ResMed (RMD)

Updated June 11th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	7.2%	**Quality Percentile:**	N/A
Fair Value Price:	$75	**5 Year Growth Estimate:**	12.5%	**Momentum Percentile:**	N/A
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.6%	**Total Return Percentile:**	N/A
Dividend Yield:	1.3%	**5 Year Price Target**	$135	**Valuation Percentile:**	

Overview & Current Events

ResMed is a medical devices company that engages in the development, manufacturing and marketing of devices that diagnose, treat and manage respiratory disorders. The company was founded in 1989, is headquartered in San Diego, CA, and is currently valued at $15 billion.

ResMed announced its most recent earnings results on April 26. The company earned $0.92 per share, an increase of 30% year-over-year. Revenue growth was quite strong as well, the top line rose by 15% to $590 million.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.73	$0.95	$1.23	$1.44	$1.71	$2.10	$2.39	$2.47	$2.49	$2.57	***$3.42***	***$6.15***
DPS	-	-	-	-	-	$0.68	$1.00	$1.12	$1.20	$1.32	***$1.44***	***$2.75***

ResMed has been a reliable growth investment over the last several years. The company produced a very compelling 15% earnings per share growth rate through the last decade and was not significantly impacted by the effects of the last financial crisis.

This was possible due to a combination of revenue increases, some margin expansion and a declining share count. Revenue growth was the most important factor, which ResMed achieved through growing its product portfolio and through geographic expansion over the years. Through focused R&D ResMed was able to establish itself as the global leader in sleep apnea management, an indication with a huge market that is still severely underpenetrated. Studies show that up to one fourth of adults have sleep apnea. In many major markets market penetration is still below 10%. This is why ResMed has a lot of potential to grow its revenues going forward, even without expanding its product lineup, all that is required will be investments into sales & marketing and enough manufacturing capacity. Chronic obstructive pulmonary disease (COPD) is another indication with high unmet need for treatment where ResMed is establishing itself.

ResMed is also actively working at the intermixture between medtech and information technology. Connected health solutions are one area where ResMed is investing as this is deemed a major growth market over the coming decades. ResMed's solutions include end-to-end systems for sleep and respiratory care (from diagnosis to billing), and cloud-based diagnostic testing (with more than 200,000 tests processed so far).

All in all ResMed is active in attractive markets, the company remains hungry, and growth is unlikely to slow down going forward. Future margin increases will most likely be a side effect of revenue growth (due to improving economics of scale), but share repurchases were not a major factor over the last three years and will therefore possibly remain subdued, as ResMed seems to be focused on becoming a dividend growth investment.

ResMed first started paying a dividend in 2013, over the last three years the annual payout has grown by 10% a year. As EPS growth will remain relatively high going forward dividends will continue to grow at a solid pace.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	29.5	20.2	21.8	22.3	17.2	20.0	20.3	23.4	22.7	26.1	***31.0***	***22.0***
Avg. Yld.	-	-	-	-	-	1.6%	2.1%	1.9%	2.1%	2.0%	***1.3%***	***2.0%***

ResMed trades at a relatively high valuation, both on an absolute basis as well as relative to how the company was valued in the past. The strong growth rates allow for a somewhat premium valuation relative to the broad market, but shares are trading at substantially more than the median P/E ratio of 22 that ResMed has traded at in the past.

The company's dividend history is still relatively young, and due to the strong share price increase over the last year its dividend yield has fallen to just 1.3%. For income investors ResMed thus isn't a compelling choice.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	35.1%	36.7%	40.3%	35.8%	38.4%	42.5%	41.9%	46.4%	32.7%	34.6%	***35.0%***	***36.0%***
Debt/A	23.1%	26.0%	20.8%	16.3%	24.8%	27.1%	25.5%	27.2%	48.0%	43.5%	***43.0%***	***42.0%***
Int. Cov.	---	---	---	---	---	---	---	---	---	40.1	***38.0***	***35.0***
Payout	---	---	---	---	---	32.4%	41.8%	45.3%	48.2%	51.4%	***42.1%***	***44.7%***
Std. Dev.	40.2%	27.7%	18.8%	22.0%	23.8%	23.3%	19.2%	30.2%	21.2%	18.6%	***20.0%***	***21.0%***

ResMed produces strong gross profits with the assets it owns. High returns on the capital that is invested is not unusual in the medtech industry, though. The company's liabilities to assets ratio has been rising through the last decade, but up to 2016 ResMed had no net interest expenses. In 2017 ResMed paid more interest expenses than it earned in interest income with its cash holdings (due to a bigger amount of long term debt), but its balance sheet remains in excellent condition.

The dividend payout ratio has increased over the last couple of years, but with less than half of 2018's earnings getting paid out to shareholders there is still ample room for dividend increases and ResMed has sufficient cash to invest into R&D and the expansion of its sales operations, which is important to grow market penetration of its products.

ResMed is smaller than many of its medtech peers, but it is very well positioned in its niche and it owns strong products and a respectable IP portfolio. The company's products are needed whether the economy is doing well or not, which is why ResMed is not a cyclical company. The company's earnings continued growth through the Great Recession, and this will most likely be the case during recessions in the future.

Final Thoughts & Recommendation

ResMed is a medtech company with strong fundamentals and an attractive product portfolio. The company is likely to keep growing at a strong pace over the coming years. The company is not a buy at current prices as shares are trading at an elevated P/E ratio relative to ResMed's historical average P/E ratio.

Total Return Breakdown by Year