

# Danaher Corporation (NASDAQ: DHR)

Sector: Industrial Goods



<b>Target Price</b>	<b>Current Price</b>	<b>52 Week High</b>	<b>52 Week Low</b>	<b>P/E</b>	<b>Market Cap.</b>	<b>Dividend Yield</b>	<b>Beta</b>
\$101.48	\$90.62	\$91.72	\$76.27	28.9	\$62.9 B	0.64%	0.97

## Business Description

Danaher Corporation is a well-diversified industrial and medical conglomerate whose products test, analyze, and diagnose. Its subsidiaries design, manufacture, and market products and offer services geared at worldwide professional, medical, industrial, and commercial markets. Examples of Danaher's products include water quality test kits, microscopes, dental turbines, and many other products a doctor would use on a daily basis. Danaher's businesses are broken up into four main segments: Life Sciences, Diagnostics, Dental, and Environmental & Applied Solutions. These business segments account for 32%, 30%, 16%, and 22% of total revenue respectively. Danaher operates across the globe, with roughly 38% of revenue coming from the United States, 30% from Europe, and the remaining 32% coming from other regions with an emphasis on Asia and Australia.

## Industry Trends

Since Danaher operates in such disparate segments of the industrials industry, it is difficult to characterize one broad overarching trend affecting Danaher's business. That said, 78% of revenue is associated with Healthcare in one form or another, which is promising given the fact that the U.S. Healthcare market is expected to grow at 6% annually through 2025. Worldwide, the \$7.5 Billion Healthcare industry is expected to grow at 7.5% annually, with more growth seen in transition economies to the tune of 7.5% annually. These growth assumptions are absent of any Healthcare major reform taken by the United States or other major nations. Although speculating on politics is a losers game when it comes to making investment decisions, it should be noted that any Healthcare policy changes made by the United States will cause increased healthcare spend both domestically and across the globe. Such a change would positively affect many of Danaher's business segments.

## Investment Thesis

Danaher's strong management team, its commitment to the Danaher Business System, and its positioning as a market leader in the Healthcare and Life Sciences space will enable to firm to grow over the next 10 years. The Danaher business system is a tried and true method of integrating acquired companies into the broader organization and improving operating margins through increased efficiency. This combined with stable revenue growth around 6% annually make Danaher an attractive investment.

## Valuation Assumptions

WACC: 7.01%

Terminal FCF Growth Rate: 3.0%

Upside: 11.7%

Sources: Bloomberg, Deloitte Healthcare Report, Annual reports

## Key Financials

Current stock price: \$90.62

Intrinsic Value: \$101.48

## Corporate Social Responsibility

ESG Disclosure Score: 16.53 (Industry Average: 35.57)

% Female on Board: 16.67% (Industry Average: 16.67%)

% Ind. Directors on Board: 72.73% (Industry Average: 80.66%)

Donated >\$2.5mm to the Danaher Scholarship Fun since 2004

Danaher recognizes its deficiencies and has CSR policies in the DBS to improve its operating company's business practices.

## 5-Year Stock Performance



## Competitive Analysis

Danaher's main competitors include Thermo Fisher, Abbott Labs, and Agilent Tech. All these companies compete with Danaher in certain divisions, however none of them have competency in all four of Danaher's main operating segments. Through strategic acquisitions and organic growth Danaher has amassed some of the strongest global brands in each of its four main operating segments.

## Competitive Advantages

Danaher's main competitive advantage is their ability to target, acquire, and deploy the Danaher Business System into their operating companies. Over the last five years Danaher has acquired companies like Pall, Cepheid, and Phenomenex. Their ability to buy strong brands within the healthcare space and then deploy the Danaher Business System to improve operating margins through increased efficiency is unlike anything their competitors are able to do. Danaher has a 25+ year track record of successful acquisitions and implementations of the Danaher Business System.

## Risks

A large part of Danaher's business takes place within the healthcare industry. Legislative uncertainty regarding the Affordable Care Act and the broader healthcare industry could be of concern. Additionally, Danaher achieves a lot of its growth through acquisitions/spinoffs. The unsuccessful execution of one of these would cause a reduced valuation of the business.

**Report Prepared By:** Jeff Noonan & Vivek Tedla on 10/23/17