ResMed (RMD)

Updated January 26th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	7.6%	**Volatility Percentile:**	35.4%
Fair Value Price:	$71	**5 Year Growth Estimate:**	12.5%	**Momentum Percentile:**	51.4%
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Growth Percentile:**	96.8%
Dividend Yield:	1.6%	**5 Year Price Target**	$129	**Valuation Percentile:**	24.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	59.9%

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 $13.5 billion.

ResMed reported its second quarter (fiscal 2019) earnings results on January 25. The company reported revenues of $650 million for the second quarter, which represents an increase of 8.3% compared to the prior year's quarter. Sales growth was even stronger in constant currencies, as a stronger dollar negatively impacted ResMed's reported revenue growth rate by 1%. ResMed was able to grow its margins compared to the previous year's second quarter, which allowed for an operating earnings growth rate of 15%, easily outpacing ResMed's already compelling revenue growth rate. The company generated earnings-per-share of $1.00 during the second quarter, which outpaced analyst estimates by $0.07, even though revenues slightly missed the analyst consensus.

The market reacted very negatively to the earnings release. ResMed's shares declined by more than 19% on the day of the report, which made shares fall below $100 and close to the 52-week low. The sharp drop in ResMed's share price is somewhat surprising, as Q2 results were not bad at all, and the company's H1 results were very solid as well. Year-to-date revenues rose by 10%, while earnings-per-share rose by 9% during the same time frame.

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	***142***	***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%, which 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. ResMed is investing heavily into connected health solutions, as this is deemed a major growth market over the coming decades. ResMed's offerings 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.

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.

ResMed (RMD)

Updated January 26th, 2019 by Jonathan Weber

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	***25.3***	***19.0***
Avg. Yld.	-	-	-	-	1.6%	2.1%	1.9%	2.1%	2.0%	1.3%	***1.6%***	***2.2%***

ResMed is a high-quality company with a compelling earnings growth track record, and the earnings growth outlook over the coming years is not bad at all, either. This justifies an above-average valuation multiple, which is why shares were valued at more than 20 times profits throughout most of the last decade. We see a fair value of 19 times net profits, but shares trade substantially above that level right now, which is why we believe that the stock is overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	32.4%	41.8%	45.3%	48.2%	46.8%	39.7%	***41.2%***	***40.6%***

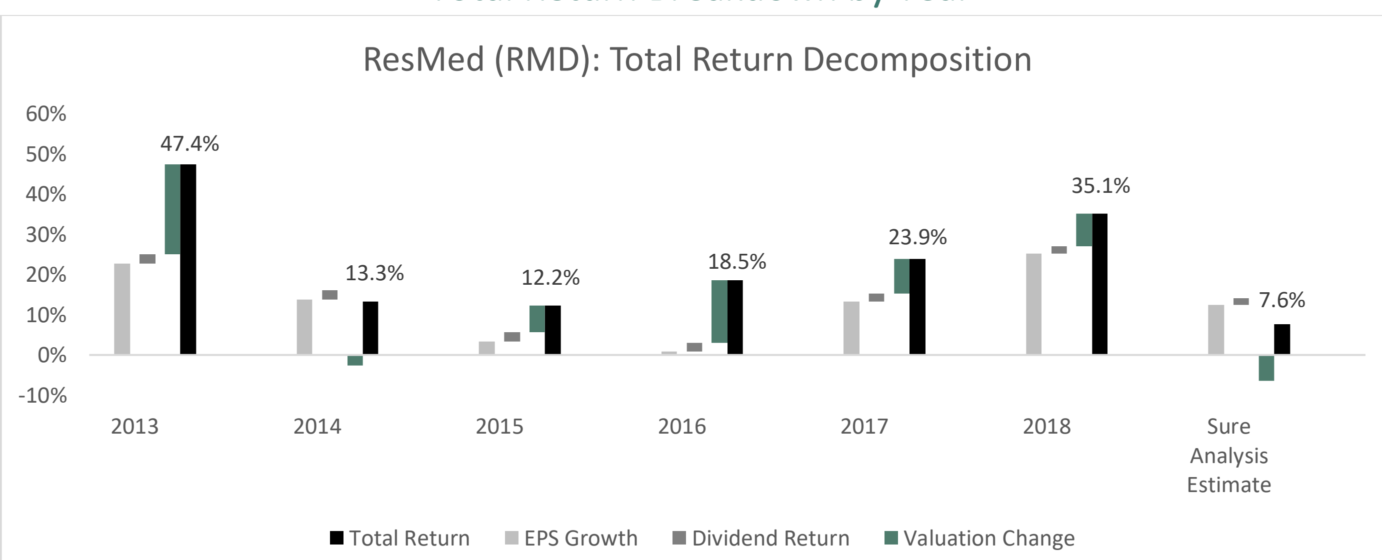
ResMed only started paying dividends in 2013, since then the dividend has grown consistently. The most recent dividend increase (6%) was below the average dividend growth rate over the last couple of years. Due to a relatively low dividend payout ratio of ~40% the (relatively low, therefore rather unattractive) dividend looks quite safe.

ResMed is smaller than many of its medtech peers, but it is very well positioned in the niche it addresses, and it owns strong products and a respectable IP portfolio. We believe that ResMed will continue to be a dominant player in the markets that it targets. Competition does not seem to be a problem. The company's products are needed whether the economy is doing well or not, which is why ResMed is not a cyclical company at all. The company's earnings-per-share continued to grow through the Great Recession, and this will most likely be the case during future recessions as well.

Final Thoughts & Recommendation

ResMed is a high-quality medtech company that targets an attractive market and that has achieved compelling earnings growth rates in the past. We believe that ResMed will be able to grow profitably during the coming years as well, and the company will continue to grow its dividend. Shares trade significantly above our fair value estimate, though, which is why we rate ResMed a hold only, even though the company looks fundamentally strong.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

ResMed (RMD)

Updated January 26th, 2019 by Jonathan Weber

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.