

Becton, Dickinson (BDX)

\$254.35 (As of 02/13/20)

Price Target (6-12 Months): **\$216.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

BD exited the fiscal first quarter on a strong note. However, softness in the core BD Medical unit is disheartening. Also, decline in gross and operating margins raises concern. Unfavorable foreign currency impacted BD's quarterly bottom line and margins. The company also lowered its fiscal 2020 guidance. The stock is overvalued at the moment. Nevertheless, solid performance by the core BD Life Sciences and Interventional segments instills optimism. Domestic revenues increased year over year in the quarter under review, driven by segmental strength. An impressive pipeline and plethora of launches also provide BD a competitive edge in the MedTech industry. Growth in China and APAC is another positive. The stock outperformed the industry in a year's time.

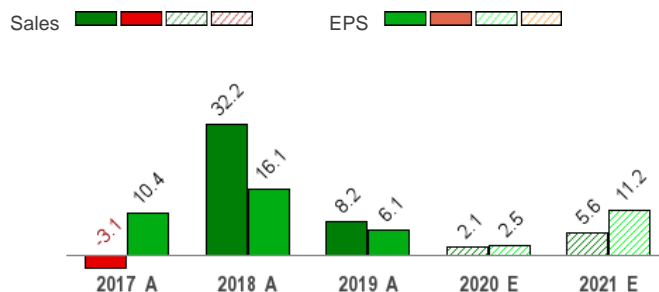
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$286.72 - \$221.47
20 Day Average Volume (sh)	2,020,569
Market Cap	\$69.0 B
YTD Price Change	-6.5%
Beta	1.08
Dividend / Div Yld	\$3.16 / 1.2%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.8%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-4.8%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	21.9
P/E F1	21.3
PEG F1	1.8
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,417 E	4,504 E	4,714 E	5,002 E	18,629 E
2020	4,225 A	4,246 E	4,446 E	4,720 E	17,645 E
2019	4,160 A	4,195 A	4,350 A	4,584 A	17,290 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.91 E	\$3.16 E	\$3.43 E	\$3.71 E	\$13.31 E
2020	\$2.65 A	\$2.60 E	\$3.13 E	\$3.51 E	\$11.97 E
2019	\$2.70 A	\$2.59 A	\$3.08 A	\$3.31 A	\$11.68 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/13/2020. The reports text is as of 02/14/2020.

Overview

Based in Franklin Lakes, NJ, Becton, Dickinson and Company (BDX) commonly known as BD, is a medical technology company engaged principally in the development, manufacture and sale of medical devices, instrument systems and reagents.

In fiscal 2019, BD's revenues increased 8.2% to \$17.29 billion.

Earlier, BD's operations consisted of three business segments: BD Medical, BD Diagnostics and BD Biosciences. However, the company's organizational structure was realigned to form two principal business segments: **BD Medical**, **BD Life Sciences** and **BD Interventional**.

BD Medical (52.4% of fiscal 2019 revenues)

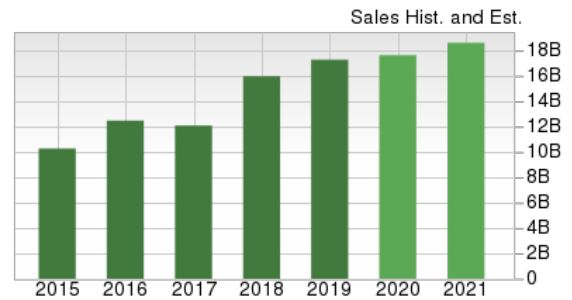
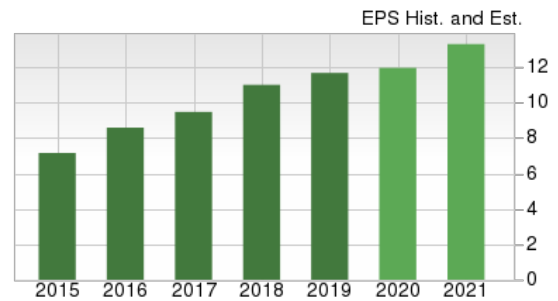
BD Medical's major product lines include needles, syringes and intravenous catheters for medication delivery; prefilled IV flush syringes; syringes and pen needles for diabetes care; refillable drug delivery systems; regional anesthesia needles and trays; sharps disposal containers; closed-system transfer devices; and generic prefilled injectables.

