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Tom Joyce; Danaher Corporation; *President & CEO*
Dan Comas; Danaher Corporation; *EVP & CFO*
Derik De Bruin; Bank of America Merrill Lynch; *Analyst*

Presentation:

Derik De Bruin: Welcome, everyone, to our call today. We have on the line Tom Joyce, President and CEO of Danaher, and Dan Comas, Executive Vice President and CFO of Danaher, and our call is entitled "Everything You Want to Know About Danaher DBS and Aren't Afraid to Ask."

Just a little bit of background on how this call came about – I was marketing with Matt Gugino [DHR's IR] in Asia last year, and when we were going around to see clients, a number of these clients were very new to the Danaher story, and so we spent a good 15 to 20 minutes at meetings talking about DBS and providing the background. And so we had the idea sitting at the airport, "boy, wouldn't it be a good idea to just do this as a webcast so you could just call it up and play it back whenever there were questions about DBS?". And so that's how this call started.

And today we're going to break it down into four sections. We're going to give a DBS overview and talk about its evolution, how DBS drives growth, how it's applied to acquisitions, and how DBS builds leadership, how people are compensated and how the leaders are driven by the process.

With that, I will turn it over to Tom and Dan, and I'll start off with a couple of questions.

So, first of all, what is the Danaher Business System? What is DBS? How has it evolved? And how does it differ from Six Sigma, Thermo's PPI, and other operating systems? Just a broad overview question to begin.

Tom Joyce: Sure. Thanks, Derik, and thanks, everyone, for joining. Hopefully you can all see the slides. I'll be going through them here briefly in response to Derik's questions. You can obviously read this at your leisure.

We're thrilled to be able to share with you thoughts about DBS today. It's a tall order to cover the objective, Derik, of everything you ever wanted to know. We will do our best in just the next hour.

But relative to being afraid to ask, please don't be afraid to ask. I'm sure Derik has some terrific questions, but there are others that you feed to him along the way. We'll be happy to try to tackle those, and we'll try to move along here at a pretty good pace.

So let me start with the opening question around what is DBS and how it's evolved, and then I'll come back to the question about Six Sigma as an example towards the end of that, and I'm going to go through a few slides here in the interest of answering that question.

So, let's start out with a broad overview of DBS. We really think of the Danaher Business System as our competitive advantage. And it's our competitive advantage because it's more than just a set of tools, and we'll get into tools today, but we think of DBS as a business system that defines who we are. It defines our culture, our values, our purpose, and it defines how we do what we do, the tools.

And it's evolved over a 30-year period, and we'll talk about the history here in just a minute or two on the next slide. But I think the point of that is DBS is deeply ingrained in Danaher. There is a lot that evolves. There's always something new about DBS. But DBS is deeply ingrained in who we are and how we do what we do.

Most of you are familiar with our portfolio. You know the wonderful businesses that we run today and you know the wonderful attractive end markets that we're in. But at the end of the day that's just a good starting point. You have to execute. Right? That's fundamental, and fundamental to the way we execute is the Danaher Business System and the consistent deployment of DBS tools.

What you see up on the screen right now is what we would simply call the DBS logo, and it's a way to embrace the breadth of DBS on a single page. And, again, we'll break this down into more detail during the course of the call.

But to understand DBS within the frame of it defining who we are, first and foremost, represented here are our five core values. The best team wins. It all starts with a high-quality team, the management team and the quality of our 67,000 associates around the world. The second core value is customers talk, we listen. That's the primary charter of those 67,000 folks is listening to customers.

What we do with that voice of customer then leads us to the third of our core values, which is continuous improvement, or kaizen is our way of life. That's the third of our core values. It's what motivates us every day is to drive continuous improvement.

The fourth core value, and we'll get into this when we get into the tools, is innovation defines our future. We recognize that competition never stands still, that our markets are continually evolving, and driving innovation is fundamental to driving growth and creating the vibrant and successful Danaher that we have been and will continue to be.

Finally, the fifth of the core values is we compete for shareholders. A bit of a double entendre there, right? We compete against our competition in the interest of creating value for shareholders, but we compete for precious shareholder dollars.

And all of this has as its foundation a shared purpose. Across a diverse portfolio that you're familiar with we're unified by a shared purpose across all of our associates in all of our businesses, and that's simply helping realize life's potential. It's what motivates us as individuals and as teams and as businesses around the world.

So, that's a high-level view. If we now turn a little bit to how did we get here and give you some sense of that, DBS dates back -- I mentioned a 30-year history. It dates back to the mid-'80s, where DBS was first essentially born, if you will, in the mid-'80s at a business that today is part of Fortive that you will remember called Jacob's Vehicle Systems, or Jake Brake. And it was at Jake Brake back in the mid-'80s that the tools of DBS, then known as the Danaher Production System, were first born. And those were the tools of lean.

Those tools served us incredibly well over the decade of the '80s and '90s and still serve an enormous purpose today in driving waste elimination, driving productivity, driving efficiency, in so many different areas of our businesses.

