



# Becton, Dickinson & Co. (BDX)

Updated February 14<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$247	<b>5 Year CAGR Estimate:</b>	10.0%	<b>Market Cap:</b>	\$70 B
<b>Fair Value Price:</b>	\$232	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	03/09/23
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Dividend Payment Date:</b>	03/31/23
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target:</b>	\$373	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 75,000 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.

On February 1<sup>st</sup>, 2022, BD's board of directors voted to approve the spinoff of the company's diabetes care business, which is known as Embecta. The spinoff occurred on April 1<sup>st</sup>, 2022.

On November 10<sup>th</sup>, 2022, BD increased its quarterly dividend 4.6% to \$0.91, extending the company's dividend growth streak to 51 consecutive years.

On February 2<sup>nd</sup>, 2023, BD released earnings results for the first quarter of fiscal year 2023, which ended on December 31<sup>st</sup>, 2023. For the quarter, revenue decreased 2.5% to \$4.6 billion, but was \$10 million more than expected. On a currency neutral basis, revenue improved 1.7%. Adjusted earnings-per-share of \$2.98 compared unfavorably to \$3.64 in the prior year, but was \$0.30 above estimates.

All results are listed on a currency neutral basis unless otherwise noted. For the quarter, U.S. grew 1.0% while international was up 2.7% (down 7.9% on a reported basis). COVID-19 diagnostic revenue totaled \$32 million, or 0.7% of total revenue for the quarter. The Medical segment grew 6.1% to \$2.154 billion due to strength in Medical Management Solutions and Pharmaceutical Systems, offset by a small decrease in Medication Delivery Solutions. Life Science improved 3.3% to \$1.302 billion. Demand for COVID-19 testing devices wasn't nearly as high as the prior year. Demand was high for Specimen Management's research reagents. Interventional was up 5.6% to \$1.129 billion, led by results in Peripheral Intervention.

BD also provided an updated outlook for fiscal year 2023, with the company now expecting adjusted earnings-per-share in a range of \$12.07 to \$12.32 up from \$11.85 to \$12.10, previously. At the midpoint, this would represent a 7.5% increase year-over-year. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$11.01	\$11.68	\$10.19	\$13.08	\$11.35	<b>\$12.20</b>	<b>\$19.65</b>
<b>DPS</b>	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.02	\$3.08	\$3.16	\$3.32	\$3.48	<b>\$3.64</b>	<b>\$5.86</b>
<b>Shares<sup>1</sup></b>	194	192	211	213	228	265	265	293	289	287	<b>285</b>	<b>265</b>

BD has increased earnings-per-share 7.7% per year over the past 10 years, and has grown earnings in 8 out of the last 10 years. We feel that BD can grow earnings at a rate of 10% per year through fiscal 2028 due to a combination of mid-single-digit organic sales growth, revenue gains due to Bard, and a lower projected tax rate.

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

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BD has now increased its dividend for more than 50 consecutive years. This makes the company a member of the Dividend Kings. While recent increases have been 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 leaving for plenty of room for additional increases.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.6	18.1	19.5	18.4	19.4	20.8	20.8	24.7	18.8	19.6	<b>20.2</b>	<b>19.0</b>
Avg. Yld.	2.2%	1.9%	1.7%	1.7%	1.7%	1.3%	1.3%	1.3%	1.4%	1.6%	<b>1.5%</b>	<b>1.6%</b>

BD's stock has increased \$19, or 8.3%, since our November 13<sup>th</sup>, 2022 report. Based off of estimates for fiscal year 2023, BD's stock currently has a price-to-earnings ratio of 20.2. Our target price-to-earnings ratio for fiscal year 2028 of 19 is near the long-term average. Valuation could be a 1.3% headwind to annual results over the next five years. BD's current yield of 1.5% nearly matches the 10-year average yield.

