

Danaher Corporation

'24 guide (esp 1Q) sets a low bar, but DHR still waiting for “the inflection”

Reiterate Rating: NEUTRAL | PO: 258.00 USD | Price: 242.88 USD

4Q as pre-announced; '24 EPS guide roughly as expected

Danaher (DHR US) reported 4Q results modestly ahead of expectations. Please see our [First Look](#) for details on the quarter. DHR also initiated FY24 guidance, calling for -LSD core revenue declines and implied Adj EPS of ~\$7.50-\$7.70 (in-line with expectations).

End-market conditions largely unchanged vs prior update

DHR provided commentary on the health of key end-markets, which have been topical in FY23. Visibility in Bioprocessing remains limited with continued destocking in 1H24, and gradual improvement expected as year progresses. On China, demand remains weak as customers continue to conserve capital. While mgmt. remains constructive on China in the long-term, mgmt. still sees -HSD declines for FY24 due to a challenging macro in the near-term. Biopharma spending remains cautious, and mgmt. isn't expecting a major acceleration throughout the year. In Life Sciences (incl. instrumentation), there are no signs of broad improvement and there's no chatter of stimulus or pent-up demand.

Guide sets up a very low bar for 1Q, and steep 2H ramp

Various elements of the guide stick out to us. The implied 4Q23->1Q24 stepdown in Biotech/LS revenue seems too aggressive, even when considering destocking and muted end-markets. Additionally, while a sizable 1H/2H ramp is the expectation for most in the sector, DHR's step-up is even steeper – particularly given limited visibility and backlog. At the same time, Mgmt. does not see a sharp inflection in bioprocess order trends or for B2B to exceed 1.0 (from ~0.8 entering 1Q). Instead, orders and sales are seen as gradually improving through the course of the year. Putting all of these factors together, we can only conclude that the 1Q guide is especially conservative, esp. in bioprocessing, but it's tough to be certain given continued de-stocking (which DHR is actively driving).

Key debate remains “when does bioprocess inflect”

All-in, the call did little to change the debate on DHR. While FY24 sales and margin guide was lower than expected, a 20c benefit from lower tax rate was an offset, and DHR now has a “de-risked guide”, with further upside if bioprocess does inflect (or if 1Q is sand-bagged). We update our model, with our DCF-based PO moving to \$258 (was \$245), and reiterate Neutral rating given DHR's premium valuation and still mixed end-markets.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.95	8.53	7.65	8.60	9.50
GAAP EPS	9.67	6.45	5.70	6.65	7.57
EPS Change (YoY)	9.0%	-22.1%	-10.3%	12.4%	10.5%
Consensus EPS (Bloomberg)			7.76	8.84	9.89
DPS	1.10	1.10	1.26	1.44	1.64
Valuation (Dec)					
P/E	22.2x	28.5x	31.7x	28.2x	25.6x
GAAP P/E	25.1x	37.7x	42.6x	36.5x	32.1x
Dividend Yield	0.5%	0.5%	0.5%	0.6%	0.7%
EV / EBITDA*	17.9x	23.1x	25.5x	22.6x	20.3x
Free Cash Flow Yield*	4.1%	3.5%	3.1%	3.7%	4.2%

* For full definitions of *IQmethod*SM measures, see page 5.

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30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	245.00	258.00
2024E Rev (m)	24,100.0	24,150.0
2025E Rev (m)	25,829.5	26,000.0
2026E Rev (m)	27,812.4	28,000.0
2025E EPS	8.50	8.60
2026E EPS	9.45	9.50
2024E DPS	1.44	1.26

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Stock Data

Price	242.88 USD
Price Objective	258.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-2-7
52-Week Range	182.09 USD - 242.20 USD
Mrkt Val (mn) / Shares Out (mn)	180,873 USD / 744.7
Free Float	91.2%
Average Daily Value (mn)	722.02 USD
BofA Ticker / Exchange	DHR / NYS
Bloomberg / Reuters	DHR US / DHR.N
ROE (2024E)	10.9%
Net Dbt to Eqty (Dec-2023A)	23.4%
ESGMeter™	High

Please refer to “[BofA ESGMeter Methodology](#)”.

