# ResMed (RMD)

*Updated October 30th, 2018 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $103 | **5 Year CAGR Estimate:** | 9.6% | **Volatility Percentile:** | 41.4% |
| **Fair Value Price:** | $83 | **5 Year Growth Estimate:** | 12.5% | **Momentum Percentile:** | 89.1% |
| **% Fair Value:** | 124% | **5 Year Valuation Multiple Estimate:** | -4.3% | **Growth Percentile:** | 96.6% |
| **Dividend Yield:** | 1.4% | **5 Year Price Target** | $149 | **Valuation Percentile:** | 14.8% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 48.5% |

## 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 $14.7 billion.

ResMed has reported its first quarter (fiscal 2019) earnings results on October 25. The company was able to generate $590 million in sales during Q1, an increase of 12.3% year over year. Revenue growth was broad-based across products as well as across geographic markets. Due to higher margins, ResMed was able to grow its net earnings at a faster pace than its revenues, net income rose by 23% year over year, to $116 million. ResMed's earnings-per-share totaled $0.81 during the first quarter of 2019, an increase of 23% compared to the prior year's quarter.

## 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*** |
| **Shares** | 151 | 151 | 152 | 142 | 142 | 140 | 141 | 141 | 142 | 143 | ***143*** | ***140*** |

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 impacted by the last financial crisis.

This growth rate was possible through 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 large 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.

ResMed is active in attractive markets, the company remains hungry, and growth is unlikely to slow down going forward. Revenue increases and possible margin expansion due to improving economics of scale should drive net earnings.

ResMed first started paying a dividend in 2013. The dividend has been increased regularly since, at ~15% annually.

## 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 | ***27.4*** | ***22.0*** |
| **Avg. Yld.** | - | - | - | - | 1.6% | 2.1% | 1.9% | 2.1% | 2.0% | 1.3% | ***1.4%*** | ***2.0%*** |

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ResMed's shares got a little less expensive over the last couple of months, but they still trade at more than 27 times this year's expected net profits. This is above our fair value estimate of a price-to-earnings multiple of 22. Multiple contraction will therefore likely be a considerable headwind for ResMed's 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%*** |

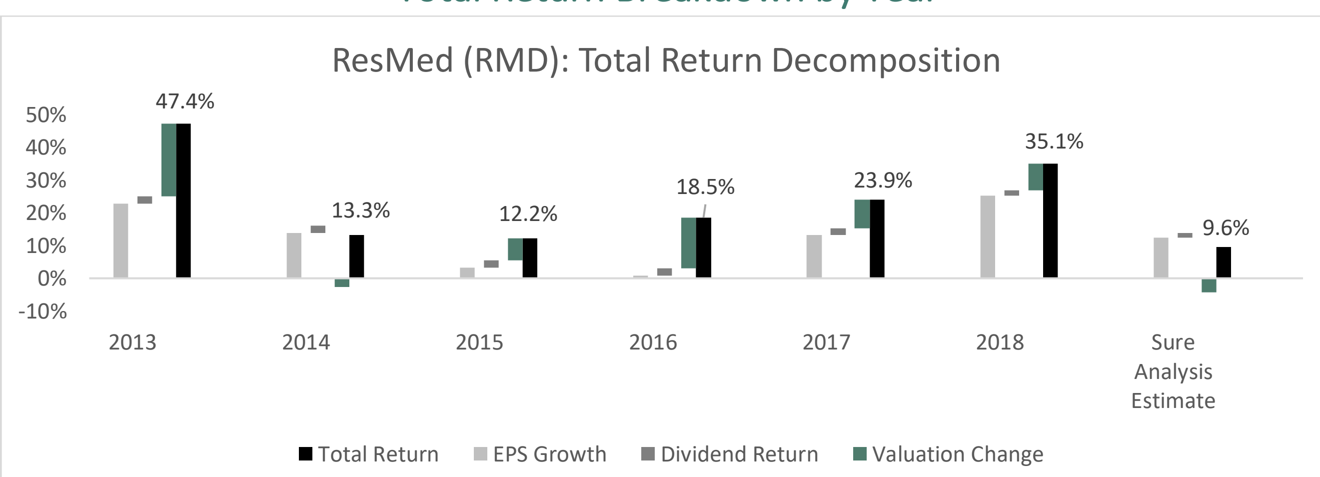
ResMed produces strong gross profits with the assets it owns. In addition, the ratio improved significantly during 2018. Since 2017 ResMed paid more interest expenses than it earned in interest income with its cash holdings due to a larger amount of long term debt, before that its net interest income was positive. ResMed's balance sheet remains in pristine condition nevertheless. The dividend payout ratio has increased over the last couple of years, but with less than half of 2019'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 sales operations while also paying rising dividends to its owners.

