Danaher Corporation (DHR)

$160.87 (As of 01/31/20)

Price Target (6-12 Months): **$169.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/15/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: A	

Summary

In the past three months, Danaher's shares have outperformed the industry. The company believes that product innovation, Danaher Business System (DBS) and shareholder-friendly policies will likely bolster profitability going forward. Also, it anticipates the acquisition of the Biopharma business to complement its Life Sciences segment. In fourth-quarter 2019, the company's earnings and sales surpassed estimates by 1.6% and 1.7%, respectively. In the first quarter of 2020, core sales growth is predicted to be 6-6.5%. Adjusted earnings per share are projected to be $4.80-$4.90 in 2020 versus $4.42 recorded in 2019. The company faces headwinds from forex woes, high costs and huge debts. In the past seven days, the company's earnings estimates have been lowered for the first and second quarters of 2020.

Price, Consensus & Surprise

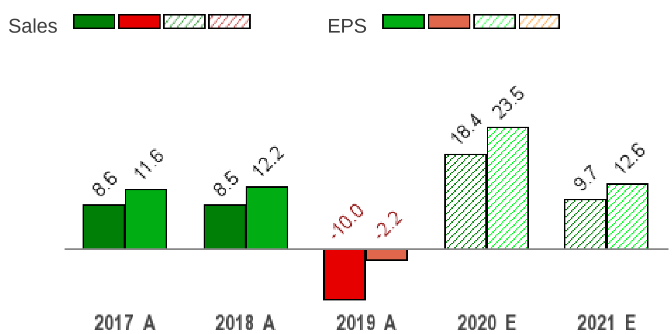
Data Overview

52 Week High-Low	**$169.19 - $107.56**
20 Day Average Volume (sh)	**2,272,512**
Market Cap	**$115.5 B**
YTD Price Change	**4.8%**
Beta	**0.93**
Dividend / Div Yld	**$0.68 / 0.4%**
Industry	**Diversified Operations**
Zacks Industry Rank	**Bottom 15% (217 out of 255)**

Last EPS Surprise	**1.6%**
Last Sales Surprise	**1.7%**
EPS F1 Est- 4 week change	**-12.6%**
Expected Report Date	**NA**
Earnings ESP	**-1.4%**

P/E TTM	**34.2**
P/E F1	**29.5**
PEG F1	**2.7**
P/S TTM	**5.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					23,264 E
2020	4,378 E	5,473 E	5,407 E	5,879 E	21,199 E
2019	4,880 A	5,157 A	5,037 A	4,868 A	17,911 A

EPS Estimates

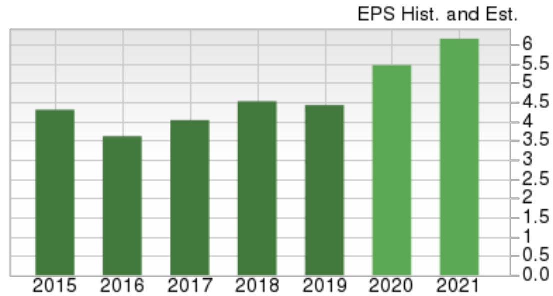
	Q1	Q2	Q3	Q4	Annual*
2021	$1.44 E	$1.52 E	$1.49 E	$1.70 E	$6.15 E
2020	$1.08 E	$1.41 E	$1.37 E	$1.60 E	$5.46 E
2019	$1.07 A	$1.19 A	$1.16 A	$1.28 A	$4.42 A

*Quarterly figures may not add up to annual.

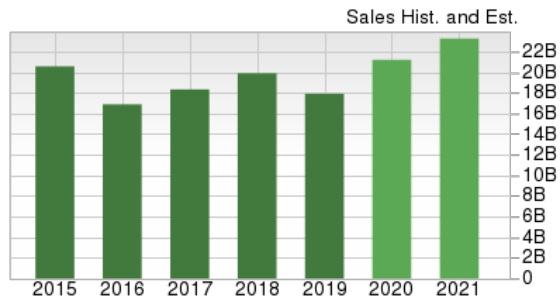
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/31/2020. The reports text is as of 02/03/2020.

Overview

Danaher Corporation is a global conglomerate that designs, manufactures and markets diverse lines of professional, industrial, commercial and consumer products. It is headquartered in Washington, DC. The company's segmental details are provided below:



Life Sciences: The segment offers a broad range of research tools used to analyze a range of critical areas — including genes, proteins, metabolites and cells — to understand the causes of diseases, identify new therapies, and test new drugs and vaccines. It also provides filtration, separation and purification technologies to a range of industries, such as biopharmaceutical, food and beverage, medical, aerospace, microelectronics, and general industrial.