BD Life Sciences (24.9% of fiscal 2019 revenues)

BD Diagnostics provides products for the safe collection and transport of diagnostics specimens, as well as instruments and reagent systems to detect a broad range of infectious diseases, healthcare-associated infections and cancer.

BD Biosciences produces research and clinical tools that facilitate the study of cells to gain a better understanding of normal and disease processes.

With the acquisition of C.R. Bard, BD added a new segment — **BD Interventional** (21.9% of fiscal 2019 revenues) — in which C.R. Bard has been integrated.



Reasons To Sell:

▼ **Valuation Looks Dull:** BD's P/E (TTM basis) ratio currently stands at 21.87 over the past year, which compares with 2092 and 17.94 for the industry and S&P 500 index, respectively.

▼ **Headwinds Expected in Fiscal 2020:** Management at BD expects a few headwinds to mar the company's prospects in fiscal 2020.

In fiscal 2020, tariffs are expected to impact BD's growth by 100 basis points (bps) while foreign exchange can impact growth by 250 bps.

Additionally, owing to a new volume-based procurement process in China, management at BD expects low-single-digit growth in the country for the rest of fiscal 2020.

▼ **Foreign Exchange:** BD generates more than half of its revenues from international operations, which is adversely affected by fluctuations in foreign currency exchange rates. We note that U.S. manufacturers such as BD are being hurt by a strengthening U.S. dollar, which has benefited from more upbeat U.S. economic prospects compared to the rest of the world.

In fiscal first quarter, unfavorable currency movements impacted gross and operating margins by 10 bps. In fact, BD expects foreign exchange headwinds to hurt the bottom line in fiscal 2020.

▼ **Guidance Slashed:** BD has lowered fiscal 2020 guidance.

Adjusted earnings per share (EPS) are now expected between \$11.90 and \$12.10, which suggests growth of 4-5.5%. This compares with the earlier-projected range of \$12.50-\$12.65.

BD expects fiscal 2020 revenues to increase 1.5-2.5% year over year and 2.5-3.5% at constant currency compared with the previous range of 4-4.5% and 5-5.5% at cc.

▼ **Fiscal Q1 Downsides:** In the first quarter of fiscal 2020, BD's bottom-line inched down 1.9% year over year.

Also, revenues in the core BD Medical unit declined 1.9%. Per management, the performance was impacted by new procurement processes that are being adopted in certain Chinese provinces. For the rest of fiscal 2020, BD expects revenues in the Medical segment to remain flat.

That's not all. BD's first-quarter margins also failed to impress.

Notably, gross margin declined 60 bps from the prior-year quarter's figure, while adjusted operating margin contracted 150 bps.

▼ **Product Recalls/ Shipment Issues:** Within the Diabetes Care business, BD temporarily has paused shipments of its insulin infusion sets. This was due to a moderately-higher-than-anticipated rate of complaints associated with insertion that occurred during the pilot launch of the product. However, management at BD conducted a clinical trial to gather further insights and to ensure that patients ultimately realize the full benefits of BD FlowSmart technology. In recent times, management declared that BD has decided to discontinue the infusion sets.

▼ **Significant Consolidation:** The medical technology industry has experienced a significant amount of consolidation. As a result, competition to provide goods and services to customers has increased significantly. BD faces a wide range of competitors in each of its three business segments. Moreover, the entry of manufacturers located in China and other low-cost manufacturing locations are intensifying pricing pressure, particularly in developing markets. In addition, group purchasing organizations and integrated health delivery networks have served to concentrate purchasing decisions for some customers, which has also exerted pricing pressure on medical device suppliers like BD. Further consolidation in the industry could exert additional pressure.

Lower demand for healthcare products, increasing competition, significant exposure to foreign exchange volatility pose major headwinds.

Risks

- **Stock Up:** Over the past year, shares of BD have gained 4% against the industry's 2.1% rally. Meanwhile the S&P 500 index rose 22.2% in the same timeframe. A solid product portfolio, plethora of new product launches and a strong international presence aid the stock at the moment.
- **Positive Developments:** In recent times, BD announced the launch of two cloud-based applications, BD HealthSight Data Manager and BD HealthSight Diversion Analytics, which enable an enterprise-wide connected medication management system. Notably, both form part of the BD HealthSight platform.

