

Danaher (DHR)-EQ Update 6/18 Quarter

Danaher (DHR) reported adjusted EPS of \$1.15 in the 6/18 quarter, \$0.06 ahead of the Zack's consensus estimate. Revenue also came in ahead of expectations. We saw little in the way of concern in the company's earnings quality in the quarter:

- Accounts receivable days of sales continued its trend of year-over-year declines, falling by over 4 days in the quarter.
- We note that with the company's adoption of ACS 606 for revenue recognition, it began disclosing unbilled receivables and deposits in excess of revenue recognized. However, this information is only itemized for the last two quarters. These will be important amounts to monitor going forward.
- Inventory days of sales were up about 2 days over the year-ago period. This is not overly alarming but should be monitored going into the next quarter.
- Accounts payable days were up over two days over last year's second quarter but given the increase in inventories and the inflationary environment, we do not consider this to be an indication of an unsustainable squeezing of suppliers.

Accounts Receivable Down and New Disclosures to Watch

DHR's revenue recognition looked healthy in the quarter as accounts receivables days of sales (DSOs) continued a trend of year-over-year declines:

	6/29/2018	3/30/2018	12/31/2017	9/29/2017
Accounts Receivable DSOs	60.4	63.6	63.2	65.6

	6/30/2017	3/31/2017	12/31/2016	9/30/2016
Accounts Receivable DSOs	65.0	65.8	63.4	68.1

We also note that the company adopted ASC 606 under the modified retrospective method in 2018. As such, it has begun breaking out unbilled receivables and deposits in excess of billings in its footnotes the last two quarters, but does not disclose those amounts for quarters prior to adoption. A significant portion of the company's revenue is recognized under long-term contracts, so these disclosures will provide a great deal of insight into the company's business trends and revenue recognition, but without year-ago data to compare to, they are of limited benefit at the moment. We will be watching these balances closely going forward.

Inventory DSIs Up Approximately Two Days

We note that inventory days (DSIs) were up over the year-ago quarter by three days:

	6/29/2018	3/30/2018	12/31/2017	9/29/2017
Inventory DSIs	83.5	86.7	74.8	86.7

	6/30/2017	3/31/2017	12/31/2016	9/30/2016
Inventory DSIs	80.6	86.1	74.8	84.6

DHR acquired Integrated DNA on 4/13. However, this did not have a material impact on the above calculation of DSI as even if we remove all of the acquired inventory (and none of the associated COGS) it only takes about a half a day off of the 6/18 DSI number. Given the strong sales growth and inflationary environment, we are not too alarmed by the increase in inventory, but this is a trend to watch going into the next quarter.

Accounts Payable

Accounts payable days (DSPs) crept up by two days in the 6/18 quarter, continuing a trend seen in the previous quarter.

	6/29/2018	3/30/2018	12/31/2017	9/29/2017
Accounts Payable DSPs	66.9	70.2	61.3	68.8

	6/30/2017	3/31/2017	12/31/2016	9/30/2016
Accounts Payable DSPs	64.2	68.4	65.0	67.0

The impact of the Integrated DNA acquisition was negligible. Given the increase in inventory, we do not consider a two-day increase to be indicative of an unsustainable trend of squeezing suppliers.

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