Diagnostics: The segment offers analytical instruments, reagents, consumables, software and services that are deployed in hospitals, physicians' offices, reference laboratories and other critical care settings. It helps to diagnose diseases and take suitable treatment decisions.

Environmental & Applied Solutions: The segment offers products and services to keep global food and water supplies safe. It offers instrumentation, consumables, services and disinfection systems to help analyze, treat and manage the quality of ultra-pure, potable, waste, ground, source and ocean water. Moreover, the product identification businesses develop and manufacture equipment, consumables and software for various printing, marking, coding, packaging, design and color management applications.

It is worth noting here that Danaher completed the divestment of its dental assets and transferred those to Envista Holdings Corporation in September 2019. Further, the company completed the divestiture of its stake in Envista Holdings in December 2019. Envista trades on the NYSE under the ticker symbol NVST.

Envista consists of Danaher Dental segment's three operating businesses, namely Nobel Biocare Systems, Ormco and KaVo Kerr. These businesses specialize in dental equipment, orthodontics, dental implants and consumables. Some notable brands are Nobel Biocare, Kerr, i-CAT, KaVo, Dexis, Pelton & Crane, Metrex, Ormco, Implant Direct and Orascoptic.

Reasons To Buy:

- In the past three months, Danaher's shares have rallied 19% compared with the industry's growth of 3.1%. In the fourth quarter of 2019, Danaher's earnings and sales surpassed estimates by 1.6% and 1.7%, respectively. On a year-over-year basis, earnings expanded 12.3% on sales growth of 5.7%. The top-line performance was driven by organic sales growth and benefits from acquired assets. Product demand in developed and high-growth markets was healthy in the quarter. Going forward, product innovation and solid commercial execution might be beneficial. In the first quarter of 2020, core sales growth is predicted to be 6-6.5%. Additionally, it anticipates realizing benefits from DBS initiatives. These efforts enabled the company to focus more on product innovation, superior product quality, building an efficient workforce and enhancing shareholder value. For 2020, the company expects adjusted earnings per share of $4.80-$4.90, indicating growth from $4.42 recorded in 2019.

Product innovation, DBS initiatives and meaningful inorganic moves will likely drive Danaher's earnings growth in the quarters ahead.

- Danaher is steadily boosting competency on the back of inorganic efforts. In this regard, the buyouts of Integrated DNA Technologies (in April 2018), Blue Software (in July 2018) and Labcyte Corporation (in January 2019) are worth mentioning. The takeover of Labcyte has been fortifying Danaher's automation capabilities. Further, the company will be acquiring General Electric Company's Biopharma business in the first quarter of 2020. Upon completion, this is anticipated to complement Danaher's biologics workflow solutions of the Life Sciences segment. Also, earnings accretion of 45-50 cents per share is anticipated from the Biopharma acquisition in the first year of the conclusion of the deal. Further, Danaher divested its dental business to Envista in September 2019 and later closed the disposition of its stake in Envista in December. This strategic transaction is projected to work in the best interests of Danaher's shareholders. Notably, acquired assets boosted the company's sales growth by 0.5% in the fourth quarter of 2019 and 1% in the full year.

- Damaher remains committed to rewarding its shareholders handsomely through dividend payments. In 2019, the company used $526.7 million of funds to pay out dividends, which is higher than $433.4 million distributed in the previous year. It is worth mentioning here that the company announced roughly a 6% increase in the quarterly dividend rate in March 2019.

Reasons To Sell:

Funds raised for financing the Biopharma business as well as high costs, huge debts and adverse impacts of foreign currency movements are concerning.

- On a P/E (TTM) basis, the stock looks overvalued compared with the industry with respective tallies of 34.23x and 22.27x. Also, the stock is trading above the industry's three-month highest level of 22.27x. Also, earnings estimates for Danaher have been lowered by 1.8% to $1.08 for first-quarter 2020 and by 2.8% to $1.41 for second-quarter 2020 in the past seven days. This makes us cautious about the stock.

