

Danaher Corporation (DHR)

\$159.57 (As of 01/13/20)

Price Target (6-12 Months): **\$168.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Danaher believes that sturdier demand for innovative products, effective implementation of Danaher Business System and shareholder-friendly policies will bolster profitability going forward. Also, it anticipates the acquisition of the BioPharma business to complement its Life Sciences segment. For fourth-quarter 2019, the company expects adjusted earnings of \$1.32-\$1.35 per share and core sales growth of 4.5%. However, it lowered 2019 earnings estimates to \$4.74-\$4.77 per share from the previously mentioned \$4.75-\$4.80, reflecting dilution caused by the Envista transaction. Notably, the company will soon dispose of its remaining 80.6% stake in Envista through an exchange offer. Also, it is exposed to forex woes, high debts, rising costs and others. The company's earnings estimates have been lowered for 2019 and 2020 in the past 60 days.

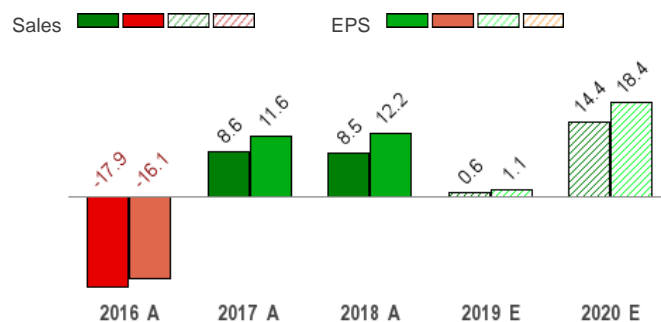
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$160.97 - \$104.04
20 Day Average Volume (sh)	7,931,040
Market Cap	\$114.6 B
YTD Price Change	4.0%
Beta	0.93
Dividend / Div Yld	\$0.68 / 0.4%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.9%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	34.0
P/E F1	29.5
PEG F1	2.7
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,193 E	5,886 E	5,793 E	6,300 E	22,895 E
2019	4,880 A	5,157 A	5,037 A	5,280 E	20,014 E
2018	4,695 A	4,981 A	4,853 A	5,364 A	19,893 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.02 E	\$1.40 E	\$1.40 E	\$1.58 E	\$5.41 E
2019	\$1.07 A	\$1.19 A	\$1.16 A	\$1.25 E	\$4.57 E
2018	\$0.99 A	\$1.15 A	\$1.10 A	\$1.28 A	\$4.52 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Danaher Corporation is a global conglomerate that designs, manufactures and markets diverse lines of professional, industrial, commercial and consumer products. 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.

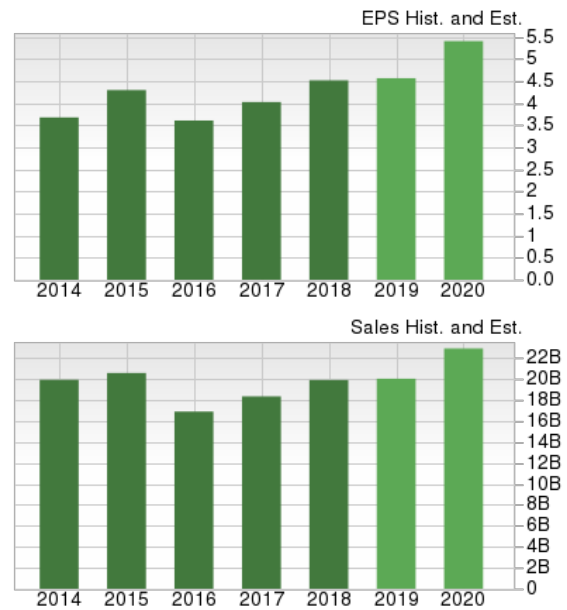
Diagnostics: The segment offers analytical instruments, reagents, consumables, software and services that are deployed in hospitals, physicians' offices, reference laboratories and other critical care settings. It helps to diagnose diseases and take suitable treatment decisions.

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 its subsidiary, Envista Holdings Corporation, in September 2019. Envista trades on the NYSE under the ticker symbol "NVST".

Envista consists of the Danaher Dental segment's three operating businesses — 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 Orascopic.

Envista provides services to dentists (more than one million) across as many as 150 countries. It employs 12,000 people.



