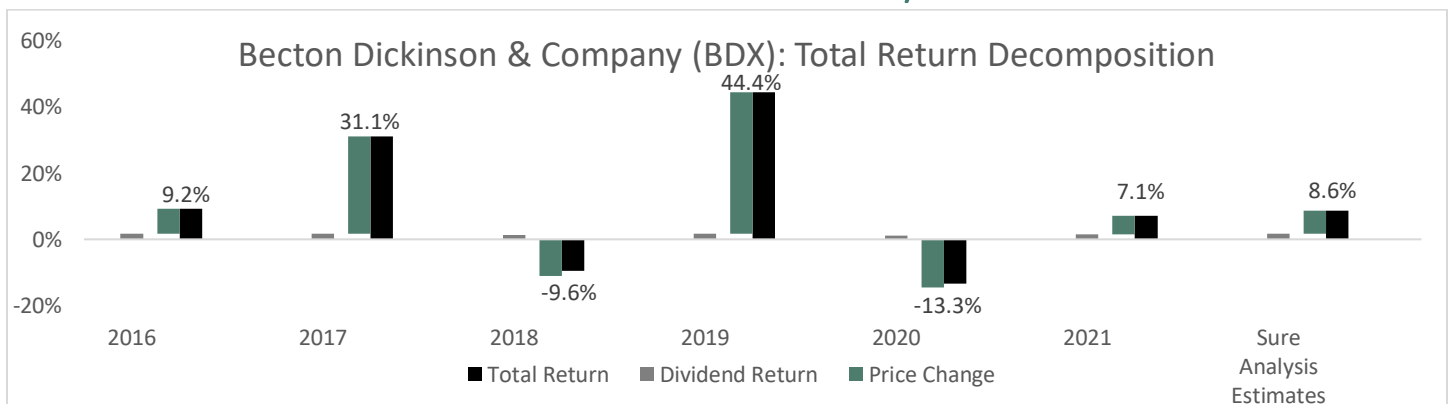
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	34%	35%	34%	31%	31%	27%	26%	31%	25%	27%	27%

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 8.6% annually over the next five years, down from 10.1% previously. This is due to a 10% expected earnings growth rate and a 1.3% starting dividend yield that are offset by a low single-digit headwind from valuation compression. COVID-19 now represents an extremely small percentage of BD's business at the moment. This will likely lead to several quarters of lower year-over-year results. However, much of the remainder of the business is seeing solid growth. We have raised our five-year price target \$15 to \$386 due to EPS estimates for the fiscal year, but now rate shares of BD as a hold 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
LTD/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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