- In order to finance buyout activities and working capital needs, sometimes Danaher generates funds through the issuance of long-term debt instruments and equities. This, in turn, could affect the company's cost of funds, liquidity and access to capital markets in case of a downgrade in investment grade ratings. To fund the acquisition of the Biopharma business, the company raised funds through the issuance of common and preferred shares. Also, it priced senior notes offerings of €6.25 billion last September and $4 billion in October. It intends on using the proceeds (or part of the proceeds) from these senior notes offerings to sponsor the Biopharma buyout. It is worth mentioning here that Danaher's long-term debt at the end of the fourth quarter stood at $21.5 billion, reflecting a sequential increase of 30.1% and a year-over-year growth of 122%. Significantly, proceeds from borrowing (maturities longer than 90 days) totaled $12.1 billion while repayments of borrowings were $1.6 billion.

- Rising cost of sales has been a major cause for concern for Danaher. Its cost of sales increased on a year-over-year basis for the four quarters of 2019. Notably, the metric had expanded 4.5% year over year in the fourth quarter and 5.1% in 2019. Also, operating expenses (including selling, general and administrative expenses, and research and development expenses) increased 4.3% year over year in the fourth quarter and 4.1% in 2019. Escalating costs, if unchecked, will continue to erode the company's margins in the quarters ahead. In addition, international operations exposed the company to risks arising from unfavorable movements in foreign currencies and geopolitical issues. Sales in the fourth quarter dipped 1% due to forex woes. Persistence of the headwind might be detrimental to Danaher in the quarters ahead. Also, the company's business is overseen by a number of U.S. and non-U.S. governmental and self-regulatory entities. These entities ensure Danaher's compliance with multiple regulations related to import laws, export control and economic sanctions laws, restricting its scope. Further, any change in governmental regulations may curb demand for the company's product or service portfolio and elevate expenses.

Last Earnings Report

Danaher's Q4 Earnings and Sales Surpass Estimates

Quarter Ending	12/2019
Report Date	Jan 30, 2020
Sales Surprise	1.71%
EPS Surprise	1.59%
Quarterly EPS	1.28
Annual EPS (TTM)	4.70

Danaher reported better-than-expected results for the fourth quarter of 2019, with earnings and sales surpassing estimates by 1.6% and 1.7%, respectively.

The company's adjusted earnings were $1.28 per share in the reported quarter, which outpaced the Zacks Consensus Estimate of $1.26. The same also grew 12.3% from the year-ago quarter's figure of $1.14 on sales growth and margin improvement.

For 2019, the company's adjusted earnings were $4.42 per share, increasing 9.1% year over year. However, the bottom line lagged the Zacks Consensus Estimate of $4.67.

Segmental Sales

In the quarter under review, the company's net sales were $4,868.4 million, which grew 5.7% from the year-ago quarter. Organic sales in the quarter grew 6% and acquired assets had a positive 0.5% impact. However, foreign-currency translations had a negative impact of 1%.

Also, the company's top line surpassed the Zacks Consensus Estimate of $4,787 million.

Effective third-quarter 2019, the company started reporting net sales under three segments — Life Sciences, Diagnostics, and Environmental & Applied Solutions. The segmental information is briefly discussed below:

Revenues for the **Life Sciences** segment totaled $1,916 million, rising 6.8% year over year. Results were driven by 1% gain from acquired assets and 6.5% growth in core sales, partially offset by a 0.5% adverse impact of foreign-currency translations.

Revenues in the **Diagnostics** segment grossed $1,804.5 million, increasing 7.1% year over year. The improvement came on the back of 8% rise in core sales, which was partially offset by a 1% negative impact of foreign-currency translations.

Revenues in the **Environmental & Applied Solutions** segment totaled $1,147.9 million, rising 1.9% year over year. The uptick can be attributed to 2.5% growth in core sales. However, foreign-currency translations had an adverse impact of 0.5%.

For 2019, the company's net sales were $17.9 billion, reflecting growth of 5.1% from the previous year. However, the top line lagged the Zacks Consensus Estimate of $19.9 billion.

Margin Profile

In the quarter under review, Danaher's cost of sales rose 4.5% year over year to $2,164.8 million. It represented 44.5% of net sales compared with 45% in the year-ago quarter. Gross margin increased 50 basis points (bps) year over year to 55.5%.

Selling, general and administrative expenses of $1,448.1 million reflect a year-over-year increase of 3.9%. As a percentage of net sales, it was 29.7%. Research and development expenses were $293.8 million, which rose 6.4% year over year. It represented 6% of net sales.

Operating income in the quarter under review grew 11.4% year over year to $961.7 million. Operating margin increased 100 bps to 19.8% in the quarter. The improvement was driven by the contribution of 175 bps from the core business, partially offset by 15-bps adverse impact of acquisitions and 60-bps impact of miscellaneous sources.