Reasons To Buy:

▲ In the third quarter of 2019, Danaher's earnings surpassed estimates by 0.9% and increased 5.5% year over year. Sales in the quarter expanded 3.8% year over year on organic sales growth and benefits from acquired assets. Product demand in developed and high-growth markets was healthy in the quarter. Going forward, elevated demand for products — including DxH 900 analyzer, Esko, X-Rite, ChemTreat and others — will likely bolster Danaher's segmental sales. The company currently predicts core growth of 4.5% for the fourth quarter of 2019. Additionally, it anticipates realizing benefits from DBS initiatives, which enabled it to focus more on product innovation, superior product quality, building efficient workforce and enhancing shareholder value.

Solid demand for innovative products, effective implementation of DBS 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 moves. Danaher acquired Integrated DNA Technologies in April 2018. Since acquired, the buyout has been strengthening the company's Life Sciences segment. Also, the buyout of Blue Software (in July 2018), which is currently part of Danaher's Esko business, boosts the company's offering across packaging development and production workflow. Further, Danaher enhanced automation capabilities with acquisition of Labcyte Corporation in January 2019. The company also agreed to acquire General Electric Company's BioPharma business. When completed, the acquired assets will likely 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 completion of the deal. Further, the company divested its dental business to an independent publicly-trading company, Envista, in September 2019. The move is predicted to work in the best interest of Danaher's shareholders. Notably, acquired assets boosted Danaher's sales growth by 0.5% in the third quarter of 2019.

▲ It remains committed to rewarding shareholders handsomely through dividend payments. In the first three quarters of 2019, the company used \$385 million for paying out dividends, higher than \$321.2 million distributed in the year-ago period. It is worth mentioning here that it announced roughly a 6% increase in the quarterly dividend rate in March 2019. In the past six months, Danaher's shares have gained 8.3% compared with the industry's growth of 7.8%.

Reasons To Sell:

- ▼ In the past three months, Danaher's shares have gained 16% compared with the industry's growth of 13.9%. Also, on a P/E (TTM) basis, the stock looks a bit overvalued compared with the industry, with respective tallies of 33.95x and 22.64x. Also, the stock is trading above the industry's three-month highest level of 22.64x. The company lowered earnings estimates for 2019, accounting for the dilution caused by the Envista transaction. This created bearish sentiments for the stock. In the past 60 days, the Zacks Consensus Estimate for the company's earnings has declined 0.4% to \$4.74 for 2019 and 1.6% to \$5.48 for 2020. This makes us cautious about the stock.
- ▼ In order to finance buyout activities and working capital needs, sometimes Danaher raises funds through the issuance of long-term debt instruments and equities. This, in turn, could hurt the company's cost of funds, liquidity and access to capital markets in case of degradation in investment grade ratings. To fund the acquisition of the BioPharma business, it raised funds through the issuance of common and preferred shares. Expanded share base caused by these offerings will likely dilute earnings in the year. Also, the company priced senior notes offerings of €6.25 billion in September and \$4 billion in October. It intends on using the proceeds (or part of the proceeds) from these senior notes offerings to fund the BioPharma buyout. It is worth mentioning here that Danaher's long-term debt at the end of the third quarter stood at \$16.5 billion. It is worth noting here that the company redeemed roughly \$875 million worth of senior notes in September.
- ▼ Rising cost of sales has been a major cause of concern for Danaher. In the last three years (2016-2018), the company's cost of sales increased 5.2% (CAGR). The same escalated 4.6% year over year in the first three quarters of 2019. Also, selling, general and administrative expenses expanded 4.4% year over year in the first three quarters, and research and development expenses increased 4.4%. Escalating costs, if unchecked, will continue to hurt the company's margins in the quarters ahead. In addition, international operations exposed it to risks arising from unfavorable movements in foreign currencies and geopolitical issues. Sales in the third quarter of 2019 declined 1.5% due to forex woes. Continuance of the headwind might be detrimental to Danaher in the quarters ahead. In addition, the company's business is overseen by a number of U.S. and non-U.S. governmental, and self-regulatory entities. These entities ensure that Danaher complies with multiple regulations related to import laws, export control and economic sanctions laws, which restrict its scope. Further, any change in governmental regulations may reduce the demand for the company's products or services and elevate expenses.

Dilutive impact of the Envista transaction and funds raised for financing the BioPharma business as well as high costs, huge debts and adverse impacts of foreign currency movements are concerning.

Last Earnings Report

Danaher Beats Q3 Earnings Estimates, Lowers '19 View

Danaher kept its earnings beat streak alive in the third quarter of 2019, with earnings surpassing estimates by 0.9%. However, sales lagged estimates by roughly 0.1%.