HSD: high-single digits

LS: Life Sciences

B2B: book to bill

W

iQprofileSM Danaher Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	8.5%	7.7%	8.4%	8.8%
Return on Equity	17.1%	12.3%	10.9%	12.1%	12.4%
Operating Margin	32.5%	28.3%	29.0%	30.3%	31.2%
Free Cash Flow	7,376	6,378	5,565	6,748	7,530

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.5x	0.6x	0.5x	0.5x	0.5x
Tax Rate	19.3%	18.7%	17.5%	17.5%	17.5%
Net Debt-to-Equity Ratio	27.3%	23.4%	19.4%	8.1%	-2.7%
Interest Cover	48.5x	26.6x	23.6x	30.8x	40.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	31,471	27,602	24,150	26,000	28,000
% Change	6.8%	-12.3%	-12.5%	7.7%	7.7%
Gross Profit	18,967	16,212	14,327	15,617	16,964
% Change	5.2%	-14.5%	-11.6%	9.0%	8.6%
EBITDA	10,971	8,475	7,676	8,683	9,636
% Change	6.6%	-22.8%	-9.4%	13.1%	11.0%
Net Interest & Other Income	(115)	18	(24)	(4)	17
Net Income (Adjusted)	8,165	6,357	5,749	6,499	7,228
% Change	9.0%	-22.1%	-9.6%	13.0%	11.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	8,165	6,357	5,749	6,499	7,228
Depreciation & Amortization	2,222	2,174	2,266	2,404	2,506
Change in Working Capital	(1,519)	811	(103)	202	203
Deferred Taxation Charge	0	(1,204)	0	0	0
Other Adjustments, Net	(349)	(389)	(1,147)	(1,131)	(1,114)
Capital Expenditure	(1,143)	(1,371)	(1,200)	(1,226)	(1,293)
Free Cash Flow	7,376	6,378	5,565	6,748	7,530
% Change	4.2%	-13.5%	-12.7%	21.2%	11.6%
Share / Issue Repurchase	31	68	0	0	0
Cost of Dividends Paid	(818)	(821)	(944)	(1,086)	(1,249)
Change in Debt	(1,688)	(1,626)	(3,596)	(1,000)	(1,000)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	5,995	5,864	7,353	11,885	17,027
Trade Receivables	4,918	3,922	3,432	3,694	3,979
Other Current Assets	4,970	4,151	3,622	3,884	4,179
Property, Plant & Equipment	3,956	4,553	5,068	5,493	5,894
Other Non-Current Assets	64,511	65,998	63,960	62,602	61,251
Total Assets	84,350	84,488	83,435	87,558	92,330
Short-Term Debt	591	1,695	1,695	1,695	1,695
Other Current Liabilities	7,798	6,579	5,663	5,986	6,362
Long-Term Debt	19,086	16,707	15,707	14,707	13,707
Other Non-Current Liabilities	6,785	6,017	8,694	9,360	10,080
Total Liabilities	34,260	30,998	31,759	31,748	31,844
Total Equity	50,090	53,490	51,676	55,810	60,485
Total Equity & Liabilities	84,350	84,488	83,435	87,558	92,330

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Industrials/Multi-Industry

Company Description

Danaher is one of the largest and most diversified Life Science Tools companies. The company's products include analytical instruments and consumables for life sciences research, diagnostics, dental instruments and consumables, and equipment and services used in water quality testing and product identification. The company is known as having leading brands across many verticals with a strong management team and a record of superior execution.

Investment Rationale

Following the 2016 spinoff of industrial-themed Fortive, Danaher became one of the premier stand-alone life sciences companies. The acquisition of GE's Life Sciences (now called Cytiva) business and the divestiture of the lagging dental segment are transformational for the company as they should sharply improve organic sales growth, margin profile, and free cash flow generation potential. However, DHR is going through a near-term challenging period (bioprocessing inventory, slower biotech spend)

Stock Data

Average Daily Volume 2,972,748

Quarterly Earnings Estimates

	2023	2024
Q1	2.36A	1.72E
Q2	2.05A	1.67E
Q3	2.02A	1.91E
Q4	2.09A	2.35E



Price objective basis & risk

Danaher Corporation (DHR)

Our \$258 price objective (PO) is based on a discounted cash flow (DCF) analysis (assumes 9.0% weighted-average cost of capital-WACC, 3% terminal growth rate). We believe this discount rate is appropriate as several key acquisitions (e.g., GE Life Sciences, Aldevron, Cepheid) have significantly accelerated Danaher's organic revenue growth, enhanced margins, lowered the company's cyclical exposure, and increased the percentage of sales from recurring revenues.

Downside risks to our PO are F/X risks, economic & macro risks, cyclical exposure, geopolitical risks, reductions in R&D funding, customer consolidation, a slowdown in bioprocess demand, competitive risks, deal integration risks, and headwinds from the COVID-19 pandemic. Upside risks are faster resolution of near-term bioprocessing headwinds, or favorable capital deployment by the company.

Analyst Certification

I, Michael Ryskin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Brüker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Marava	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

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Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Danaher (DHR) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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