



# Danaher Corporation (DHR)

Updated May 9<sup>th</sup>, 2024, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$249	<b>5 Year CAGR Estimate:</b>	1.4%	<b>Market Cap:</b>	\$177 B
<b>Fair Value Price:</b>	\$215	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	06/28/24
<b>% Fair Value:</b>	116%	<b>5 Year Valuation Multiple Estimate:</b>	-2.9%	<b>Dividend Payment Date:</b>	07/26/24
<b>Dividend Yield:</b>	0.4%	<b>5 Year Price Target</b>	\$261	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## Overview & Current Events

Danaher Corporation (DHR) is active in the healthcare industry and designs, manufactures and markets professional, medical, industrial, and commercial products and services. The company operates through three main segments: Life & Bio Sciences (38% of annual revenue), Diagnostics (35% of annual revenue), and Environmental & Applied Solutions (15% of annual revenue). In late 2019, Danaher separated from its dental business (Envista) through an IPO process. The company made 14 acquisitions in 2021 for a total of \$11.0 billion, including the Aldevron acquisition of \$9.6 billion. Danaher Corporation is a \$177 billion company and has approximately 63,000 employees.

On April 23<sup>rd</sup>, 2024, Danaher Corporation released its first quarter results for the period ending March 29<sup>th</sup>, 2024. The company reported revenue of \$5.8 billion, a 2.5% decrease compared with revenue of \$5.95 billion in the same quarter of 2023. Reported quarterly earnings per diluted share equaled \$1.45, which represents a 12% decrease compared to \$1.65 for the same period last year.

The decline in the quarter was primarily attributed to decreased demand in some of the company's key markets, although operational efficiencies were noted. The Biotechnology and Diagnostics segments showed mixed performance. Revenues from the Life Sciences segment totaled \$1.75 billion, showing slight year-over-year growth of 2%. However, revenues from the Diagnostics segment increased by 6.5% year-over-year, reaching \$2.53 billion. The Biotechnology segment faced a more substantial decrease, with revenues dropping by 18% year-over-year to \$1.52 billion. Operating profit was reported at \$1.31 billion with a margin of 22.6%, compared to \$1.52 billion and a 25.5% margin in the first quarter of 2023. Danaher's cost of sales decreased to \$2.31 billion. Gross profit margin came in at 60.2%. For the first quarter of 2024, Danaher had previously anticipated an adjusted core revenue decline from continuing operations in high-single digits on a year-over-year basis. The actual results showed a core revenue decrease of 4%. Revenues are expected to continue to decrease in low-single digits on a year-over-year basis in 2024, with a forecasted mid-single digit decline in core sales for the second quarter, before returning to growth later in the year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.63	\$4.30	\$3.34	\$3.50	\$3.74	\$3.26	\$4.89	\$8.61	\$9.66	\$6.38	<b>\$7.40</b>	<b>\$9.00</b>
<b>DPS</b>	\$0.33	\$0.54	\$0.58	\$0.55	\$0.62	\$0.67	\$0.68	\$0.72	\$0.84	\$1.00	<b>\$1.08</b>	<b>\$1.31</b>
<b>Shares<sup>2</sup></b>	704	687	692	697	702	696	711	715	712	712	<b>712</b>	<b>710</b>

The company has grown earnings by 6.5% per year since 2014 and 17.8% over the past five years. After the exceptional earnings-per-share growth in 2021 and 2022, we still expect earnings-per-share to continue to expand but at a slower pace. We expect earnings to increase by 4% per year for the next five years. The company has been able to increase its yearly dividend payout for 10 consecutive years. Over the last five years, the average annual dividend growth rate is 10%. Danaher Corporation has completed the Veralto Corporation's spin-off in the fourth quarter, by declaring a pro rata dividend, allowing stockholders to receive one share of Veralto for every three shares of Danaher held, effectively distributing Veralto common stock to its shareholders. In December 2023, the company's quarterly dividend was