As you move forward, then, into 2000 and beyond and the portfolio evolved, particularly to more growth-oriented businesses, we added and developed the tools to help us drive growth, both commercially and through innovation. And I'll take you into more detail on that a bit later.

And then, finally, in the most recent decade or so, our leadership tools have evolved. And that then brings us to the broad view of Danaher and DBS today, which is DBS through the lens of lean, growth and leadership, a balanced approach to driving shareholder value that you've seen over a long period of time.

Now, many people, then, want to understand how is it that we are able to measure the value that's created through the deployment of our values and these tools? And we look at those metrics through what we call CVDs, or core value drivers. And you'll see those come up on the screen here.

There are eight metrics that are the common metrics that are used across every operating company at Danaher. Those metrics are also the top-level metrics that Dan and Matt and I look at when we're looking at the performance of the entire corporation. Those eight start with four of those metrics being shareholder metrics: core revenue growth; expansion of operating margins, or OMX; our cash flow or working capital turns, and working capital turns is the way we drive cash flow generation at the operating company level; and return on invested capital.

There are two customers metrics. The two most important things to customers are quality -- we measure that in terms of external defects or reported issues from customers-- and on-time delivery.

And then, finally, we have two top-level metrics that are valuable to our associates, or our employees, and those are internal fill rate -- how do we fill the next-level job in a given operating company with someone from inside as opposed to outside; are we developing talent to fill roles role internally; and, finally, retention -- how well are we controlling turnover and ensuring the long-term commitment of our associates in every operating company.

These are the metrics that unify us across the diversity of the portfolio, and these are the metrics that unify us across the tools of lean growth and leadership across Danaher at large.

Now, there's also an annual process that we go through that allows us to deploy the tools of DBS in a thoughtful and very specific and tailored way to each operating company. And it comes from -- in this case what we're outlining is an annual process, just to give you sort of a kind of a big picture view of how do we make the choices that we make about where tools are deployed and how they're deployed and how they're resourced.

Well, the process starts on the left-hand side here with a strategic plan. Every one of our operating companies has a strategic plan that identifies the opportunities that they have, both in terms of improvements through daily management as well as opportunities for real breakthroughs.

We then are able to translate that strategic plan into a set of improvement priorities that, again, span from real breakthroughs, transformative initiatives out of the strategic plan that are real game changers over the next three to five years, and those improvement areas, again, more in line with those eight metrics that I just showed you, that are really driven by daily management, by incremental improvement day in and day out using the tools of DBS.

By identifying these opportunities systematically through this process we're able to set a course for an operating company and for a platform through the course of the year as to where DBS tools need best be deployed and how we will measure the impact of those tools at every step of the way. And typically those measurement loops go on a monthly basis in every operating company at a management level, oftentimes are going on a weekly basis or a daily basis the closer you get to the shop floor or the closer you get to our commercial environment.

So, not every tool is deployed the exact same way in every operating company. We take a tailored approach to deploying the tools of DBS to where the best opportunities are in every one of our businesses.

So, finally, just to give you a little bit more of a sense of well, Tom, when you talk about tools what do you really mean by that, well, again, those tools are organized into groups of tools around lean growth and leadership, and they are significant in their breadth. There are literally dozens of tools within the DBS toolbox today.

But to give you a sense of the fundamentals, there are certain fundamental tools at DBS that span across virtually every one of our operating companies. They all start with the voice of the customer, with what are the opportunities to deliver higher value to the customer every day. Remember those core values: the best team wins and customers talk, we listen. Well, our team, listening to the voice of the

customer, then chooses tools that range from our problem-solving process to defining standard work processes that will establish a baseline for continuous improvement to transactional process improvement tools that not only are used on the shop floor but are used in broad functional areas. Oftentimes we'll refer to those as carpet land, where we see opportunities for improving virtually every dimension of our general and administrative costs as well as commercial functions and other administrative functions.

Kaizen, or general approaches to continuous improvement, go on through specific project teams that are often using tools like value stream mapping, understanding a complete workflow, and then finding opportunities to really improve each of those work streams. And in all cases we make sure that we have visual or daily management to ensure that metrics are not buried in some computer somewhere, but they're on a wall, they're visual, they're updated usually by hand on a daily basis, where a management team can huddle in the morning, understand the performance of the day before, make adjustments, then make improvements literally during the course of the day.

So hopefully that gives you a little bit of a sense of the tools, but it's a very broad toolset and one that we can obviously get into in a little bit more detail as we get further into Derik's questions.

So, finally, just a quick summary here and then I'll come back to the question about Six Sigma. There are real differences here between what we view as a business system and what maybe others may. Certainly it starts with maybe the second point on this slide, which is it's a mindset, it's our culture, it's deeply ingrained, and it's more than 30 years in the making. It's who we are and how we do what we do. It's way beyond an individual tool or approach.