The company's adjusted earnings were \$1.16 per share in the reported quarter, which outpaced the Zacks Consensus Estimate of \$1.15. The same also grew 5.5% from the year-ago quarter's figure of \$1.10 on impressive sales performance and gain from Danaher Business System.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-0.06%
EPS Surprise	0.87%
Quarterly EPS	1.16
Annual EPS (TTM)	4.70

Sales Rise on Organic Growth & Buyouts

In the quarter under review, the company's net sales were \$5,037.3 million, which grew 3.8% from the year-ago quarter. Organic sales in the quarter grew 5% and acquired assets had a positive 0.5% impact. However, foreign-currency translations had a negative impact of 1.5%.

Adjusted core sales growth, excluding the impact of Envista, was 6% in the quarter.

However, the top line lagged the Zacks Consensus Estimate of \$5,040 million.

Effective the third quarter of 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 \$1,695.6 million, rising 6.2% year over year. Results were driven by 1% gain from acquired assets and 6.5% growth in core sales, partially offset by a 1.5% adverse impact of foreign-currency translations.

Revenues in the Diagnostics segment grossed \$1,601.9 million, increasing 6.5% year over year. The improvement came on the back of 8% rise in core sales, which was partially offset by a 1.5% negative impact of foreign-currency translations.

Revenues in the Environmental & Applied Solutions segment totaled \$1,080.5 million, rising 0.5% year over year. The uptick can be attributed to 2% growth in core sales. However, foreign-currency translations had an adverse impact of 1.5%.

Gross Margin Up Y/Y, Operating Margin Falls

In the quarter under review, Danaher's cost of sales rose 3.1% year over year to \$2,228.9 million. It represented 44.3% of net sales compared with 44.6% in the year-ago quarter. Gross margin increased 40 basis points (bps) year over year to 55.8%.

Selling, general and administrative expenses of \$1,654.7 million reflect a year-over-year increase of 6.2%. As a percentage of net sales, it represented 32.9%. Research and development expenses were \$318.9 million, which rose 5.9% year over year. It represented 6.3% of net sales.

Operating income in the quarter under review grew 0.5% year over year to \$834.8 million. Operating margin, however, contracted 50 bps to 16.6% in the quarter. The downturn was due to a 10-bps adverse impact of acquisitions and 110-bps impact of miscellaneous sources, partially offsetting contribution of 70 bps from the core business.

Balance Sheet and Cash Flow

Exiting the third quarter, Danaher had cash and cash equivalents of \$14,252.1 million, significantly above \$5,433.6 million at the end of the last reported quarter. Long-term debt balance rose 63% sequentially to \$16,536.2 million.

In the first three quarters of 2019, the company generated net cash of \$2,840.4 million from operating activities, increasing 2% from the year-ago period level. Capital used for purchasing property, plant and equipment totaled \$518.4 million versus \$441.3 million in the year-ago period.

In the first nine months of 2019, the company paid out dividends worth \$385 million to its shareholders.

Outlook

In the quarters ahead, Danaher expects to consistently benefit 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.

Also, Danaher anticipates completing the acquisition of General Electric's BioPharma business in the first quarter of 2020. The buyout will likely strengthen Danaher's biologics workflow solutions business, considered under its Life Sciences segment. To comply with the regulatory process, the company recently decided to divest some of its business to Sartorius AG.

For the fourth quarter of 2019, Danaher anticipates adjusted earnings of \$1.32-\$1.35. It expects core sales growth of 4.5%.

For 2019, the company lowered its adjusted earnings per share projection to \$4.74-\$4.77 from the previously mentioned \$4.75-\$4.80. The revision reflects dilution caused by the Envista transaction.

Recent News

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.

Dividend

On **Dec 10, 2019**, Danaher's board of directors approved the payment of a quarterly cash dividend of 17 cents per share to shareholders of record as of Dec 27, 2019. The payment will be made on Jan 31, 2020.

Pricing of Senior Notes Offerings

On **Oct 29, 2019**, Danaher announced the pricing of \$4 billion worth of senior notes, which will be guaranteed (fully and unconditionally) by it. It is worth noting here that DH Europe Finance II S.à r.l. — a wholly-owned subsidiary of Danaher — is the issuer of these senior notes.

The net proceeds from the offerings (approximately \$3.97 billion) will be used to fund the acquisition of the BioPharma business — part of General Electric's GE Life Sciences business.

Transactions Related to BioPharma Acquisition

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.

Buyout of GE'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. It is predicted to generate sales of \$3.2 billion in 2019.

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 51.9% over the trailing 12-month period, respectively. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 26.9% over the past year.

