Why we like Becton Dickinson – April 2018

PATRONUS
PARTNERS LTD

Consider the following:

- the direct cost of medication errors in the US is $21bn;
- four out of ten people will be diagnosed with cancer in their lifetime;
- 20% of deaths are from infectious diseases;
- infection of the blood kills more people than any other medical condition.

Becton Dickinson is a US-listed company that provides solutions for these and other healthcare challenges. The group is a leading global medical technology company engaged principally in the supply of small medical devices and instrument systems. The majority of sales come from a broad portfolio of disposable equipment, such as needles, syringes and catheters, that typically cost less than $1. The group has a strong record of product innovation, with the current pipeline the largest ever, with a particularly strong suite in Diabetes. The group has a strong franchise which delivers pricing power, consistent operating margins above 20%, and a high return on capital employed.

Becton is well placed to benefit from increased demand for healthcare from an ageing population, the expansion of demand in emerging markets, and the increased need for safety and value for money in healthcare delivery.

The group recently completed the $24bn acquisition of CR Bard, a leading supplier of medical devices in the fields of vascular, urology, oncology, and surgical products. Bard pioneered the development of single-patient-use medical products (i.e. in general, its products are intended to be used once and then discarded or either temporarily or permanently implanted).

The deal is expected to increase annual sales growth up from 4.5%-5.5% to 5.0%-6.0%, driven by the opportunity to push as much as 90% of Bard's products through Becton's existing sales channels. The company expects the deal to be earnings accretive by high single digits in FY2019, driven by cost savings of $300m and revenues synergies from Bard's strong product portfolio and innovation pipeline. The successful integration of the 2015 CareFusion acquisition gives us confidence that the group has the structure in place to execute on its ambitions for Bard.

The new company starts life with a high level of borrowing (4.7x net debt to EBITDA), but is committed to reduce leverage to below 3.0x within three years. We believe this is achievable given the cash generative nature of the business, the low cost of debt, and the group's track record of reducing borrowing taken on following previous acquisitions. In addition, the group will continue to invest in new product development and maintain its strong track record of shareholder returns which has seen the dividend increase for 40 consecutive years.

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