And it's constantly evolving. As you've seen over a long period of time, it's evolved into a broader toolset, but we continue to literally DBS, DBS, drive continuous improvement in the tools every single day. And, by the way, we learn from newly acquired businesses. We'll talk about that later, about tools that we've come to know and understand and approve based on newly acquired businesses.

And so, finally, then, back to one of Derik's questions around what makes it different than other operating systems or, say, specifically Six Sigma. Well, Six Sigma, for those of you who recognize the term, maybe even studied it in school, you know what it really means. It's an important and powerful tool for statistical analysis of a process, normally to drive quality improvement.

Well, other businesses have tended to use that term more broadly, largely to represent broad-based productivity initiatives or efforts to drive waste out of processes. But they tend to stop far short of the breadth that is represented by growth, lean and leadership in DBS.

So, important not to be confused between a statistical tool important to driving quality improvement and a real business system that approaches holistically all the opportunities that we see across our businesses and that other businesses would certainly see, as well.

Derik de Bruin: Well, great. You opened up a couple of points I want to go into. Where doesn't DBS work? I'm curious in your experience of having gone from more traditional industrial markets into some of the regulated life sciences and diagnosticmarkets. Are there differences in terms of how you employ those tools and what you learn and what you can get out of these different end markets?

Tom Joyce: Sure. Well, every business is somewhat unique, obviously, in terms of its opportunities. It's different in terms of its end markets. But in general across the span of history, and in our case a history that's moved from more industrially-oriented businesses, lower growth, lower gross margin businesses, to now higher growth, higher gross margin businesses, more science and technology-oriented business, more innovation-driven businesses, more growth-oriented businesses, across the span of history we have found DBS to be applicable to every business we have acquired.

And so in general, if the past is prologue, you would say that DBS is broadly applicable to the end markets that we participate in today and those that we might enter in the future that are generally characterized by product-oriented businesses, instrumentation, consumables with service end markets, and we've been able to drive those results across virtually every one of them, albeit with a tailored approach to which tools we deploy to the unique opportunities within any one of those businesses.

Derik de Bruin: So how do you -- we're going to get into this on the next section, I'm sure, but can you give us an example on what you've done at Cepheid to help improve margins, because that was a business with $600 million plus in revenue but was never profitable. What have you done at Cepheid to help them move forward?

Tom Joyce: Sure, sure. Well, I'll actually show you a slide later on, but I'll hit a couple of the highlights right now. Cepheid is an amazing business from an innovation standpoint and a growth business and you've seen those results, but, to your point, struggled a bit to get out of its own way in terms of driving operating margins.

We've been able to apply the tools of DBS to help drive the gross margins of that business by improving productivity, leveraging their capacity better in their factories. We've been able to deploy transactional process improvement to improve their G&A costs. And we've been able to deploy some of the tools that I'll talk about here in a few minutes commercially to help expand the visibility they have to their end markets, to drive demand more effectively, and we saw that recently in terms of the new Xpress Flu test that they've launched, where we've literally landed over a hundred new customers through using tools around market visibility and funnel management.

So I think a number of great opportunities that have helped drive not only the commercial and the growth side but have lifted the gross margins now significantly, and as a result of that significant operating margin expansion that you're now seeing well into the teens that heretofore Cepheid was not able to deliver.

Derik de Bruin: This is a good segue into discussing the impact of DBS on growth, which is the next section. Could you elaborate a little bit more on some of the tools that you use to enhance growth? How does it really drive benefits?

Tom Joyce: Sure. Absolutely. Let's get into that.

I think probably one way to frame that at a high level is to think about the growth tools of DBS as tools that can be organized into tools around innovation and tools around commercial execution. And so I've chosen a small subset of those tools by name in each of the buckets that you see up here on the screen.

And so maybe it's probably best to think about a couple of examples. So let's start, for example, with Videojet, and this will be more on the commercial tool side of the house. Videojet has had a great history of terrific products and leadership around service in its markets but really felt like there was a tremendous opportunity to expand their visibility to their end markets, and in so expanding the visibility to their end market they would then have greater ability to drive demand generation.

Well, they were able to actually develop a tool called Transformative Marketing which has as its core a drive towards expanding the visibility to the breadth of end user opportunities in the market and then created a set of tools around driving funnel management, and we'll get into this in a couple more examples in a few minutes, of how we're able to continue to capitalize on demand generation and convert qualified leads from a marketing standpoint into qualified sales leads and ultimately into closing sales. So that's one example from a Videojet perspective.

You mentioned Cepheid briefly a couple of minutes ago, and I touched on a couple of ways that Cepheid not only has demonstrated great innovation in the past but actually would be an example of

where a newly acquired business has actually helped other Danaher businesses understand the front end of innovation capabilities. And that's really through the lens of not only their strategic planning process but the way they're able to prioritize opportunities and drive unique product development, unique end user features that truly has differentiated that business over time.

