

Becton Dickinson

New model & PO post FQ1 – it's all about hitting the ramps

Reiterate Rating: BUY | PO: 265.00 USD | Price: 237.19 USD

FQ2 will be pivotal quarter for the BDX rev/margin ramp

The path for BDX's stock continues to be about the achievability of the rev/margin ramp. Pricing is starting to return closer to more sustainable levels at +2% in FQ1 vs +3.8% last year. We think FQ2 earnings in 3 months will be a pivotal quarter for BDX. BDX's valuation at 16x 2025 EPS is still trying to find its landing place between value medtech at 15x EPS or somewhere closer to the average medtech multiple at 18x. If BDX misses there's likely another turn of multiple downside. However, if BDX can hit its FQ2 revenue growth (slightly above the midpoint of full year guide) and FQ2 op margins (+300bps vs FQ1) we think investors could gain more confidence in 2H ramp. It may take a few quarters to regain the PE multiple but at this stage there's more upside than downside in the stock. And BDX, which has the most visibility in this model, remains confident.

The BDX FY24 revenue ramp

BDX grew revenues 2.4% in FQ1 (+200bps price). Assuming pricing stays at +200bps then BDX needs an acceleration to 6.5-7.5% growth for the remainder of the year to hit its full year guide of 5.5-6.25%. BDX calls out FQ1's 2.4% being hit by 100bps from China, 150bps from flu season, and 40-50bps from pharma automation/IDS timing of orders. That's 5.5% growth "adjusted". If \$200m in Alaris comes in between FQ2-Q4, then that's another +150bps of growth. Alaris did not contribute much to FQ1 growth given \$40m in the year ago base from medical necessity. Alaris comp goes to zero in 2H given medical necessity went to zero post the July 2023 approval.

The margin ramp in FQ2 and FY24

BDX op margin in FQ1 was around 20% and BDX expects FQ2 to be around 23% and the full year guide implies about another 300bps step up in the 2H to around 26%. FQ1 had 600bps of y/y headwinds (fx, inventory absorption, inflation) that go to 200bps in FQ2 and roughly zero in the 2H. The rest of the margin ramp is more dependent on the revenue ramp (leveraging SG&A). But Alaris revenue will not be margin accretive until its back to scale at its old run rate (more likely in FY25).

We update our model for FQ1 and reiterate our Buy rating given favorable risk/reward but lower our PO to \$265 (18x cal 2025 EPS of \$14.75) from \$305 (22x 2024 EPS) as we move our valuation out but lower multiple given the time to fully de-risk the ramp.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.35	12.21	12.95	14.43	10.36
GAAP EPS	5.99	5.10	7.22	8.98	10.36
EPS Change (YoY)	-13.2%	7.6%	6.1%	11.4%	-28.2%
Consensus EPS (Bloomberg)			12.95	14.35	15.77
DPS	3.77	3.87	3.77	3.81	3.85
Valuation (Sep)					
P/E	20.9x	19.4x	18.3x	16.4x	22.9x
GAAP P/E	39.6x	46.5x	32.9x	26.4x	22.9x
Dividend Yield	1.6%	1.6%	1.6%	1.6%	1.6%
EV / EBITDA*	16.9x	15.9x	15.1x	14.0x	13.0x
Free Cash Flow Yield*	2.2%	3.1%	7.0%	8.3%	8.6%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 05 February 2024 05:30AM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	305.00	265.00
2024E Rev (m)	20,211.4	20,287.9
2025E Rev (m)	21,335.6	21,401.2
2026E Rev (m)	22,526.9	22,557.2
2024E EPS	12.88	12.95
2025E EPS	14.32	14.43
2026E EPS	8.31	10.36
2024E DPS	4.01	3.77

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Stock Data

Price	237.19 USD
Price Objective	265.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-7
52-Week Range	228.62 USD - 287.32 USD
Mkt Val (mn) / Shares Out (mn)	68,525 USD / 288.9
Free Float	99.9%
Average Daily Value (mn)	366.81 USD
BofA Ticker / Exchange	BDX / NYS
Bloomberg / Reuters	BDX US / BDX.N
ROE (2024E)	14.1%
Net Dbt to Eqty (Sep-2023A)	56.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

