



# Medtronic plc (MDT)

Updated February 19<sup>th</sup>, 2019 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$94	<b>5 Year CAGR Estimate:</b>	4.2%	<b>Volatility Percentile:</b>	14.6%
<b>Fair Value Price:</b>	\$77	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	70.4%
<b>% Fair Value:</b>	122%	<b>5 Year Valuation Multiple Estimate:</b>	-3.9%	<b>Growth Percentile:</b>	52.0%
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$104	<b>Valuation Percentile:</b>	23.1%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	18.8%

## Overview & Current Events

Medtronic PLC is the largest manufacturer of biomedical devices and implantable technologies in the world. The company serves physicians, hospitals and patients in more than 150 countries and has over 86,000 employees. Medtronic currently has four operating segments: Cardiac and Vascular Group, Minimally Invasive Therapies Group (MITG), Diabetes Group and Restorative Therapies Group. Medtronic has increased its dividend for 41 consecutive years. The \$127 billion market cap company is on pace to generate \$30 billion in revenues and \$7 billion in profits.

Prospective Medtronic investors should note that the company has established tax residence in Ireland. Dividends are considered Irish source income and Irish dividend withholding tax may automatically be applied to Medtronic's dividend payments. Many investors will qualify for an exemption from this withholding tax. You can read more information about the tax treatment of Medtronic's dividends [here](#).

On February 19<sup>th</sup>, 2019 Medtronic reported Q3 fiscal 2019 results for the period ending January 25<sup>th</sup>, 2019 (Medtronic's fiscal year ends on the Friday closest to April 30<sup>th</sup>). The top line came in at \$7.55 billion for the quarter, a 2.4% increase, with GAAP earnings-per-share of \$0.94 and non-GAAP earnings of \$1.29, a 10% year-over-year increase. The Cardiac and Vascular Group saw sales decline 0.5% to \$2.79 billion, the MITG segment increased sales by 4.1% to \$2.12 billion, Restorative Therapies grew sales 4.2% to \$2.03 billion and the Diabetes Group increased sales 4.5% to \$610 million. U.S. revenue totaled \$4.0 billion, representing 53% of sales and increasing 2.3%.

Medtronic also updated its fiscal year 2019 guidance. The company increased its organic revenue growth guidance from 5.0% to 5.5% to 5.25% to 5.5%. Full year EPS guidance was also increased from \$5.10 to \$5.15 to \$5.14 to \$5.16.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$2.92	\$3.22	\$3.37	\$3.46	\$3.75	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	<b>\$5.15</b>	<b>\$6.90</b>
<b>DPS</b>	\$0.63	\$0.82	\$0.90	\$0.97	\$1.04	\$1.12	\$1.22	\$1.52	\$1.72	\$1.84	<b>\$2.00</b>	<b>\$2.90</b>
<b>Shares</b>	1,125	1,097	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354	<b>1,354</b>	<b>1,325</b>

Over the past decade Medtronic has been able to grow earnings-per-share by about 6% per annum. We anticipate that this trend can continue as Medtronic's pipeline in new treatments could lead to further market share gains.

The dividend is a storied topic at Medtronic, having not only been paid but also increased for over four decades. Still, the payout ratio remains more than reasonable, allowing for dividend growth (12.2% annually for the last decade) to continue outpacing earnings-per-share growth.

Note that the significant jump in outstanding shares in fiscal year 2015 was a result of Medtronic's \$42.9 billion cash and stock acquisition of Covidien. Moving forward we anticipate that share repurchase activity will aid bottom line growth.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	14.1	12.3	11.0	10.7	11.3	14.6	16.1	17.3	17.7	17.3	<b>18.3</b>	<b>15.0</b>
<b>Avg. Yld.</b>	1.5%	2.1%	2.4%	2.6%	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	<b>2.1%</b>	<b>2.8%</b>

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.



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Medtronic has had an interesting stretch as it relates to valuation. From 2009 through 2013 shares routinely traded in the 10 to 14 times earnings range. Then from 2014 through today, it has been typical to see the security trade hands in the 15 to 18 times earnings range, even bumping up to 20 times earnings a couple of times; this despite the idea that the firm has been exceptionally consistent through that entire period. Our expectation splits the difference and assumes a “fair” multiple of 15 times earnings. This could be too conservative considering the quality of the firm, but it is in-line with the average valuation over the last decade.

The dividend yield is not spectacular, but income investors should be encouraged by the safety of the payout and its ability to grow significantly over time.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	22%	26%	27%	26%	28%	29%	29%	35%	37%	39%	39%	42%

