ResMed (RMD)

Updated August 3rd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$107	**5 Year CAGR Estimate:**	8.8%	**Volatility Percentile:**	45.1%
Fair Value Price:	$83	**5 Year Growth Estimate:**	12.5%	**Momentum Percentile:**	91.2%
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Valuation Percentile:**	20.3%
Dividend Yield:	1.3%	**5 Year Price Target**	$149	**Total Return Percentile:**	63.2%

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 $16 billion.

RedMed announced its most recent quarterly results on August 2. The company reported earnings per share of $0.95 for Q4, an increase of 23% compared to the fourth quarter of 2017. During Q4 ResMed grossed revenues of $620 million, an increase of 12% year over year. During fiscal 2018, ResMed earned $3.53 per share (up 25% year over year).

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.95	$1.23	$1.44	$1.71	$2.10	$2.39	$2.47	$2.49	$2.82	$3.53	***$3.76***	***$6.78***
DPS	-	-	-	-	$0.68	$1.00	$1.12	$1.20	$1.32	$1.40	***$1.55***	***$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 additional manufacturing capacity. Chronic obstructive pulmonary disease (COPD) is another indication with 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 and cloud-based diagnostic testing.

All in all, ResMed is active in attractive markets, the company remains hungry, and growth is unlikely to slow down going forward. Revenue increases, possible margin expansion due to improving economics of scale and the benefit of share repurchases should drive earnings per share growth at a compelling pace over the coming years.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	20.2	21.8	22.3	17.2	20.0	20.3	23.4	22.7	26.1	29.2	***28.5***	***22.0***
Avg. Yld.	-	-	-	-	1.6%	2.1%	1.9%	2.1%	2.0%	1.3%	***1.3%***	***2.0%***

Shares of ResMed are trading at a premium valuation, relative to how shares were valued in the past and relative to how the broad market is valued. Some premium is justified, but we forecast that ResMed's earnings multiple will decline to the low 20s over the coming five years. This will be a headwind for total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	36.7%	40.3%	35.8%	38.4%	42.5%	41.9%	46.4%	32.7%	34.6%	44.4%	***46.0%***	***48.0%***
Debt/A	26.0%	20.8%	16.3%	24.8%	27.1%	25.5%	27.2%	48.0%	43.5%	32.7%	***31.0%***	***30.0%***
Int. Cov.	---	---	---	---	---	---	---	---	40.1	26.3	***25.0***	***22.0***
Payout	---	---	---	---	32.4%	41.8%	45.3%	48.2%	46.8%	39.7%	***41.2%***	***40.6%***
Std. Dev.	27.7%	18.8%	22.0%	23.8%	23.3%	19.2%	30.2%	21.2%	18.6%	18.1%	***19.0%***	***21.0%***

ResMed produces strong gross profits with the assets it owns. In addition, the ratio improved significantly during 2018. In 2017 & 2018 ResMed paid more interest expenses than it earned in interest income with its cash holdings due to a larger amount of long term debt, but its balance sheet remains in pristine condition.

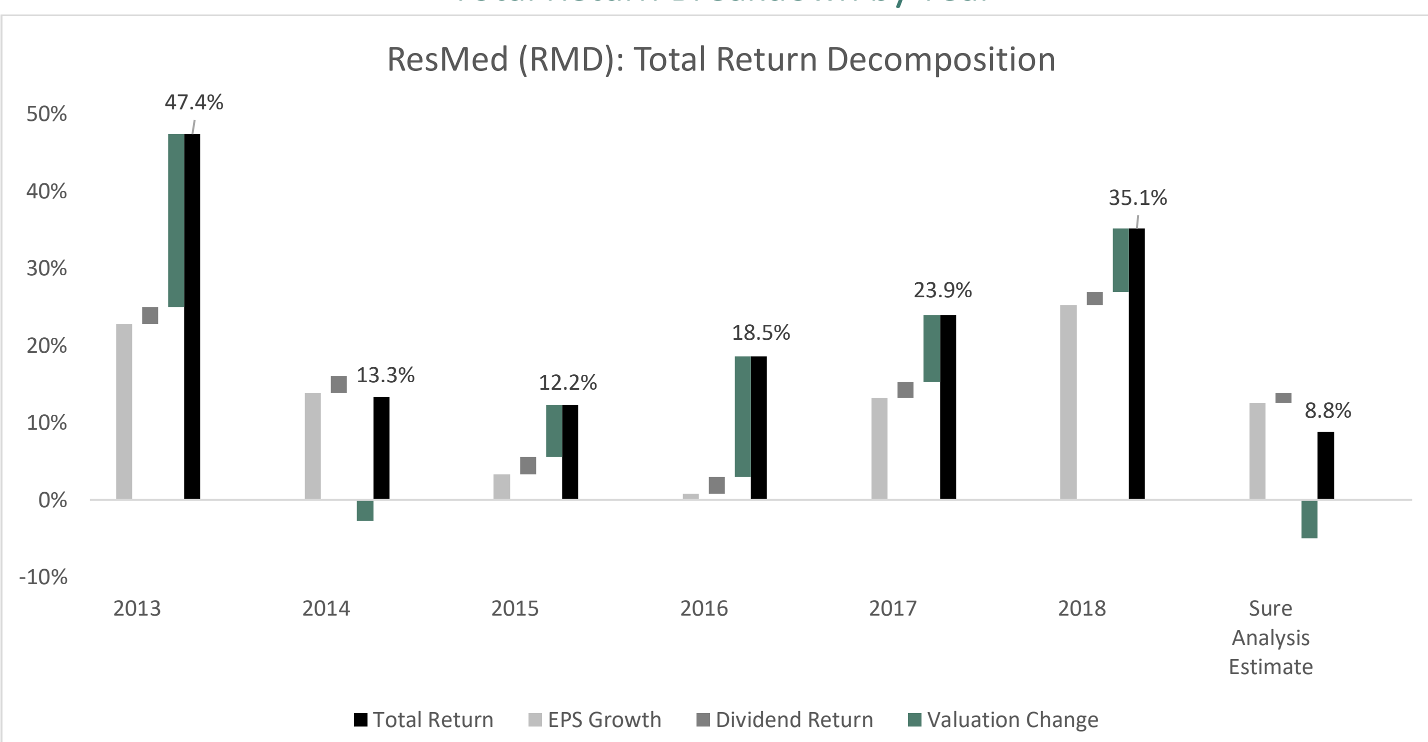
The dividend payout ratio has increased over the last couple of years, but with less than half of 2018's earnings getting paid out to shareholders there is still ample room for dividend increases. ResMed has sufficient cash to invest into R&D and the expansion of its sales operations, to grow market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

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 to grow 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 which operates in an attractive niche market with high unmet medical demand. ResMed's fundamentals are very strong, and the company has a solid growth record and a compelling growth outlook. The high valuation will be a headwind for total returns, though. At the current price, we rate ResMed a hold.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.