BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH
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Becton Dickinson (BDX) EQ Update - 6/19 Qtr.

Current EQ Rating*	Previous EQ Rating
4-	4-

*For an explanation of the EQ Review Rating scale, please refer to the end of this report

We are maintaining our earnings quality rating at 4- (Acceptable)

BDX's adjusted EPS of $3.08 beat the consensus estimate by 2 cps in the 6/19 quarter. We did not see any major red flags in the quarter, although the timing of discrete tax items and a significant boost from lower pension expense did call into question the quality of the earnings beat in the quarter.

The Bard acquisition has been lapped for the last two quarters, but results are still being impacted by one-time charges associated with integrating the acquired operations. We do not like the add-back of amortization of acquired intangibles, but this is an industry norm the market accepts. We will be doing more work analyzing charge-adjusted results going forward.

- Management did note in the conference call that the effective tax rate of 12.8% was lower than its full-year guidance of 14%-16% due to the timing of discrete items. However, it also stated that these items were anticipated and included in their full-year guidance of effective tax rate which did not change. For someone modeling a 15% tax rate going into the 6/19 quarter, the lower rate would have boosted EPS by about 8 cps. This benefit would reverse in the upcoming 9/19 quarter should the full-year rate forecast hold.

- Pension expense declined by $9 million (2.5 cps) due to lower service cost and the absence of a $4 million settlement charge last year.

- We note that like virtually all medical and technology companies, BDX elects to add back all amortization of acquired intangibles to its adjust non-GAAP earnings figures. The Bard acquisition makes this a huge number for BDX. The $3.08 in adjusted EPS in the 6/19 quarter included a $1.38 per share add back from purchase accounting adjustments which was essentially all amortization of acquired intangibles.

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor “red flag”, but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company’s recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company’s recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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