Moreover, in the BD Interventional segment, WavelinQ was made available for sale in the United States in the quarter. This product provides a minimally-invasive nonsurgical option for creating critical AV fistulas for hemodialysis procedures.

Recently, BD announced the FDA approval of its second-generation BD Nano pen needle, designed for more reliable subcutaneous injection depth. Additionally, last December, BD received regulatory approval for the BD MAX enteric viral panel, a molecular diagnostic test for the direct qualitative detection and differentiation of enteric viral pathogens that cause viral gastroenteritis.

- **Leading Player in Safety-Needle Space:** BD is a global leader in safety-needle products as well as several diagnostic laboratory instruments. The company has recently launched BD Ultra-Fine micro pen needle 6mm x 32G for use with pen injection devices. The needles offer comfortable injection experience, enhancing customer satisfaction. BD has widened the needle length options for diabetic people. Interestingly, most insurance plans, including Medicare part D, cover BD Ultra-Fine micro 6mm pen needles.

According to a report by bccResearch, the global diabetes market should reach a worth of \$155 billion by 2021, at a CAGR of 4.4% from 2016 to 2021. Considering the huge potential of the market, we believe the latest developments are strategic fits.

In fiscal first quarter, revenue growth in urology and critical care was driven by product innovation in acute urology and targeted temperature management businesses.

- **Formation of BD Interventional – A New Segment:** BD had established a third business segment — BD Interventional. Notably, C.R. Bard is integrated in this vertical. BD is already a leading player in interventional specialties solutions. The company promotes positive clinical outcomes using minimally invasive and percutaneous techniques for obtaining samples of liver, breast, lung and kidney biopsy. Further, the company provides facilities for peritoneal drainage at home. Per management, the company is on track to become one of the biggest medical technology devices company in the world with this buyout. The strategic acquisition is expected to generate benefits from complementary businesses and geographical expansion.

In fiscal first quarter, the segment's worldwide revenues increased 4.3% year over year to \$1.01 billion. At cc, revenues rose 5% on strong performance by Surgery, Urology as well as Critical Care and Surgery sub-units.

- **Product Portfolio Solid:** A diversified product portfolio has been the key catalyst for BD. Notably, BD is collaborating with the FDA to submit a 510(k) filing for its Alaris pump by the fourth quarter of fiscal 2020.

In the Life Science segment, the company plans to launch BD COR high throughput molecular system for which management continues to seek regulatory authorizations as well.

At the Interventional segment, the launch of Arctic Sun Stat will boost BD's informatics capabilities.

In recent times, other products like WavelinQ, Covera and Venovo products performed impressively. Also, BD MAX and BD COR have received positive feedback in Europe. In fact, management at BD has announced a \$1-billion investment in R&D in fiscal 2020.

- **Plethora of Launches:** BD has launched several products in recent times. In the fiscal first quarter, BD launched the new PowerPICC Provena catheter with SOLO 2 valve technology.

At BD Medical, the company launched BD Pyxis ES System version 1.6. Additionally, in BD Life Sciences, the BD COR has been launched, which is a molecular diagnostics platform aimed at providing automation of molecular testing in core and other large centralized labs.

Within the Interventional unit, the company received clearance for EleVation, a next-generation vacuum assisted breast biopsy device.

Earlier, BD had launched OptiFix AT, an articulating fixation device for laparoscopic and robotic use. Another launch was of Phasix ST OVHR, a mesh designed specifically for open hernia repairs. Other products in the segment include, 4 French WavelinQ, Covera and Venovo, which have received positive feedback from the market so far.

- **Geographical Expansion:** BD remains focused on geographical expansion into overseas markets, in particular, emerging markets.

The company has already announced the commercial availability of the CE-IVD marked PAXgene Blood ccfDNA tube within the European Economic Area and Switzerland. Growth was driven by Kiestra installations and strength in core microbiology within Diagnostic Systems and strong sales of clinical instruments within the Biosciences unit.