One more just in a commercial context would be ChemTreat, an older business of ours in Water Quality where we learned a tremendous amount from the commercial execution, sales force management, and value selling tools that were used at ChemTreat to outgrow outstanding competitors in that market like Nalco, and so I think a number of different examples there.

If I just then switch over for a second and go a little bit deeper into the innovation side just to take those tools that were summarized at a high level on that prior side and look at, well, when we talk about innovation tools, is it really a repeatable process there. Oftentimes people think of innovation as something that maybe even happens randomly. Well, we don't think of innovation that way. We think of it as a repeatable and replicable process for driving competitive advantage.

And it starts on the left-hand side of this screen with what we call the strategic product envelope, really helps us understand the markets, to look for the attractive domains where innovation or unmet needs exist at our end user level. We then look at unmet needs and map them into what we call problems portfolio, or defining a winning roadmap of technologies and product development that can meet those unique unmet needs in attractive domains and where innovation truly can create a differentiator.

We then transition into our product planning group, which is a prioritizing body that helps to determine the potential growth opportunity in a quantitative basis, look at the investment needs associated every one of those innovation opportunities, seeks to rack and stack them and prioritize them in ways that we can then move on to execution.

Our new product development project mixed with process is a unique one. You might think of sophisticated product development, project management as something that's done in, with all due respect to Microsoft, something like Microsoft Project. We tend to look at that as something that's done up on a wall.

I mentioned earlier about visual management. If you've visited any one of our operating companies -- Derik, you probably saw this in your recent visits -- you'd see our product development processes visually. And then, finally, we use those processes to drive on-time execution and on-budget execution that then allows us to launch on time, that allows for creativity and ability to make sure we're targeting our commercial messages directly to the end users. So a broad set of tools around innovation processes that allows for a replicable process for driving competitive advantage.

Just to give you a quick example of that, I would point to a recent example at Hach, where we used a tool within that box that we call New Product Development known as Speed Design Review, where we iterate through opportunities to create that new product largely with touchpoints with customers to continue to validate that we're on the right track. That means we're continually gathering voice of customer at what we call gemba, or the real place, meaning the place of the customer where real work getsdone, where we come back and up on the wall in the obeya room, or the big room, with those tracking systems on the wall, we continue to track our progress and iterate quickly.

The result of that in this particular case was after realizing it was a unique market opportunity where we were seeing our customers using our chlorine analyzers in a unique application around dialysis clinics, we were able to quickly develop, based on voice of the customer, a breakthrough product that is now FDA cleared for monitoring chlorine in the rather sophisticated environment of chlorine dialysis centers, which opens up now a $50 million adjacent addressable market for us that heretofore we did not have access to. So I think a great example of coming from a market opportunity in voice of the customer,

iterating through an exceptional set of tools and new product development, and launching into an exciting new market.

So I'm just going to turn for a second to the commercial side, unpack that a little bit for everyone. Our commercial tools really start, similar to that Videojet example that I mentioned earlier, with understanding markets and channel strategies and ensuring that we are driving expanded insights and visibility to market, that once we've understood that, that we're going even deeper and getting into the customer buying journey -- how do customers make decisions? What are the value propositions that resonate most? -- and iterating on those value propositions until we're certain that we've got the communication side of the equation right associated with those new products.

Finally, as we get those messages designed appropriately through transformative marketing, we're able to enhance our ability to drive lead generation and campaign awareness through the process. That leads us to a point where we have what we call qualified leads. You then have to translate that into sales processes, where time and territory management, where mapping our sales resources across broad geographies, around the world, are all well designed.

Once you have that it then creates an ability to drive a funnel management process whereby we're turning those marketing-qualified leads into sales-qualified leads and are ensuring that we're moving any individual account opportunity down through the funnel ultimately to revenue.

So I think a good example of that would be clearly at Pall. Those of you who obviously would be familiar with Pall over the years know that it's an exceptional company with an incredible portfolio of products and a long history of us being in customer relationships. But, with all due respect, and I don't say this out of school, we talked about it with the Pall team -- they were better at farming opportunities within their existing customer base than looking for and exploiting opportunities with new customers, going back to that process I just described commercially, where we expand market visibility and then drive lead generation.

So if you look at the right-hand side of this slide, which is a good example of the kind of metrics that we can drive when we deploy those commercial tools that I just mentioned, this example from the biopharma side of Pall, an initiative that we broadly called Winning the Stack, has been able to drive a 50% increase in the number of contacts, or a 50% increase in the visibility that we have to opportunities in the market. And when we talk about an opportunity we're talking about a monoclonal antibody overcoming a protein that's on the threshold of ultimately becoming an opportunity for scale in the business.

We've been able to up the number of leads that are generated by six and a half times as a function of that broader market visibility. Then translating those leads into qualified opportunity to drive sales we have doubled the value of those. And, finally, when we look at the win rate associated with those and the power of not only the new products but the approach to commercialization, we've been able to up our win rate by 15%. So good examples, a couple of practical examples, of how we're using both the commercial tools as well as the innovation tools of DBS to drive growth in businesses and across the portfolio.