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

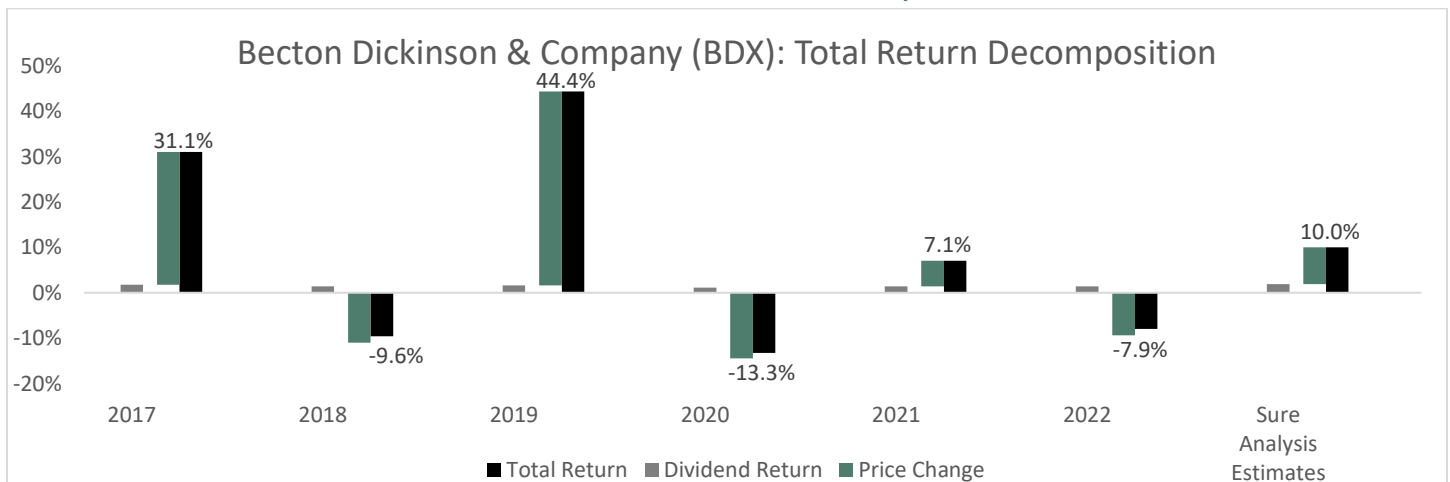
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
Payout	34%	35%	34%	31%	31%	27%	26%	31%	25%	31%	<b>30%</b>	<b>30%</b>

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 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 10.0% annually over the next five years, down from 11.4% previously. This is due to a 10% expected earnings growth rate and a 1.5% starting dividend yield, partially offset by multiple contraction. COVID-19 remains a small part of BD's business, but the other areas of the company continue to perform well. We have raised our five-year price target \$6 to \$373 and 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	7708	8054	8446	10282	12483	12093	15983	17290	17117	18870
<b>Gross Profit</b>	3953	4171	4301	4695	5991	5965	7269	8288	7577	8,477
<b>Gross Margin</b>	51.3%	51.8%	50.9%	45.7%	48.0%	49.3%	45.5%	47.9%	44.3%	44.9%
<b>SG&amp;A Exp.</b>	1923	2422	2145	2563	3005	2953	4029	4334	4318	4,709
<b>D&amp;A Exp.</b>	511	546	562	891	1114	1088	1978	2253	2154	
<b>Operating Profit</b>	1558	1255	1606	1500	2158	1832	2236	2238	1800	2,475
<b>Operating Margin</b>	20.2%	15.6%	19.0%	14.6%	17.3%	15.1%	14.0%	12.9%	10.5%	13.1%
<b>Net Profit</b>	1170	1293	1185	695	976	1100	311	1233	874	1,779
<b>Net Margin</b>	15.2%	16.1%	14.0%	6.8%	7.8%	9.1%	1.9%	7.1%	5.1%	9.4%
<b>Free Cash Flow</b>	1209	1131	1091	1133	1866	1823	1970	2373	2729	
<b>Income Tax</b>	363	236	337	44	97	(124)	862	(57)	111	148

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	11361	12149	12447	26478	25586	37734	53904	51765	54012	
<b>Cash &amp; Equivalents</b>	1671	1890	1861	1424	1541	14179	1140	536	2825	
<b>Accounts Receivable</b>	1250	1240	1187	1618	1618	1744	2319	2345	2398	
<b>Inventories</b>	1241	1402	1495	1959	1719	1818	2451	2579	2743	
<b>Goodwill &amp; Int. Ass.</b>	2235	2315	2217	14924	13700	13456	40041	38353	37433	
<b>Total Liabilities</b>	7225	7107	7394	19313	17952	24786	32910	30683	30247	
<b>Accounts Payable</b>	350	333	401	631	665	797	1106	1092	1355	
<b>Long-Term Debt</b>	4166	3970	3971	12822	11551	18870	21495	19390	17930	
<b>Shareholder's Equity</b>	4136	5042	5053	7165	7634	12946	20992	21080	23763	
<b>LTD/E Ratio</b>	1.01	0.79	0.79	1.79	1.51	1.46	1.02	0.92	0.75	

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	10.7%	11.0%	9.6%	3.6%	3.7%	3.5%	0.7%	2.3%	1.7%	
<b>Return on Equity</b>	26.1%	28.2%	23.5%	11.4%	13.2%	10.7%	1.8%	5.9%	3.9%	
<b>ROIC</b>	14.8%	14.9%	13.1%	4.8%	5.0%	4.3%	0.8%	3.0%	2.1%	
<b>Shares Out.</b>	194	192	211	213	228	265	265	293	289	287
<b>Revenue/Share</b>	36.85	40.43	42.72	49.55	57.38	54.09	60.40	62.92	60.61	65.67
<b>FCF/Share</b>	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.

### Disclaimer

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