<sup>1</sup> Estimated date

<sup>2</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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reduced by 11.1%, from \$0.27 to \$0.24 per share, due to this spin-off. The combined dividends of the two companies exceeded the previous amount. In February 2024, the quarterly dividend increased by 12.5% from \$0.24 to \$0.27 per share.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.3	20.4	25.8	24.5	27.0	41.0	37.9	31.9	27.9	31.5	33.6	29.0
Avg. Yld.	1.9%	0.6%	0.7%	0.6%	0.6%	0.5%	0.4%	0.3%	0.4%	0.4%	0.4%	0.5%

During the past decade shares of Danaher Corporation have traded with an average price-to-earnings ratio of about 29 times earnings and today, it stands at 33.6. We are using 29 times earnings as a fair value baseline, implying a headwind valuation. The company's dividend yield is currently 0.4% which close to the average yield over the past decade of 0.5%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	9%	13%	17%	16%	17%	21%	14%	8%	9%	16%	15%	15%

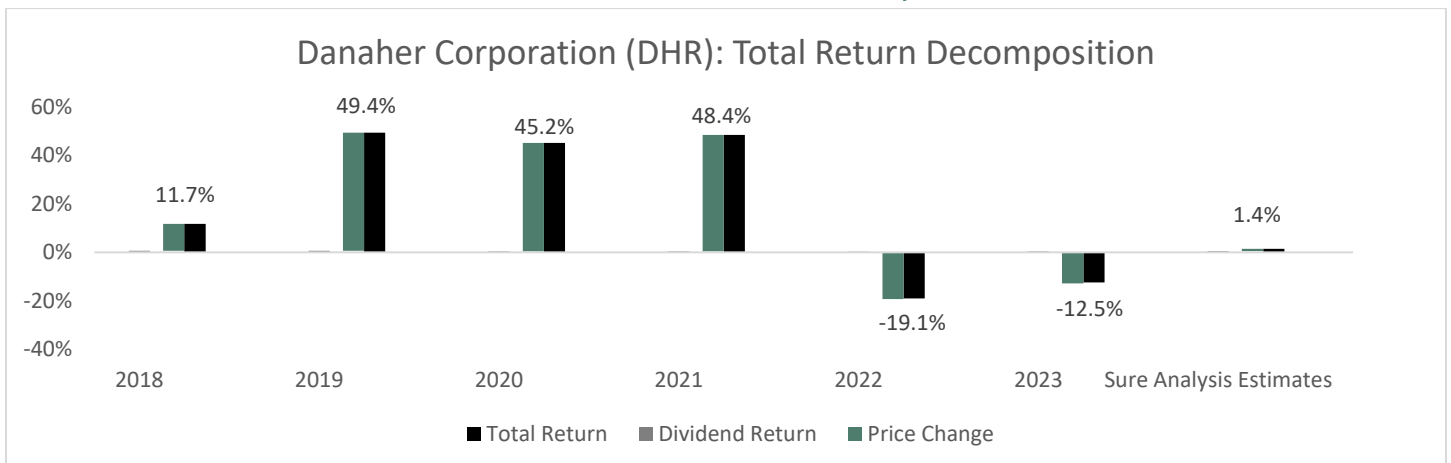
During the past five years, the company's dividend payout ratio has averaged around 14%. Danaher's dividend is comfortably covered by earnings. This is reflected in the low dividend returned to its shareholders and is providing sufficient funding capabilities for M&A activities and the research budget which are both essential in this industry.

Since 1984, Danaher has been transformed from a real estate organization into a healthcare-focused manufacturing company. The company has a great track record of integrating M&A into its strategy in the last decade. Danaher's strategy is focused on a continuous improvement of its scientific technology portfolio by seeking out attractive markets and then making the required acquisitions to enter or expand within those niches. As a result, the company has leading positions in attractive fast-growing end markets with long-term, strong secular growth drivers. 2024 will be a challenging year for Danaher, largely due to the transition of the pandemic to an endemic state. This shift has reduced the demand for COVID-related products, significantly impacting sales within the Biotechnology and Diagnostics segments, sectors that were previously buoyed by pandemic-driven demand.

