



# Danaher Corporation (DHR)

Updated February 3<sup>rd</sup>, 2024, by Patrick Neuwirth

## Key Metrics

|                             |       |  |       |                                      |          |
|-----------------------------|-------|--|-------|--------------------------------------|----------|
| <b>Current Price:</b>       | \$246 | <b>5 Year CAGR Estimate:</b>               | 0.5%  | <b>Market Cap:</b>                   | \$175 B  |
| <b>Fair Value Price:</b>    | \$203 | <b>5 Year Growth Estimate:</b>             | 4.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b> | 03/29/24 |
| <b>% Fair Value:</b>        | 121%  | <b>5 Year Valuation Multiple Estimate:</b> | -3.8% | <b>Dividend Payment Date:</b>        | 04/29/24 |
| <b>Dividend Yield:</b>      | 0.4%  | <b>5 Year Price Target</b>                 | \$247 | <b>Years Of Dividend Growth:</b>     | 9        |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                       | Sell     |

## Overview & Current Events

Danaher Corporation (DHR) is active in the healthcare industry and designs, manufactures and markets professional, medical, industrial, and commercial products and services. The company operates through three main segments: Life & Bio Sciences (38% of annual revenue), Diagnostics (35% of annual revenue), and Environmental & Applied Solutions (15% of annual revenue). In late 2019, Danaher separated from its dental business (Envista) through an IPO process. The company made 14 acquisitions in 2021 for a total of \$11.0 billion, including the Aldevron acquisition of \$9.6 billion. Danaher Corporation is a \$175 billion company and has approximately 80,000 employees.

On January 30<sup>th</sup>, 2024, Danaher Corporation released its fourth quarter and full year 2023 results for the period ending December 31<sup>st</sup>, 2023. The company reported revenue of \$6.40 billion, a 10.2% decrease compared with revenue of \$7.13 billion in the same quarter of 2022. Reported quarterly earnings per diluted share equaled \$1.54, which represents a 48.5% decrease compared to \$2.99 for the same period last year. For the year, the company's diluted earnings came in at \$6.38 per share compared with \$9.66 in 2022. The decline in the quarter and full year was primarily attributed to decreased sales of COVID-related products and weaker performance in the Biotechnology and Diagnostics segments.

Additionally, the company faced operational challenges and a shift in market dynamics, including inventory adjustments and investment normalization in pharma and biopharma end markets. This indicates a shift away from pandemic-driven demand, impacting overall sales despite the company's diverse portfolio. Revenues from the Life Sciences segment totaled \$1,930 million, down 1% year-over-year. Revenues from the Diagnostics segment grossed \$2,720 million, down 8.5% year-over-year. Revenues from the Biotechnology segment totaled \$1,760 million, down 21% year-over-year. In the fourth quarter, Danaher's cost of sales decreased 9.7% to \$2.63 billion. Gross profit of \$3.78 billion fell 10.6%.

For the first quarter of 2024, Danaher expects adjusted core revenues from continuing operations to decline in high-single digits on a year-over-year basis. Revenues are anticipated to decrease in low-single digits on a year-over-year basis in 2024, which assumes a core revenue decline in the first half of the year before returning to growth in the second half of the year.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$3.63 | \$4.30 | \$3.34 | \$3.50 | \$3.74 | \$3.26 | \$4.89 | \$8.61 | \$9.66 | \$6.38 | <b>\$7.00</b> | <b>\$8.52</b> |
| <b>DPS</b>                | \$0.33 | \$0.54 | \$0.58 | \$0.55 | \$0.62 | \$0.67 | \$0.68 | \$0.72 | \$0.84 | \$0.97 | <b>\$0.96</b> | <b>\$1.17</b> |
| <b>Shares<sup>2</sup></b> | 704    | 687    | 692    | 697    | 702    | 696    | 711    | 715    | 712    | 712    | <b>712</b>    | <b>710</b>    |

The company has grown earnings by 6.5% per year since 2014 and 16.5% over the past five years. After the exceptional earnings-per-share growth in 2021 and 2022, we still expect earnings-per-share to continue to expand but at a slower pace. We expect earnings to increase by 4% per year for the next five years. The company has been able to increase its yearly dividend payout for 9 consecutive years. Over the last five years, the average annual dividend growth rate is 7.5%. Danaher Corporation has completed the Veralto Corporation's spin-off in the fourth quarter, by declaring a pro rata

<sup>1</sup> Estimated date

<sup>2</sup> In millions.

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dividend, allowing stockholders to receive one share of Veralto for every three shares of Danaher held, effectively distributing Veralto common stock to its shareholders. The company's quarterly dividend was reduced by 11.1% in December from \$0.27 to \$0.24 per share due to this spin-off.

## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 21.3 | 20.4 | 25.8 | 24.5 | 27.0 | 41.0 | 37.9 | 31.9 | 27.9 | 31.5 | 35.1 | 29.0 |
| Avg. Yld. | 1.9% | 0.6% | 0.7% | 0.6% | 0.6% | 0.5% | 0.4% | 0.3% | 0.4% | 0.4% | 0.4% | 0.5% |

During the past decade shares of Danaher Corporation have traded with an average price-to-earnings ratio of about 29 times earnings and today, it stands at 35.1. We are using 29 times earnings as a fair value baseline, implying a headwind valuation. The company's dividend yield is currently 0.4% which close to the average yield over the past decade of 0.5%.

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

| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 9%   | 13%  | 17%  | 16%  | 17%  | 21%  | 14%  | 8%   | 9%   | 16%  | 14%  | 14%  |

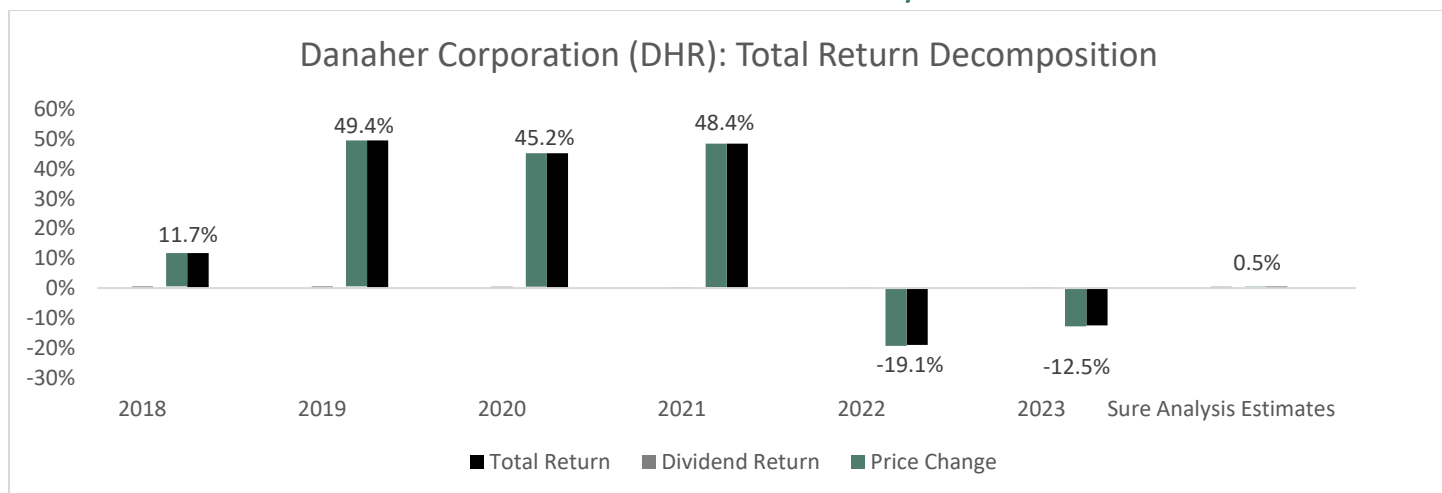
During the past five years, the company's dividend payout ratio has averaged around 14%. Danaher's dividend is comfortably covered by earnings. This is reflected in the low dividend returned to its shareholders and is providing sufficient funding capabilities for M&A activities and the research budget which are both essential in this industry.

Since 1984, Danaher has been transformed from a real estate organization into a healthcare-focused manufacturing company. The company has a great track record of integrating M&A into its strategy in the last decade. Danaher's strategy is focused on a continuous improvement of its scientific technology portfolio by seeking out attractive markets and then making the required acquisitions to enter or expand within those niches. As a result, the company has leading positions in attractive fast-growing end markets with long-term, strong secular growth drivers. 2024 will be a challenging year for Danaher, largely due to the transition of the pandemic to an endemic state. This shift has reduced the demand for COVID-related products, significantly impacting sales within the Biotechnology and Diagnostics segments, sectors that were previously buoyed by pandemic-driven demand.