In fiscal first quarter, BD's international revenues grossed \$1.80 billion, up 1.2% from the year-ago quarter's figure. At cc, the segment increased 3.4%. Per management, International revenue growth was driven by strength in China and the Asia-Pacific region.

Revenues from emerging markets grew 5.1%, driven by double-digit growth in China and APAC. Notably, Life Sciences and Interventional units excelled in this region.

Last Earnings Report

Becton, Dickinson Q1 Earnings Beat, FY20 Guidance Slashed

Becton, Dickinson reported first-quarter fiscal 2020 EPS of \$2.65, which beat the Zacks Consensus Estimate of \$2.63. The bottom line however dropped 1.9% on a year-over-year basis and fell 0.4% at cc.

The company raked in revenues of \$4.23 billion, surpassing the Zacks Consensus Estimate of \$4.17 billion. The reported figure improved 1.6% from the year-ago quarter. At cc, revenues rose 2.5%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	1.23%
EPS Surprise	0.76%
Quarterly EPS	2.65
Annual EPS (TTM)	11.63

Segment Details

BD Medical

In the quarter under review, the company reported worldwide revenues of \$2.09 billion, down 2.1% from the year-ago quarter and 1.1% at cc. Per management, the segment's results were offset by year-over-year declines in the Medication Management Solutions and Diabetes Care units.

BD Life Science

Worldwide revenues in the segment totaled \$1.12 billion, up 6.3% year over year and 6.4% at cc. Per management, the upside was driven by solid performance in the Diagnostic Systems and Biosciences units.

BD Interventional

This segment generated worldwide revenues of \$1.01 billion, up 4.3% from the year-ago quarter. At cc, revenues grew 5% on strong performance by the Surgery, Urology and Critical Care and Surgery sub-units.

Geographic Results

US

In the fiscal first quarter, revenues in the United States improved 1.8% to \$2.43 billion. Per management, growth in the United States was driven by solid show by the BD Medical, BD Life Sciences and the Interventional units.

International

Revenues outside the United States grossed \$1.80 billion, up 1.2% from the year-ago quarter. At cc, revenues at the segment grew 3.4%. Per management, International revenue growth was driven by strength in China and the Asia-Pacific region.

Margin Analysis

In the quarter, gross profit amounted to \$2 billion, up 0.3% from the prior-year quarter tally. Gross margin was 46.8%, down 60 bps from the prior-year quarter.

Operating income in the quarter grossed \$501 million, down 43.6% from the year-ago quarter. As a percentage of revenues, operating margin in the quarter was 11.9%, down from the year-ago quarter's 21.3%.

Adjusted operating income amounted to \$587 million, down 8.6% from the year-ago figure. Adjusted operating margin was 13.9%, down 150 bps.

Guidance

BD now expects fiscal 2020 revenues to increase 1.5-2.5% year over year and 2.5-3.5% at cc, compared with the previously-stated range of 4-4.5% and 5-5.5% at cc.

Adjusted EPS is now expected between \$11.90 and \$12.10, suggesting growth of 4-5.5%. This compares with the earlier-projected range of \$12.50 and \$12.65.

Recent News

On **Feb 12**, BD announced a long-term strategic partnership agreement with Babson Diagnostics, to bring laboratory-quality, small-volume blood collection to retail pharmacies.

Valuation

Becton, Dickinson's shares are down 6.5% and up 4% in the past six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 5.4% while that in the Zacks Medical sector are up 2.5% in the past six months period. Over the past year, the Zacks sub-industry and sector are down 2.1% and up 3.7%, respectively.

The S&P 500 index is up 4.9% in the past six months and up 22.2% in the past year.

The stock is currently trading at 20.28X Forward 12-months earnings, which compares to 18.26X for the Zacks sub-industry, 21.53X for the Zacks sector and 19.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24X and as low as 15.18X, with a 5-year median of 18.76X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$216 price target reflects 17.3X forward 12-months earnings.

The table below shows summary valuation data for BDX.

