

Danaher Corporation

First Look: -LSD core sales decline in '24, slow bioprocess start, EPS roughly in-line

Maintain Rating: NEUTRAL | PO: 245.00 USD | Price: 233.93 USD

4Q23: Total sales ahead, Adj EPS of \$2.09

As a reminder, DHR had previously announced preliminary 4Q23 results (see our [01/09 note](#)). DHR reported total revenues of \$6,405mn vs BofAe/Street \$6,203/\$6,016mn. Core sales declined -11.5% (in-line with the preannounced low-double-digit drop), aided by a \$650mn+ contribution from Cepheid respiratory testing. Base core sales declines of -4.5% were also in line with preannouncement of down mid-single digits. Gross Margin was 59.1% and Adj OpM was 28.7%. Adj EPS of \$2.09 ahead of BofAe/Street. Please see Exhibit 1 for further detail on the quarter, though note not all models appear to reflect the pre-announcement and some look to treat the VLTO spin differently.

Exhibit 1: Overview of Danaher 4Q23 performance

Danaher posted results (following early Jan. preannouncement)

	Actual	BofA est	Street est
Revenues (mn)	\$ 6,405	\$ 6,203	\$ 6,016
Reported growth	-10.0%	-13.1%	-20.5
Organic growth	-11.5%	-14.0%	N/A
F/X	1.0%	0.0%	N/A
Gross Margin	59.1%	59.4%	59.4
Adj OpM	28.7%	28.0%	N/A
Adj EPS	\$ 2.09	\$ 1.95	\$ 1.91

Source: Company reports, Bloomberg, BofA Global Research estimates

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Guide: -LSD core growth for FY, \$7.50-\$7.75 in FY Adj EPS

Starting in 1Q24 DHR will no longer be reporting in terms of 'base business revenues' as it views the pandemic as having transitioned to an endemic state (ie, CPHD is now fully 'core'). FY24 Adj Core revenues are expected to decline -LSD, below BofAe outlook for +LSD growth. FY24 Core Bioprocess sales are also expected to be down -LSD (vs BofAe +1%), with 1H24 down mid-to-high teens while the business is expected to exit the year at an HSD+ growth rate. Cepheid respiratory testing business is expected to generate sales of \$1.6bn (ahead of prior \$1.2bn). FY24 Adj OpM is expected to expand by ~50bps, implying FY Op Margin of 29.2%. After adjusting non-op items (tax rate, int income, etc), this implies Adj EPS of roughly \$7.50-\$7.75. (vs BofAe/Street \$7.65/\$7.76).

Key questions: Slow bioprocess start, visibility in recovery

The big surprise in the press release and initial commentary is that 1Q24 core revenues are expected to decline -HSD (we had expected -LSD/-MSD), with biotechnology segment -20%. DHR stated they entered '24 with 1-2 quarters of bioprocess backlog, and anticipates a sharp improvement as the year progresses. We had expected a steep 1H/2H ramp, but this is sharper than we had anticipated, and confidence in the 2H recovery will be a key question (given limited backlog / visibility). Overall, DHR guide for '24 is roughly as expected, but with some moving pieces – softer bioprocess (offset by CPHD), and lower margins (offset by non-op items). We think shares will react a bit negatively, but the call commentary will be key to understand underpinnings of guide. We maintain our Neutral rating as we see DHR as fairly valued with balanced risk/reward.

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Stock Data

Price	233.93 USD
Price Objective	245.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-2-7
52-Week Range	182.09 USD - 242.20 USD
Mkt Val (mn) / Shares Out (mn)	174,208 USD / 744.7
Free Float	91.2%
Average Daily Value (mn)	700.27 USD
BofA Ticker / Exchange	DHR / NYS
Bloomberg / Reuters	DHR US / DHR.N
ROE (2023E)	13.1%
Net Dbt to Eqty (Dec-2022A)	27.3%
ESGMeter™	High

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LSD: low single digit

MSD: mid single digit

HSD: high single digit

Price objective basis & risk

Danaher Corporation (DHR)

Our \$245 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.

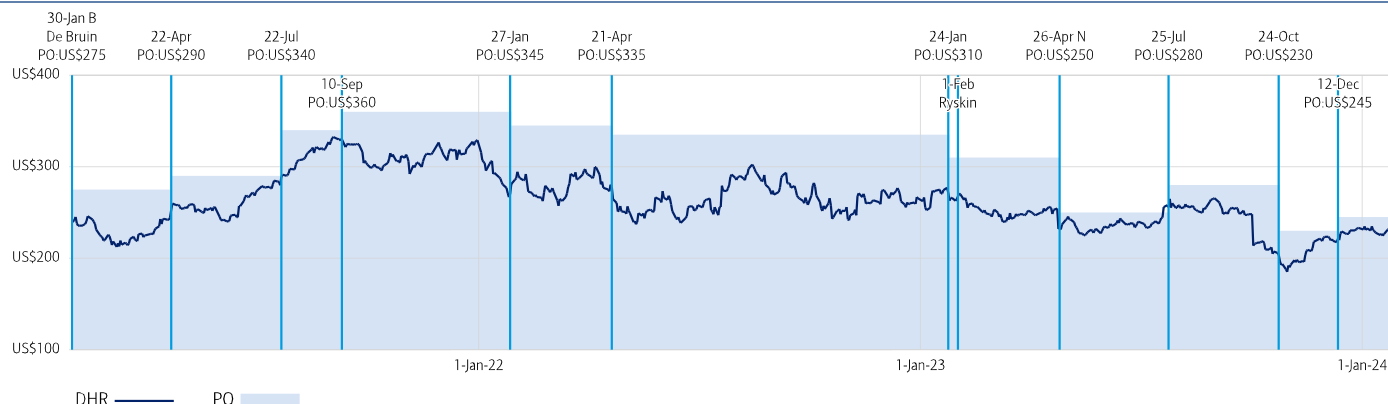
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Danaher (DHR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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