## Final Thoughts & Recommendation

Danaher Corporation is a \$175 billion healthcare giant with a great track record of integrating M&A into its strategy. The company has a sound earnings track record and a modest dividend yield of 0.4%. We estimate total return potential of 0.5% per year for the next five years based on a 4% earnings-per-share growth, along with modest impacts from the dividend yield and a valuation headwind. Shares earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue          | 18,283 | 12,867 | 14,434 | 16,882 | 15,519 | 17,049 | 17,911 | 22,284 | 29,453 | 31,470 |
| Gross Profit     | 9,342  | 6,850  | 7,771  | 9,335  | 8,571  | 9,505  | 9,984  | 12,475 | 17,952 | 18,950 |
| Gross Margin     | 51.1%  | 53.2%  | 53.8%  | 55.3%  | 55.2%  | 55.8%  | 55.7%  | 56.0%  | 61.0%  | 60.2%  |
| SG&A Exp.        | 5,117  | 4,035  | 4,748  | 5,624  | 5,043  | 5,391  | 5,589  | 6,896  | 8,198  | 8,516  |
| D&A Exp.         | 851    | 718    | 881    | 1,128  | 1,117  | 1,178  | 1,189  | 1,775  | 2,168  | 2,222  |
| Operating Profit | 3,121  | 2,045  | 2,162  | 2,735  | 2,572  | 3,055  | 3,269  | 4,231  | 7,465  | 8,688  |
| Op. Margin       | 17.1%  | 15.9%  | 15.0%  | 16.2%  | 16.6%  | 17.9%  | 18.3%  | 19.0%  | 25.3%  | 27.6%  |
| Net Profit       | 2,695  | 2,598  | 3,357  | 2,554  | 2,492  | 2,651  | 3,008  | 3,646  | 6,433  | 7,209  |
| Net Margin       | 14.7%  | 20.2%  | 23.3%  | 15.1%  | 16.1%  | 15.5%  | 16.8%  | 16.4%  | 21.8%  | 22.9%  |
| Free Cash Flow   | 3,047  | 3,293  | 3,289  | 2,932  | 2,907  | 3,438  | 3,316  | 5,417  | 7,064  | 7,367  |
| Income Tax       | 826    | 448    | 293    | 458    | 371    | 556    | 873    | 849    | 1,251  | 1,083  |

## Balance Sheet Metrics

| Year               | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets       | 34,672 | 36,992 | 48,222 | 45,295 | 46,649 | 47,833 | 62,082 | 76,161 | 83,184 | 84,350 |
| Cash & Equivalents | 3,115  | 3,006  | 791    | 964    | 630    | 788    | 19,912 | 6,035  | 2,586  | 5,995  |
| Acc. Receivable    | 3,452  | 3,446  | 2,985  | 3,186  | 3,522  | 3,030  | 3,191  | 4,045  | 4,631  | 4,918  |
| Inventories        | 1,784  | 1,783  | 1,573  | 1,709  | 1,841  | 1,631  | 1,628  | 2,292  | 2,767  | 3,110  |
| Goodwill & Int.    | 22,286 | 22,733 | 31,560 | 35,645 | 36,806 | 32,863 | 32,463 | 56,702 | 64,027 | 60,050 |
| Total Liabilities  | 12,221 | 13,542 | 24,458 | 22,219 | 20,281 | 19,606 | 31,800 | 36,384 | 38,007 | 34,260 |
| Accounts Payable   | 1,778  | 1,825  | 1,392  | 1,485  | 1,510  | 1,495  | 1,515  | 2,049  | 2,569  | 2,296  |
| Long-Term Debt     | 3,499  | 3,473  | 12,870 | 12,269 | 10,522 | 9,740  | 21,729 | 21,204 | 22,176 | 19,680 |
| Total Equity       | 22,385 | 23,378 | 23,690 | 23,003 | 26,358 | 28,214 | 28,671 | 36,498 | 41,899 | 48,410 |
| LTD/E Ratio        | 0.16   | 0.15   | 0.54   | 0.53   | 0.40   | 0.35   | 0.72   | 0.53   | 0.49   | 0.39   |

## Profitability & Per Share Metrics

| Year             | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 8.0%  | 7.3%  | 7.9%  | 5.5%  | 5.4%  | 5.6%  | 5.5%  | 5.3%  | 8.1%  | 8.6%  |
| Return on Equity | 13.0% | 11.4% | 14.3% | 10.9% | 10.1% | 9.7%  | 10.6% | 11.2% | 16.4% | 16.0% |
| ROIC             | 10.7% | 9.8%  | 10.6% | 7.1%  | 6.9%  | 7.1%  | 6.7%  | 6.5%  | 10.0% | 10.5% |
| Shares Out.      | 698   | 704   | 687   | 692   | 697   | 702   | 696   | 711   | 715   | 737   |
| Revenue/Share    | 25.71 | 17.97 | 20.37 | 24.12 | 21.98 | 24.01 | 24.69 | 31.01 | 39.97 | 42.70 |
| FCF/Share        | 4.29  | 4.60  | 4.64  | 4.19  | 4.12  | 4.84  | 4.57  | 7.54  | 9.59  | 9.99  |

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

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