Valuation Multiples - BDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.28	18.26	21.53	19.41
	5-Year High	24	19.99	21.53	19.41
	5-Year Low	15.18	13.7	15.83	15.18
	5-Year Median	18.76	16.67	18.9	17.47
P/S F12M	Current	3.79	0.37	2.86	3.58
	5-Year High	4.43	0.37	3.83	3.58
	5-Year Low	2.15	0.23	2.45	2.54
	5-Year Median	3.47	0.28	2.96	3
P/B TTM	Current	3.25	4.65	4.65	4.36
	5-Year High	5.71	4.93	5.04	4.42
	5-Year Low	2.64	2.53	3.44	2.85
	5-Year Median	3.83	3.45	4.31	3.62

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Accuray Incorporated (ARRAY)	Outperform
AngioDynamics, Inc. (ANGO)	Neutral
Baxter International Inc. (BAX)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Cardiovascular Systems, Inc. (CSII)	Neutral
3M Company (MMM)	Neutral
Novartis AG (NVS)	Neutral
ABIOMED, Inc. (ABMD)	Underperform

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	BDX Underperform	X Industry	S&P 500	BAX Neutral	MMM Neutral	NVS Neutral
VGM Score	D	-	-	C	C	B
Market Cap	68.97 B	1.66 B	24.53 B	47.26 B	91.87 B	224.07 B
# of Analysts	12	5	13	9	7	5
Dividend Yield	1.24%	0.00%	1.75%	0.95%	3.68%	1.88%
Value Score	D	-	-	C	C	B
Cash/Price	0.01	0.06	0.04	0.06	0.03	0.05
EV/EBITDA	20.97	12.24	13.98	19.81	14.72	15.06
PEG Ratio	1.84	2.07	2.09	2.16	1.77	2.01
Price/Book (P/B)	3.25	4.23	3.29	6.03	9.07	4.03
Price/Cash Flow (P/CF)	12.24	12.93	13.69	20.10	13.29	12.53
P/E (F1)	21.25	21.49	19.19	24.80	16.80	17.10
Price/Sales (P/S)	3.97	1.64	2.68	4.23	2.86	4.72
Earnings Yield	4.71%	3.63%	5.21%	4.03%	5.95%	5.85%
Debt/Equity	0.80	0.32	0.71	0.72	1.79	0.40
Cash Flow (\$/share)	20.77	1.80	6.92	4.61	12.02	7.80
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	12.78%	8.88%	10.85%	NA	5.88%	0.76%
Proj. EPS Growth (F1/F0)	2.46%	11.78%	7.30%	10.54%	4.52%	9.08%
Curr. Cash Flow Growth	14.64%	9.29%	8.56%	14.69%	-11.15%	4.27%
Hist. Cash Flow Growth (3-5 yrs)	24.86%	12.65%	8.36%	-5.21%	1.67%	7.11%
Current Ratio	0.96	1.67	1.23	2.78	1.41	1.04
Debt/Capital	44.43%	26.85%	42.91%	41.88%	64.16%	28.42%
Net Margin	4.96%	4.08%	11.81%	13.80%	14.22%	24.73%
Return on Equity	15.50%	15.76%	16.92%	22.99%	51.39%	23.39%
Sales/Assets	0.33	1.02	0.54	0.68	0.78	0.39
Proj. Sales Growth (F1/F0)	2.06%	5.42%	3.96%	4.67%	4.44%	6.74%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	0.84%	0.00%	0.64%	1.25%	-2.47%	-1.25%
1 Week Price Chg	-10.27%	0.59%	2.47%	2.28%	0.89%	1.40%
4 Week Price Chg	-8.13%	2.23%	1.87%	2.87%	-11.74%	2.81%
12 Week Price Chg	2.16%	8.93%	6.69%	12.55%	-3.26%	8.00%
52 Week Price Chg	4.02%	7.03%	16.42%	27.79%	-22.04%	9.83%
20 Day Average Volume	2,020,569	311,996	2,019,212	2,278,799	3,597,134	2,169,082
(F1) EPS Est 1 week change	-0.07%	0.00%	0.00%	-0.04%	0.00%	0.35%
(F1) EPS Est 4 week change	-4.76%	0.00%	-0.06%	-0.24%	-1.01%	0.81%
(F1) EPS Est 12 week change	-4.76%	0.00%	-0.19%	-0.41%	-1.55%	-0.80%
(Q1) EPS Est Mthly Chg	-14.82%	0.00%	-0.16%	2.24%	-3.55%	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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