## Final Thoughts & Recommendation

Danaher Corporation is a \$177 billion healthcare giant with a great track record of integrating M&A into its strategy. The company has a sound earnings track record and a modest dividend yield of 0.4%. We estimate total return potential of 1.4% per year for the next five years based on a 4% earnings-per-share growth, along with modest impacts from the dividend yield and a valuation headwind. Shares earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	12,867	14,434	16,882	15,519	17,049	17,911	22,284	29,453	31,470	23,890
<b>Gross Profit</b>	6,850	7,771	9,335	8,571	9,505	9,984	12,475	17,952	18,950	14,030
<b>Gross Margin</b>	53.2%	53.8%	55.3%	55.2%	55.8%	55.7%	56.0%	61.0%	60.2%	58.7%
<b>SG&amp;A Exp.</b>	4,035	4,748	5,624	5,043	5,391	5,589	6,896	8,198	8,516	7,252
<b>D&amp;A Exp.</b>	718	881	1,128	1,117	1,178	1,189	1,775	2,168	2,222	2,166
<b>Operating Profit</b>	2,045	2,162	2,735	2,572	3,055	3,269	4,231	7,465	8,688	5,279
<b>Op. Margin</b>	15.9%	15.0%	16.2%	16.6%	17.9%	18.3%	19.0%	25.3%	27.6%	22.1%
<b>Net Profit</b>	2,598	3,357	2,554	2,492	2,651	3,008	3,646	6,433	7,209	4,764
<b>Net Margin</b>	20.2%	23.3%	15.1%	16.1%	15.5%	16.8%	16.4%	21.8%	22.9%	19.9%
<b>Free Cash Flow</b>	3,293	3,289	2,932	2,907	3,438	3,316	5,417	7,064	7,367	5,781
<b>Income Tax</b>	448	293	458	371	556	873	849	1,251	1,083	823

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	36,992	48,222	45,295	46,649	47,833	62,082	76,161	83,184	84,350	84,490
<b>Cash &amp; Equivalents</b>	3,006	791	964	630	788	19,912	6,035	2,586	5,995	5,864
<b>Acc. Receivable</b>	3,446	2,985	3,186	3,522	3,030	3,191	4,045	4,631	4,918	3,922
<b>Inventories</b>	1,783	1,573	1,709	1,841	1,631	1,628	2,292	2,767	3,110	2,594
<b>Goodwill &amp; Int.</b>	22,733	31,560	35,645	36,806	32,863	32,463	56,702	64,027	60,050	62,350
<b>Total Liabilities</b>	13,542	24,458	22,219	20,281	19,606	31,800	36,384	38,007	34,260	31,000
<b>Accounts Payable</b>	1,825	1,392	1,485	1,510	1,495	1,515	2,049	2,569	2,296	1,766
<b>Long-Term Debt</b>	3,473	12,870	12,269	10,522	9,740	21,729	21,204	22,176	19,680	18,400
<b>Total Equity</b>	23,378	23,690	23,003	26,358	28,214	28,671	36,498	41,899	48,410	53,490
<b>LTD/E Ratio</b>	0.15	0.54	0.53	0.40	0.35	0.72	0.53	0.49	0.39	0.34

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	7.3%	7.9%	5.5%	5.4%	5.6%	5.5%	5.3%	8.1%	8.6%	5.6%
<b>Return on Equity</b>	11.4%	14.3%	10.9%	10.1%	9.7%	10.6%	11.2%	16.4%	16.0%	9.2%
<b>ROIC</b>	9.8%	10.6%	7.1%	6.9%	7.1%	6.7%	6.5%	10.0%	10.5%	6.7%
<b>Shares Out.</b>	704	687	692	697	702	696	711	715	737	743
<b>Revenue/Share</b>	17.97	20.37	24.12	21.98	24.01	24.69	31.01	39.97	42.70	32.15
<b>FCF/Share</b>	4.60	4.64	4.19	4.12	4.84	4.57	7.54	9.59	9.99	7.78

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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