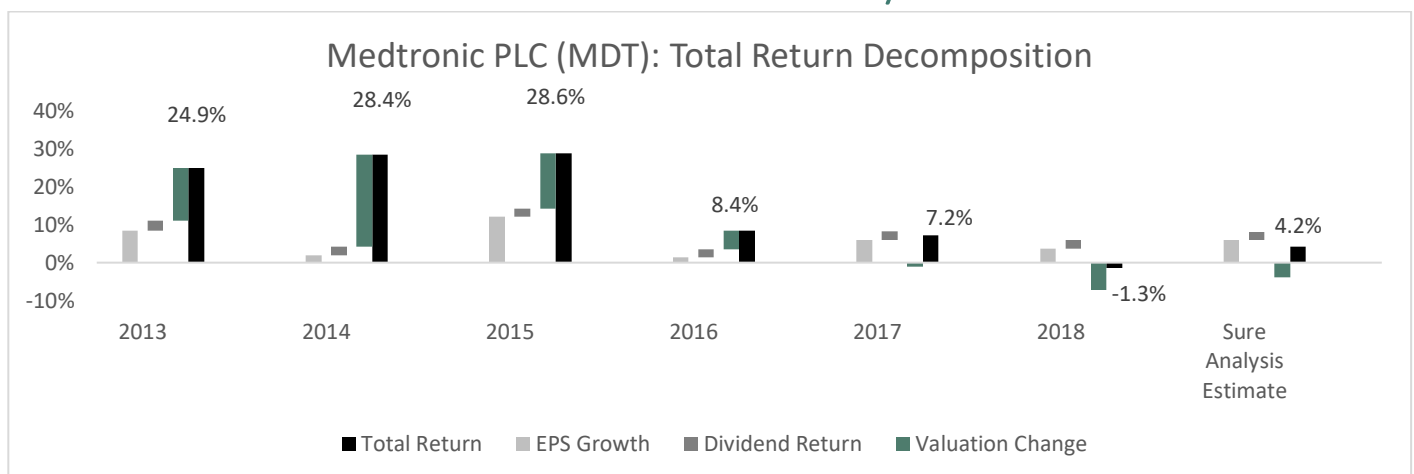
Medtronic’s most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. It has filed more than 53,000 patents and spends more than \$2 billion per year on research and development. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

During the last recession Medtronic posted earnings-per-share of \$2.61, \$2.92, \$3.22, \$3.37 and \$3.46 during the 2008 through 2012 stretch. In addition, the dividend kept on increasing every year as well. While the payout ratio has been climbing from 22% in fiscal year 2009 to nearly 40% today, this still leaves ample room for dividend growth combined with share repurchases. Moreover, the balance sheet is good shape as current assets cover current liabilities by a wide margin and the debt load is well serviced by the ~\$7 billion underlying profit machine.

## Final Thoughts & Recommendation

Shares of Medtronic are up 2% since our last update while earnings came in slightly better than expected. From a quality, earnings and dividend growth standpoint, Medtronic is attractive. Of course, the third leg to the investment equation is valuation, which is where we take pause. If Medtronic were to continue trading at ~18+ times earnings, the security is set up to offer high single-digit returns. Alternatively, if the price returns to a lower valuation, as had been the case in prior years, the total returns do not look compelling. Collectively, we rate Medtronic as a hold at current prices acknowledging that our lower estimate on the valuation side leads to a more conservative investment case.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	14599	15817	15508	16184	16590	17005	20261	28833	29710	29953
<b>Gross Profit</b>	11081	12005	11808	12295	12464	12672	13952	19691	20419	20898
<b>Gross Margin</b>	75.9%	75.9%	76.1%	76.0%	75.1%	74.5%	68.9%	68.3%	68.7%	69.8%
<b>SG&amp;A Exp.</b>	5866	5415	5427	5623	5698	5847	6904	9469	9711	9974
<b>D&amp;A Exp.</b>	699	772	804	833	819	850	1306	2820	2917	2644
<b>Operating Profit</b>	3464	4662	4460	4483	4770	4818	4557	5960	6313	6343
<b>Operating Margin</b>	23.7%	29.5%	28.8%	27.7%	28.8%	28.3%	22.5%	20.7%	21.2%	21.2%
<b>Net Profit</b>	2070	3099	3096	3617	3467	3065	2675	3538	4028	3104
<b>Net Margin</b>	14.2%	19.6%	20.0%	22.3%	20.9%	18.0%	13.2%	12.3%	13.6%	10.4%
<b>Free Cash Flow</b>	3215	3496	3240	3986	4485	4563	4331	4172	5626	3616
<b>Income Tax</b>	370	870	609	730	784	640	811	798	578	2580

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	23.59	28.09	30.42	32.82	34.90	37.94	106.69	99.64	99.86	91.39
<b>Cash &amp; Equivalents</b>	1271	1400	1382	1172	919	1403	4843	2876	4967	3669
<b>Accounts Receivable</b>	3123	3335	3822	3808	3727	3811	5112	5562	5591	5987
<b>Inventories</b>	1426	1481	1695	1800	1712	1725	3463	3473	3338	3579
<b>Goodwill &amp; Int. Ass.</b>	10672	10950	12314	12581	13002	12879	68631	68399	61922	61266
<b>Total Liabilities</b>	10406	13461	14456	15705	16229	18500	53455	47581	49527	40571
<b>Accounts Payable</b>	382	420	511	565	681	742	1610	1709	1555	1628
<b>Long-Term Debt</b>	6775	9519	9835	10185	10399	11687	35949	30881	33373	25737
<b>Shareholder's Equity</b>	13182	14629	15968	17113	18671	19443	53230	52063	50208	50720
<b>D/E Ratio</b>	0.51	0.65	0.62	0.60	0.56	0.60	0.68	0.59	0.66	0.51

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	9.0%	12.0%	10.6%	11.4%	10.2%	8.4%	3.7%	3.4%	4.0%	3.2%
<b>Return on Equity</b>	16.7%	22.3%	20.2%	21.9%	19.4%	16.1%	7.4%	6.7%	7.9%	6.2%
<b>ROIC</b>	10.8%	14.1%	12.4%	13.6%	12.3%	10.2%	4.4%	4.1%	4.8%	3.9%
<b>Shares Out.</b>	1,125	1,097	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354
<b>Revenue/Share</b>	12.96	14.26	14.34	15.27	16.15	16.78	18.27	20.22	21.35	21.89
<b>FCF/Share</b>	2.85	3.15	3.00	3.76	4.37	4.50	3.91	2.93	4.04	2.64

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

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