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 as well.

## Final Thoughts & Recommendation

ResMed is a high-quality medtech company with a solid growth track record and a very strong balance sheet. The growth outlook is solid as well, and ResMed's business model is not cyclical or vulnerable versus recessions or economic downturns. Unfortunately, the market rewards ResMed with a very high valuation right now, which is why ResMed trades well above our fair value estimate. The price-to-earnings multiple will likely contract going forward, which will be a headwind for total returns. Because of this, ResMed earns a hold recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 921 | 1092 | 1243 | 1369 | 1514 | 1555 | 1679 | 1839 | 2067 | 2340 |
| Gross Profit | 554 | 655 | 741 | 821 | 941 | 990 | 1011 | 1066 | 1202 | 1362 |
| Gross Margin | 60.1% | 60.0% | 59.6% | 60.0% | 62.1% | 63.7% | 60.2% | 58.0% | 58.1% | 58.2% |
| SG&A Exp. | 293 | 329 | 372 | 403 | 431 | 450 | 479 | 488 | 554 | 600 |
| D&A Exp. | N/A | 62 | 71 | 86 | 78 | 73 | 73 | 87 | 112 | 120 |
| Operating Profit | 190 | 243 | 267 | 294 | 355 | 411 | 409 | 436 | 457 | 560 |
| Operating Margin | 20.7% | 22.3% | 21.5% | 21.5% | 23.4% | 26.5% | 24.4% | 23.7% | 22.1% | 23.9% |
| Net Profit | 146 | 190 | 227 | 255 | 307 | 345 | 353 | 352 | 342 | 316 |
| Net Margin | 15.9% | 17.4% | 18.3% | 18.6% | 20.3% | 22.2% | 21.0% | 19.2% | 16.6% | 13.5% |
| Free Cash Flow | 121 | 127 | 210 | 322 | 331 | 310 | 311 | 480 | 343 | 434 |
| Income Tax | 55 | 71 | 77 | 77 | 78 | 86 | 83 | 87 | 76 | 206 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 1508 | 1626 | 2069 | 2138 | 2211 | 2361 | 2182 | 3257 | 3468 | 3064 |
| Cash & Equivalents | 416 | 489 | 735 | 810 | 876 | 906 | 717 | 731 | 822 | 189 |
| Accounts Receivable | 212 | 227 | 274 | 283 | 318 | 360 | 363 | 382 | 451 | 484 |
| Inventories | 157 | 186 | 201 | 174 | 146 | 165 | 247 | 224 | 268 | 269 |
| Goodwill & Int. Ass. | 248 | 230 | 283 | 311 | 324 | 335 | 311 | 1359 | 1327 | 1284 |
| Total Liabilities | 393 | 339 | 338 | 530 | 600 | 603 | 594 | 1562 | 1508 | 1005 |
| Accounts Payable | 48 | 58 | 55 | 55 | 61 | 85 | 81 | 93 | 93 | 93 |
| Long-Term Debt | 162 | 122 | 100 | 251 | 301 | 301 | 301 | 1173 | 1079 | 281 |
| Shareholder's Equity | 1115 | 1288 | 1731 | 1608 | 1611 | 1758 | 1587 | 1695 | 1960 | 2059 |
| D/E Ratio | 0.15 | 0.09 | 0.06 | 0.16 | 0.19 | 0.17 | 0.19 | 0.69 | 0.55 | 0.14 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 10.1% | 12.1% | 12.3% | 12.1% | 14.1% | 15.1% | 15.5% | 13.0% | 10.2% | 9.7% |
| Return on Equity | 13.3% | 15.8% | 15.0% | 15.3% | 19.1% | 20.5% | 21.1% | 21.5% | 18.7% | 15.7% |
| ROIC | 11.7% | 14.2% | 14.0% | 13.8% | 16.3% | 17.4% | 17.9% | 14.8% | 11.6% | 11.7% |
| Shares Out. | 151 | 151 | 152 | 142 | 142 | 140 | 141 | 141 | 142 | 143 |
| Revenue/Share | 5.97 | 7.04 | 7.91 | 9.17 | 10.34 | 10.77 | 11.77 | 12.98 | 14.51 | 16.25 |
| FCF/Share | 0.78 | 0.82 | 1.34 | 2.16 | 2.26 | 2.15 | 2.18 | 3.39 | 2.40 | 3.01 |

*Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.*