The S&P 500 index has moved up 24.2% in the past year.

The stock is currently trading at 18.79x 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 20.22x and as low as 11.08x, with a 5-year median of 15.74x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$168 price target reflects 31.48x 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
Current	18.79	26.85	26.85	12.66

EV/EBITDA F12M	5-Year High	20.22	81.18	81.18	12.66
	5-Year Low	11.08	17.86	17.86	9.08
	5-Year Median	15.74	22.03	22.03	10.78
P/E F12M	Current	29.98	19.4	19.4	18.88
	5-Year High	32.65	20.06	20.06	19.34
	5-Year Low	15.64	15.31	15.31	15.17
	5-Year Median	21.14	17.76	17.76	17.44
EV/Sales F12M	Current	4.92	4.22	4.22	3.26
	5-Year High	5.14	4.24	4.24	3.37
	5-Year Low	2.61	2.82	2.82	2.3
	5-Year Median	3.79	3.65	3.65	2.78

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



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
United Technologies Corporation (UTX)	Neutral
Xylem Inc. (XYL)	Neutral

Industry Comparison Industry: Diversified Operations				Industry Peers		
	DHR Neutral	X Industry	S&P 500	GE Neutral	MMM Neutral	PH Neutral
VGM Score	F	-	-	D	C	B
Market Cap	114.62 B	7.52 B	24.31 B	105.85 B	104.04 B	26.73 B
# of Analysts	3	4	13	7	6	9
Dividend Yield	0.43%	1.39%	1.76%	0.33%	3.18%	1.69%
Value Score	F	-	-	D	C	C
Cash/Price	0.13	0.13	0.04	0.75	0.07	0.15
EV/EBITDA	24.91	9.36	14.12	-15.72	13.47	11.79
PEG Ratio	2.71	2.06	2.05	2.58	1.97	2.11
Price/Book (P/B)	3.63	1.37	3.34	3.63	9.67	4.38
Price/Cash Flow (P/CF)	24.78	11.98	13.66	7.59	13.54	13.36
P/E (F1)	29.47	16.99	18.82	17.39	18.76	19.33
Price/Sales (P/S)	5.61	1.46	2.64	0.94	3.25	1.89
Earnings Yield	3.39%	5.78%	5.29%	5.78%	5.33%	5.17%
Debt/Equity	0.52	0.67	0.72	2.67	1.68	1.21
Cash Flow (\$/share)	6.44	1.94	6.94	1.60	13.37	15.57
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	2.97%	9.00%	10.56%	-20.34%	6.54%	14.43%
Proj. EPS Growth (F1/F0)	18.38%	7.09%	7.49%	14.29%	6.57%	-9.16%
Curr. Cash Flow Growth	10.54%	7.31%	14.83%	-18.18%	8.64%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	6.62%	4.88%	9.00%	-8.86%	5.24%	7.55%
Current Ratio	3.43	2.22	1.23	1.84	2.30	1.96
Debt/Capital	33.25%	40.06%	42.99%	72.76%	62.66%	54.69%
Net Margin	12.13%	5.78%	11.08%	-4.39%	15.48%	10.41%
Return on Equity	11.42%	10.25%	17.16%	11.69%	54.02%	25.74%
Sales/Assets	0.38	0.77	0.55	0.38	0.81	0.83
Proj. Sales Growth (F1/F0)	14.39%	2.93%	4.23%	-1.68%	5.03%	0.77%
Momentum Score	F	-	-	F	B	B
Daily Price Chg	0.92%	0.51%	0.73%	3.86%	0.25%	1.35%
1 Week Price Chg	2.58%	-0.07%	0.39%	-2.51%	1.13%	-0.73%
4 Week Price Chg	5.37%	1.92%	1.84%	8.50%	5.96%	0.24%
12 Week Price Chg	15.44%	5.42%	6.48%	37.88%	9.03%	13.46%
52 Week Price Chg	53.30%	-2.25%	23.15%	36.18%	-5.85%	33.24%
20 Day Average Volume	7,931,040	64,325	1,578,594	52,119,620	2,366,861	722,743
(F1) EPS Est 1 week change	-0.94%	0.00%	0.00%	-0.61%	0.00%	0.13%
(F1) EPS Est 4 week change	-1.19%	0.00%	0.00%	-0.61%	0.39%	0.83%
(F1) EPS Est 12 week change	-3.61%	-0.68%	-0.48%	-2.79%	-2.48%	-8.54%
(Q1) EPS Est Mthly Chg	-0.59%	0.00%	0.00%	0.00%	0.00%	0.16%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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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