Derik de Bruin: Great. I've got a question from the audience. And, by the way, if anybody has a question, just email me atderik.de_bruin@baml.com. The question I have from an investor is on the commercial side and wanting to compare and contrast -why is DBS better than other tools on the commercialization side, such as Salesforce?

Tom Joyce: Oh, like Salesforce.com?

Derik de Bruin: Yes, like Salesforce.com.

Tom Joyce: Sure. We actually use Salesforce.com extensively throughout our businesses. So we use that as a tool inside of the processes that I just described. So, for example, Salesforce.com does a wonderful job of helping us with managing that expansion of market visibility and contacts. It helps us track in funnel management opportunities that we're driving down through the commercialization process. So it's a good repository of information.

But I guess the way I would summarize it is if you have Salesforce.com without the processes associated with driving great innovation and great commercialization it's just a piece of software. And so it's the underlying processes and how you use the software within a context of a business process that unlocks the power of what Salesforce.com has in terms of its potential.

Derik de Bruin: I've got a follow-up, and this will segue into the next section. Having a marketing engine is good, but you obviously need products to put into that engine. How does Danaher allocate its R&D spend? One of the questions we typically get from investors is what are the R&D synergies between the different segments and within the segments given that you serve such different markets? It's hard to see how dental translates to mass spectrometry. This is a question that commonly comes up when people think about Danaher.

Tom Joyce: Sure. Sure. So let me start with the allocation part of the question. The advantage that we have in terms of the way we are structured at Danaher is that we run what we call an operating company-centric model, which allows us to look at the growth opportunities, the new product opportunities, the R&D investment opportunities through the lens of each individual operating company in its unique market.

So it allows us to look at the difference between an opportunity that Hach might have in an analytical market versus an opportunity that ChemTreat might have in a water treatment market, or opportunities we might have in the mass spectrometer market relative to opportunities at other businesses. And so that allows us to tailor the R&D spend uniquely to the opportunities in each individual operating company and therefore get the greatest leverage out of that R&D spend because it's tailored to the unique nature of the opportunity in a given operating company and its market.

Finally, in terms of the synergy part of the question, while not easy to see, given the diversity of the portfolio, within platforms, within our life science platform, for example, or within our diagnostic platform, we do seek out and try to exploit opportunities across different technologies or analytical modalities within platforms. And, while there's less of that that is cross-platform or pan-Danaher, we clearly have some of those opportunities within platforms, and we currently have some innovation initiatives going on which are leveraging technologies across operating companies and across technologies within platforms.

Derik de Bruin: This is a good segue into a conversation about some specific illustrations of how DBS has been used in acquisitions. Can you give us some examples of how DBS was deployed? When people first saw Danaher coming into the life sciences market there was some concern that you would just cut R&D spending. But that clearly isn't the case.

Also, what do you do when you go and buy something like IDT, which is a completely different business from what Danaher haspreviously sold? For example, Phenomenex, when you did that deal, obviously there were synergies between the LC and the MS markets, mass spectrometry and liquid chromatography. But what about something unique like IDT, as Danaher is not known as a player in either the nucleic acid or genomics space?

Tom Joyce: So let's start with the M&A process itself, which is a process within the Danaher Business System where we take a strategic approach to how we ultimately would get to consummate an acquisition. And this approach is a repeatable one, and it's one that goes on throughout Danaher and at

the top level between Dan and me and our strategic leadership or strategic development team all the time.

We just start with the markets. We look for the most attractive markets on the basis of a number of different characteristics, whether it's their growth drivers or how fragmented those markets are, barriers to entry, optionality, opportunities to drive differentiation across those markets, geographic expansion, opportunities, etc.

Once we've identified an attractive end market, we then and only then start to look at the individual companies inside of that market in determining the different competitive positions, strength of brands and channels, where there are opportunities for revenue synergies, how much visibility do we get, what's the stability of any individual companies, where are the highest margins, where are the best growth rates, and also, finally, where is the right cultural fit?

And then once we've established a sense of what the prioritizations are of individual companies in those markets and we're constantly cultivating those opportunities, we then are looking at valuations, and as we get closer to the opportunity kind of breaking free we get obviously more focused on return on invested capital, how well can DBS drive growth, innovation and operating margin expansion; what's the sustainability of that over a long period of time, synergies that we might be able to drive, etc.

And so this is a well-honed process that really is the foundation of making the right decision on acquiring a business. And making that right decision is partly driven by our ability to deploy DBS in a way that enhances the value of that business either commercially or operationally or, hopefully both.

So that's kind of the starting point. So then once we've acquired the business, what may be a common way to think about how do we drive value?