Interest expenses doubled year over year to $44.4 million.

Balance Sheet and Cash Flow

Exiting the fourth quarter, Danaher had cash and cash equivalents of $19,912.3 million, up 39.7% from $14,252.1 million at the end of the last reported quarter. Long-term debt balance rose 30.1% sequentially to $21,516.7 million.

In 2019, the company generated net cash of $3,657.4 million from operating activities, increasing 0.4% from the previous year. Capital used for purchasing property, plant and equipment totaled $635 million versus $583.5 million in the previous year.

In the year, the company paid out dividends worth $526.7 million to its shareholders.

Outlook

In the quarters ahead, Danaher expects to consistently benefit from Danaher Business System initiatives. These efforts enabled the company to focus more on product innovation, superior product quality, building an efficient workforce and enhancing shareholder value.

Also, Danaher anticipates completing the acquisition of General Electric's Biopharma business in the first quarter of 2020. The buyout will likely strengthen the company's biologics workflow solutions business under its Life Sciences segment.

For the first quarter of 2020, Danaher anticipates adjusted earnings of $1.06-$1.09 per share. Core sales growth is forecast to be 6-6.5% (including the impact of three extra selling days).

For 2020, the company anticipates adjusted earnings per share of $4.80-$4.90. Core sales growth will likely be 5%.

Recent News

Dividend

On **Jan 31, 2020**, Danaher paid a quarterly cash dividend of 17 cents per share to shareholders of record as of Dec 27, 2019.

Envista Exchange Offer

On **Dec 18, 2019,** Danaher communicated the results of the Envista exchange offer — designed to allow its stockholders to exchange shares of Danaher common stock for shares of Envista common stock.

As noted, Danaher will exchange 22.9 million of its common shares with 127.9 million shares of Envista.

Update: Transactions Related to BioPharma Acquisition

Concurrent with fourth-quarter results, Danaher communicated that it anticipates earnings accretion of 60 cents per share in 2020 from the Biopharma buyout.

On **Oct 21, 2019**, Danaher announced that it decided to divest some of its business — chromatography hardware and resins, label-free biomolecular characterization, and microcarriers and particle validation standards businesses — to Sartorius AG. The transaction is valued at roughly $750 million.

The above-mentioned divestments have been decided to comply with the regulatory process related to the acquisition of General Electric's BioPharma business.

On **Feb 25, 2019**, Danaher announced that it agreed to acquire General Electric Company's BioPharma business.

The BioPharma business is part of General Electric's GE Life Sciences business, which in turn is part of the company's Healthcare segment. The BioPharma business comprises single-use technologies, process chromatography hardware and related consumables, development instrumentation and related consumables, cell culture media, and service. This business generated revenues of $3 billion in 2018.

The BioPharma business will be integrated with Danaher's Life Sciences segment and will complement the company's biologics workflow solutions. The buyout is anticipated to boost non-GAAP adjusted earnings by 45-50 cents per share in the first year of the completion of the deal.

As noted, the buyout of General Electric's BioPharma business has been valued at $21.4 billion. Of the total amount, Danaher will pay roughly $21 billion in cash and assume certain pension liabilities of General Electric. The cash portion will likely be paid through cash on hand, funds raised through debts and credit facilities, and proceeds from shares and preferred stock issuances.

Valuation

Danaher shares are up 4.8% and 46.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 0.6% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have increased 15.8%.

The S&P 500 index has moved up 0.1% year to date and 17.4% in the past year.

The stock is currently trading at 19.18x forward 12-month EBITDA, which compares to 26.85x for both the Zacks sub-industry and the Zacks sector, and 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.14x and as low as 11.52x, with a 5-year median of 15.69x. Our Neutral recommendation indicates the stock to perform in line with the market. Our $169 price target reflects 30.65x forward 12-month earnings per share.

The table below shows summary valuation data for DHR.