IDS = integrated diagnostic solutions

BDX: Becton Dickinson

iQprofileSM Becton Dickinson

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.8%	8.4%	8.7%	9.0%	9.2%
Return on Equity	13.3%	13.8%	14.1%	14.3%	13.9%
Operating Margin	22.6%	23.5%	24.0%	25.0%	25.8%
Free Cash Flow	1,498	2,116	4,829	5,683	5,905

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	0.9x	1.4x	1.6x	1.6x
Asset Replacement Ratio	0.4x	0.4x	0.2x	0.5x	0.6x
Tax Rate	13.3%	12.9%	13.9%	14.0%	14.0%
Net Debt-to-Equity Ratio	59.6%	56.1%	42.0%	22.8%	6.6%
Interest Cover	10.7x	10.2x	9.9x	11.6x	12.7x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	18,870	19,372	20,288	21,401	22,557
% Change	-6.8%	2.7%	4.7%	5.5%	5.4%
Gross Profit	10,088	10,366	10,860	11,557	12,249
% Change	-7.7%	2.8%	4.8%	6.4%	6.0%
EBITDA	5,062	5,379	5,650	6,126	6,596
% Change	-11.1%	6.3%	5.1%	8.4%	7.7%
Net Interest & Other Income	(398)	(445)	(492)	(460)	(460)
Net Income (Adjusted)	3,257	3,515	3,774	4,205	4,610
% Change	-14.7%	7.9%	7.3%	11.4%	9.6%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,719	1,468	2,104	2,617	3,019
Depreciation & Amortization	2,229	2,288	2,244	2,244	2,244
Change in Working Capital	(1,508)	(629)	(298)	78	(40)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	31	(137)	1,280	1,921	1,923
Capital Expenditure	(973)	(874)	(500)	(1,177)	(1,241)
Free Cash Flow	1,498	2,116	4,829	5,683	5,905
% Change	-56.1%	41.3%	128.2%	17.7%	3.9%
Share / Issue Repurchase	(500)	0	(500)	0	0
Cost of Dividends Paid	(1,082)	(1,114)	(1,100)	(1,112)	(1,123)
Change in Debt	923	(723)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,006	1,416	4,445	9,016	13,798
Trade Receivables	2,191	2,534	2,700	2,850	3,005
Other Current Assets	4,944	4,726	4,644	4,979	5,149
Property, Plant & Equipment	6,012	6,557	6,437	6,822	7,271
Other Non-Current Assets	38,781	37,548	36,382	34,930	33,478
Total Assets	52,934	52,781	54,609	58,597	62,701
Short-Term Debt	2,179	1,141	2,016	2,016	2,016
Other Current Liabilities	5,632	5,499	5,442	6,004	6,290
Long-Term Debt	13,887	14,738	14,094	14,094	14,094
Other Non-Current Liabilities	5,954	5,605	5,308	5,308	5,308
Total Liabilities	27,652	26,983	26,860	27,422	27,708
Total Equity	25,282	25,798	27,749	31,175	34,993
Total Equity & Liabilities	52,934	52,781	54,609	58,597	62,701

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Becton Dickinson (BDX) is a diversified global medical technology company that produces medical devices, instrument systems, and reagents for the healthcare, life sciences research, clinical, diagnostic, and pharmaceutical markets. BDX has grown into a large medical conglomerate covering more than 60 countries worldwide.

Investment Rationale

BDX is back to executing and delivering a consistent message. BDX also has some of the best pricing power in medtech on a relative basis. In addition, we have more confidence in BDX delivering on its core targets with many higher growth/higher margin acquisitions over the last 2 years that move BDX. BDX also has a path for multi-year double digit EPS growth.

Stock Data

Average Daily Volume 1,546,483

Quarterly Earnings Estimates

	2023	2024
Q1	2.98A	2.68A
Q2	2.86A	2.95E
Q3	2.96A	3.40E
Q4	3.42A	3.92E

Price objective basis & risk

Becton Dickinson (BDX)

Our price objective of \$265 is based on 18x our CY25E EPS. We believe this multiple is warranted for a mid-single digit grower with the ability to raise prices in an uncertain microenvironment.

Risks to our PO are: 1) COVID testing could decline quicker than expected, 2) potential delays in Alaris approval, 3) inflation and cost pressures, and 4) slower growth in emerging markets.

Analyst Certification

I, Travis Steed, 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 - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
NEUTRAL				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
UNDERPERFORM				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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Becton Dickinson (BDX) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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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}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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