Tom Joyce: Well, we call that running the Danaher playbook. And running the Danaher playbook really starts with understanding where to apply those DBS tools. And those DBS tools are typically initially associated with, again, once we've looked at the business strategically. They'll almost always have some improvement in terms of the cost structure. That might be at the gross margin line, and that could come in the form of some things way we do relative to new product innovation, it could come from the tools of lean and productivity, and it will almost always have an impact of driving G&A down. There are usually opportunities to drive it down. In some cases it's just holding it flat as we leverage G&A with higher volume.

With higher gross margins and controlling G&A, the operating margins that are associated with that can then be allocated to driving increases in investments in R&D and increases in sales and marketing to enhance the growth trajectory of the business. And you've seen that in a number of examples over history where obviously the margins have come up, both gross and operating margins, but also you've seen R&D and sales and marketing go up and the trajectory of sales go up.

The end result, of course, is we get higher core growth and operating margins at the same time. So the combination of core growth, margin expansion, and the free cash flow that's generated by businesses that then set those businesses up to be acquirers themselves, often taking on bolt-on acquisitions to larger deals, that's really the formula that has delivered the consistency of top quartile EPS growth and compounding returns over a long period of time.

But as you can hopefully see from this playbook the tools of lean and the tools of growth and the tools of leadership all kind of combine to play a role in running this playbook and ultimately that formula of creating shareholder value. And, as I mentioned earlier, it's been pretty consistent across virtually every acquisition we've done.

Here's an example of kind of the diversity of acquisitions. And, again, I'll come back to your point about IDT and your question about a little bit more about diversity in a second, Derik, but if you look at the

differences between AVT, the wonderful business we acquired for PID in Israel, versus Cepheid, our great molecular business, Nobel, a consumables business, implantology in dental, versus Pall in filtration, each of them unique in their own right, but each of them also having unique opportunities for the deployment of DBS tools to create value.

So, for example, let's take Cepheid for a second. Huge opportunities to improve their operational leverage from that volume to generate operating profit, and at the same time some unique opportunities to enhance their commercial execution, maybe not as much, say, for example, in the developed markets, but certainly in the high-growth markets.

Let's contrast that, for example, to Pall, that was already generating some pretty good operating margins but really needed to jumpstart their innovation capabilities, a real contrast from Cepheid, that had a tremendous track record in innovation. And so we've uniquely tailored the tools of DBS to these individual opportunities across the portfolio.

If you look, then, at what has been the impact of tailoring those tools of DBS, so let's look at the Pall acquisition, first of all, Pall needed to have resources, skilled DBS resources, to help make the kinds of improvements that we needed. So we deployed over 50 Danaher associates into Pall post the closing, and we drove a consistent calendar of continuous improvement or kaizen events, even in the first year over 300 events, and we gained the support and the enthusiasm and the commitment of Pall associates to be agents of change.

And then the impact there that you see on the right-hand side, innovation accelerating innovation, I talked about that as one of the great opportunities at Pall. You see 50% increase in the number of new product launches since the acquisition.

Obviously it's had a pretty good starting point in terms of a variety of operational metrics, but on-time delivery was not one of them. We needed to get on-time delivery up as a part of helping to drive growth, and you see the list there. And greatopportunities to streamline supply chain, and a lot of that delivered the cost savings that you see there.

Now, when you're able to make those kinds of improvements -- remember, we took the cost target up from $300 million to $350 million in total over the first five years or so of the acquisition -- that is what then allows us to reinvest in sales and marketing and R&D to be able to drive the engine of innovation that Pall has needed, and you see the impact of that, again, there in terms of the new product launches.

If we look at sort of a little bit broader view of the recent acquisitions, here you could look at the impact on Nobel. Again, Pall is here in the middle. I won't repeat that, but Cepheid, as well. In every one of those cases the deployment of the tools of growth, of lean, and in leadership have had impact and are delivering at or above our initial expectations.

And then finally, Derik, let me just come back to your question about buying what on the surface would look like a quote, unquote, different business. So you used IDT as an example. Why is IDT different? Well, it makes oligos. We don't have any businesses that really make oligos today. And they do it with an extraordinary ecommerce front-end engine.

But you know what? There are a lot of similarities. We have significant consumables businesses. We're in the life science market. We have businesses with great ecommerce front-end engines. And we have the opportunity with IDT as we've had in many other businesses to expand their geographic footprint. They've largely been a bit more U.S.-centric or developed markets-centric, a little bit like Cepheid, where there's great opportunities to use our commercial tools to extend that footprint and drive even higher growth rates over time through the tools of DBS.

So yes, different, but in many respects similar. And it's in the areas of those similarities that gives us the confidence that the tools of DBS will once again sustain the great performance that they've delivered in some cases and enhance the performance in other cases where those opportunities exist.

And I think if you look back at times where we've stepped out of what you might think as our core, you think about water, where we were in analytics, and then we went to treatment with Trojan and with ChemTreat, a number of examples where we've demonstrated the ability to move into adjacencies and still have DBS drive outstanding results.