Valuation Multiples - DHR

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	19.18	26.85	26.85	12.66
	5-Year High	20.14	81.18	81.18	12.66
	5-Year Low	11.52	17.86	17.86	9.08

	5-Year Low	11.52	17.86	17.86	9.08
	5-Year Median	15.69	22.15	22.15	10.78
P/E F12M	Current	29.19	19.7	19.7	18.5
	5-Year High	32.65	20.06	20.06	19.34
	5-Year Low	15.64	15.31	15.31	15.18
	5-Year Median	21.19	17.76	17.76	17.46
EV/Sales F12M	Current	5.55	4.22	4.22	3.26
	5-Year High	5.55	4.24	4.24	3.37
	5-Year Low	2.61	2.84	2.84	2.3
	5-Year Median	3.79	3.65	3.65	2.78

As of 01/31/2020

Industry Analysis **Zacks Industry Rank:** Bottom 15% (217 out of 255)

Top Peers

Ecolab Inc. **(ECL)**	Neutral
General Electric Company **(GE)**	Neutral
3M Company **(MMM)**	Neutral
Parker-Hannifin Corporation **(PH)**	Neutral
Stryker Corporation **(SYK)**	Neutral
Thermo Fisher Scientific Inc. **(TMO)**	Neutral
Xylem Inc. **(XYL)**	Neutral
United Technologies Corporation **(UTX)**	Underperform

Industry Comparison Industry: Diversified Operations

Industry Peers

	DHR Neutral	X Industry	S&P 500	GE Neutral	MMM Neutral	PH Neutral
VGM Score	C	-	-	D	C	C
Market Cap	115.55 B	7.26 B	23.55 B	108.73 B	91.24 B	25.14 B
# of Analysts	8	3	13	7	7	9
Dividend Yield	0.42%	1.44%	1.81%	0.32%	3.63%	1.80%
Value Score	D	-	-	D	C	B
Cash/Price	0.12	0.12	0.04	0.74	0.08	0.15
EV/EBITDA	26.15	9.38	13.97	-18.51	11.90	11.47
PEG Ratio	2.73	2.12	1.97	2.97	1.76	2.00
Price/Book (P/B)	4.03	1.80	3.21	3.65	9.01	3.96
Price/Cash Flow (P/CF)	25.89	11.73	13.36	15.19	12.90	12.57
P/E (F1)	29.67	16.78	18.42	20.08	16.68	18.26
Price/Sales (P/S)	5.79	1.43	2.60	1.03	2.84	1.77
Earnings Yield	3.39%	5.87%	5.43%	4.98%	5.99%	5.48%
Debt/Equity	0.75	0.75	0.72	3.16	1.73	1.28
Cash Flow ($/share)	6.21	1.94	6.92	0.82	12.30	15.57
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	2.97%	9.00%	10.68%	-20.34%	6.54%	14.43%
Proj. EPS Growth (F1/F0)	23.50%	5.71%	7.59%	-4.62%	4.52%	-9.55%
Curr. Cash Flow Growth	-1.09%	3.92%	10.81%	-48.47%	-9.16%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	6.62%	4.88%	8.78%	-8.86%	5.24%	7.55%
Current Ratio	5.19	2.05	1.22	1.84	1.41	1.38
Debt/Capital	41.54%	41.54%	42.99%	75.95%	63.37%	56.21%
Net Margin	15.09%	5.35%	11.69%	-4.71%	14.22%	9.63%
Return on Equity	11.50%	10.40%	17.33%	14.13%	51.39%	25.18%
Sales/Assets	0.35	0.77	0.55	0.37	0.78	0.77
Proj. Sales Growth (F1/F0)	6.30%	3.14%	4.12%	-13.78%	4.44%	0.88%
Momentum Score	A	-	-	F	D	F
Daily Price Chg	-4.84%	-1.43%	-1.98%	-2.20%	-2.37%	-4.61%
1 Week Price Chg	-0.50%	-1.59%	-1.09%	-0.85%	-1.76%	-4.21%
4 Week Price Chg	3.71%	-3.47%	-2.11%	4.36%	-11.86%	-6.71%
12 Week Price Chg	19.61%	-2.68%	2.15%	10.27%	-9.09%	-1.77%
52 Week Price Chg	45.03%	-9.34%	14.15%	22.54%	-20.79%	18.74%
20 Day Average Volume	2,272,512	48,522	1,808,632	66,415,252	3,067,398	877,671
(F1) EPS Est 1 week change	-10.35%	0.00%	0.00%	-11.55%	-0.97%	0.00%
(F1) EPS Est 4 week change	-12.65%	-0.05%	0.00%	-13.89%	-1.38%	0.06%
(F1) EPS Est 12 week change	-13.91%	-1.09%	-0.09%	-15.44%	-1.54%	0.47%
(Q1) EPS Est Mthly Chg	-5.43%	-2.26%	0.00%	-12.26%	-3.55%	0.11%

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	A
VGM Score	C

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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