Derik de Bruin: I have a question from the audience, and this is on the dental business, asking why has dental been such a problem? Even though the margins at Nobel have improved and you've seen growth, why has the overall dental business been a laggard, given you've owned a number of those businesses for a while and the growth seems to still be lagging? Is it more of a market issue? Is it something that you've done or not done?

Tom Joyce: Sure. Well, we certainly have had our challenges in the dental business, and, yes, there have been some challenges from a market standpoint. We've seen some slowdown in sell out in that market over the last several quarters, and you've seen that in a couple of recent earnings announcements from the channel. And you've seen some disruption that's been created by virtue of some changes in alignment between distribution partners and manufacturing partners. Okay, so these are some external factors.

But I wouldn't say that everything about our performance in dental is about external factors. We have not executed in a couple of businesses within the dental platform as exceptionally as we would've liked to over a period of time. And I would highlight a couple of our older businesses like the KaVo and Kerr business, the old Sybron business, as an example of where you've got some of the biggest challenges in terms of driving growth and margin enhancement, and, frankly, we needed to reboot.

We needed to reboot some of our efforts around driving DBS, which we did, as some of you may recall, now about 18 months coming up on two years ago, where we said you know what? We have to treat a portion of this platform, largely our more traditional equipment and consumables businesses, as if they were newly acquired. We needed to reboot the DBS activities as if we had just acquired those businesses. And we've done that.

And you've seen some of the impact of that by now driving operating margin across those businesses, consolidating from 10 operating companies to four, consolidating footprint in terms of individual site by a third, consolidating brands the way we normally would do, and driving operational improvements across a number of those facilities. So we're getting after it, but we didn't get after it as well as we should've in the early days, frankly, because of a pretty broad portfolio and a number of different acquisitions that were done over a period of time, and I think we're on the right track now.

Derik de Bruin: Great. This is a good transition, because one of the things you did at dental was put in new leadership. Can you talk about how you build leadership through DBS? Also, please discuss how leadership of the company has evolved, particularly since the separation, and also how are people compensated. What do they get -- how do people get paid on DBS?

Tom Joyce: Sure, you bet. So, here's a way to look at it. This is the way to look at it, by going back and saying okay, where were we 10 years ago versus today, and how would we compare and contrast? And the contrast is actually fairly striking.

A decade ago -- again, remember, a different portfolio a decade ago -- more than half our portfolio of today was not part of Danaher 10 years ago. Those were days where general industrial talent was largely sourced outside. Today much more of our talent is science and technology-oriented and much

more of it is developed internally, either through our own internal development or acquisition or cultivation, and some of our own internal sourcing of that talent.

A decade ago we were more organized around individual operating companies. Today much more strategically oriented around platforms, and therefore our visibility to talent in individual domains, be it life science or diagnostics or water, for example, is that much better.

And then, finally, in the earlier days of Danaher we were largely an on-the-job development function. Today a much more systematic, much more progressive level of responsibility that we coordinate across our folks and much more formalized development plans.

And so the impact of that, which we measure, and it goes back to our core value drivers, those metrics I talked about earlier, is that, for example, up on the upper right here you see we had an 80% fill rate at the operating company president and above level since 2015. So 8 out of 10 leaders put into senior management roles have been developed internally at Danaher, a rather striking figure.

Fifteen percent increase in R&D hires in the last year. Fifteen percent increase in customer-facing hires, again, representing that reinvestment in R&D and sales and marketing.

If you then look at how we approach that more systematic approach to developing leaders, now instead of purely on the job we combine a heavy emphasis on experience, because we want to see people's fingerprints having real impact on businesses, not what I call the hop, skip and a jump kind of level of experience that you see on some resumes today, but real fingerprints on businesses through experience, real impact, people earning the right to that next step, but along the way getting coaching and getting formalized training that helps us ensure that we're rounding out the abilities, not just in terms of delivering results, but in terms of living the core values and demonstrating the behaviors of leadership that are important to building a high-quality leadership team at Danaher.

And so then when you step back and say, okay, well, then, what does good look like and how do you measure people, and then back to your question, Derik, how do you pay people, well, in both cases in terms of defining what good looks like and how we pay people, it's two-dimensional. These are deep dimensions, but there's two dimensions here.

One is those eight core value drivers, those eight metrics that I talked about earlier. Our leaders are measured on these. Whenever Dan and I go to an operating review, whether it's on a monthly basis or a quarterly basis, we start with those metrics. When we look at the performance review of any individual leader at the end of the year these metrics are on that evaluation.

However, we balance that with looking at how any individual models what we call our leadership anchors, the behaviors of leadership that we expect at Danaher. And that's really around humility, transparency, and integrity. You can't hide with those metrics. There's no place to hide. And so we look for humble leaders being transparent, having a high level of integrity, identifying where there are opportunities to drive improvement.

How they're building their people -- are they building diversity in their workforce? Do they have great followership? Are they passionate about innovation and growth? Are they leading in seeing around corners in their businesses? Can they see beyond the next month, beyond the next quarter? Are they looking out into the next two, three, five years in their business? And are they really leading with the tools of DBS and modeling the behaviors of these anchors on a daily basis?

So that's the way we build these leaders and that's the way we ultimately incent them and pay them at the end of the day. And the best measure is whether or not you see these leaders progressing up through Danaher. And there are so many examples, we've chosen a few of them here, in terms of seeing talent evolve into senior leadership roles, where we're able to move resources across platforms, like Chris Riley moving from Videojet to Beckman, Ganesh Ramaswamy moving from Beckman to

Videojet, promoting of leaders who have demonstrated those behaviors and results over a long period of time, like Rainer Blair, Joakim Weidemanis, Lance Reisman at water, Amir Aghdaei at dental, each of them in their own way delivering those results and demonstrating those behaviors.

And so that's really the ultimate measure is being able to look at those moves and saying hey, are those folks that are representative of the leadership model at Danaher who have the experience, have shown the coaching and the training that ultimately allows us to move them to higher levels of leadership at Danaher? I think the proof is right there.

Derik de Bruin: Great. We're coming to the top of the hour, and I would be remiss if I didn't ask a question about current market trends. Danaher reported first in Q1, good results, but we also saw some mixed results across the life sciences and the industrial groups moving through the quarterly reports. Can you recap Q1, how things progressed, and your take on the general marketnow?

Tom Joyce: Sure. Derik, we feel good about where we are today. Coming off a great fourth quarter, by the way, that we had another -- it seems like ancient history, but 5.5% core growth, and then coming back again with the second quarter in a row of 5.5% core growth in the first quarter, we felt very good about that.

Mid-teens operating margin expansion, or, excuse me, significant operating margin expansion throughout the course of the quarter, mid-teens EPS growth, tremendous cash flow generation, nearly $700 million in the quarter. I mean, by virtually all measures we've felt like the first quarter really came through quite well.

And then I think that sets us up to continue to capitalize on that momentum. I think we feel good about how the rest of the year is likely to play out.

And then, if I could, Derik, just maybe one quick point to wrap on, just going back to DBS. First of all, thanks for your wonderful questions. But I think it's easy to kind of come through what was a lot to absorb in an hour here around DBS and maybe think of it as almost difficult to absorb in its breadth and complexity. But I always think it's important to then step back from it and say, hey, in the simplest possible frame what is the Danaher Business System.

Well, in the simplest possible frame we use these four words: It's common sense vigorously applied. I would be shocked if anybody on this call listened to any of the tools that I talked about and said, wow, that is just mind-blowing. I mean, a lot of DBS, going all the way back to the lean tools, are really fundamental good business practices. The difference is how you apply them. Do you apply them strategically? Do you apply them consistently? Do you apply them vigorously, as we say? And do you measure the impact of those consistently throughout all your businesses? And do you hold your teams accountable through your leadership anchors of living those tools and those processes every single day?

If you do that, Danaher Business System becomes what DBS is for us. It becomes our sustainable competitive advantage. So I'll leave it there.

Derik de Bruin: If I can squeeze in two more from the audience, and they're related. One is your current outlook on capital deployment and the M&A environment. And then, does Danaher target return on capital levels that they deploy, the question beingthat the company used to earn cost of capital above the RIC, but it seems they've changed in recent years. Talk about your return capital metrics.

Tom Joyce: Sure. Well, in terms of the capital deployment environment, we feel good about that environment today. Clearly I think the first quarter would be indicative of that in the deployment of nearly $2 billion to the acquisition of a phenomenal business in IDT with great growth dynamics and terrific operating margins but wonderful runway ahead to continue to extend that track record of growth and profitability.

And, again, deploying that capital in a very strategic way that enhanced the breadth of the portfolio that we have in life sciences and really gave us an enhanced position around consumables, high-value consumables, in that broad end market. So I think we feel good about the capital deployment environment today, and we remain committed to deploying free cash flow toward M&A in the quarters ahead.

Relative to return metrics, we've always been very disciplined about return metrics, and we've had very clear thresholds over a long period of time around bolt-on acquisitions, returning double-digit returns in kind of three-year time frames, and acquisitions that were of more significance size, adjacencies, new businesses larger deployments that would be driving those double-digit returns typically in five years.

And we've had higher multiple deals where those time frames maybe have been a little longer. Maybe they've been double digit in six years, or even seven years. But the key thing is these are sustainable businesses that have track records not unlike businesses like Hach, like Videojet, where those margins and those returns have incremented every year, not just for three years, not just for five years, but for a decade or more.

And so the deployment of capital and those return metrics are as important in terms of their sustainability and their ability to increment over time as their near-term returns are, virtually all of which are significant relative to our cost of capital today, even on a near-term basis. So we are committed to ensuring that we continue to return in outstanding ways to our shareholders and that those returns on invested capital continue to well exceed our cost of capital today.