



Medtronic plc (MDT)

Updated May 25th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$93	5 Year CAGR Estimate:	5.7%	Volatility Percentile:	17.2%
Fair Value Price:	\$82	5 Year Growth Estimate:	6.0%	Momentum Percentile:	56.9%
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Growth Percentile:	52.3%
Dividend Yield:	2.2%	5 Year Price Target	\$110	Valuation Percentile:	31.8%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	26.9%

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 \$126 billion market cap company generates \$30 billion in revenue and \$7 billion in annual 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 May 23rd, 2019 Medtronic reported Q4 and full year fiscal 2019 results for the period ending April 26th, 2019 (Medtronic's fiscal year ends on the Friday closest to April 30th). For the quarter Medtronic reported sales of \$8.146 billion, which was flat year-over-year, but up 3.6% on an organic basis. Adjusted earnings-per-share increased 8% to \$1.54. For the year Medtronic reported revenue of \$30.557 billion, representing a 2% increase compared to fiscal year 2018. The Cardiac and Vascular Group saw sales increase 1.3% to \$11.505 billion, the MITG segment saw sales decline by 2.7% to \$8.478 billion, Restorative Therapies grew sales 5.7% to \$8.183 billion and the Diabetes Group increased sales 11.7% to \$2.391 billion. Adjusted earnings-per-share for the year came in at \$5.22, a 9% increase compared to the \$4.77 posted last year.

Medtronic also provided fiscal year 2020 guidance. The company expects revenue growth of 4% on an organic basis (1% to 1.5% less on a reported basis if current currency rates hold) and adjust earnings-per-share of \$5.44 to \$5.50.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.22	\$3.37	\$3.46	\$3.75	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	\$5.22	\$5.47	\$7.32
DPS	\$0.82	\$0.90	\$0.97	\$1.04	\$1.12	\$1.22	\$1.52	\$1.72	\$1.84	\$2.00	\$2.12	\$3.08
Shares	1,097	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354	1,358	1,358	1,325

Note that Medtronic has already completed fiscal year 2019 (ending in April) but we have elected to show the information above closer to the actual calendar year.

Over the past decade Medtronic has been able to grow earnings-per-share by about 6% per annum. Despite guidance for 4.2% to 5.4% improvement this year, we believe 6% growth over the intermediate-term is a reasonable starting point 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 2014 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 to a small degree.

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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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.3	11.0	10.7	11.3	14.6	16.1	17.3	17.7	17.3	17.5	17.0	15.0
Avg. Yld.	2.1%	2.4%	2.6%	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.3%	2.8%

Medtronic has had an interesting stretch as it relates to valuation. From 2008 through 2012 shares routinely traded in the 10 to 14 times earnings range. Then from 2013 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. As such, a small valuation headwind is assumed. However, 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	26%	27%	26%	28%	29%	29%	35%	37%	39%	38%	39%	42%

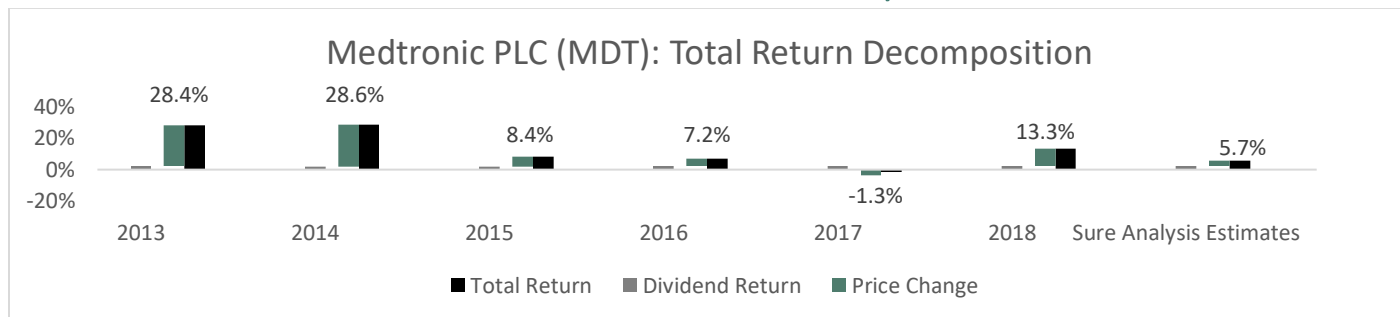
Medtronic’s most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. It has filed more than 53,000 patents and spends more than \$2 billion per year on research and development. Medtronic also has a strong product pipeline that should 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 2007 through 2011 stretch. In addition, the dividend kept on increasing every year as well. While the payout ratio has been climbing from 26% in 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 are down slightly since our last update. 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. Our total annual return expectation is 5.7%, stemming from 6% growth and the 2.2% dividend yield offset by a 2.5% valuation headwind. If Medtronic were to continue trading at ~17+ 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
Revenue	14599	15817	15508	16184	16590	17005	20261	28833	29710	29953
Gross Profit	11081	12005	11808	12295	12464	12672	13952	19691	20419	20898
Gross Margin	75.9%	75.9%	76.1%	76.0%	75.1%	74.5%	68.9%	68.3%	68.7%	69.8%
SG&A Exp.	5866	5415	5427	5623	5698	5847	6904	9469	9711	9974
D&A Exp.	699	772	804	833	819	850	1306	2820	2917	2644
Operating Profit	3464	4662	4460	4483	4770	4818	4557	5960	6313	6343
Operating Margin	23.7%	29.5%	28.8%	27.7%	28.8%	28.3%	22.5%	20.7%	21.2%	21.2%
Net Profit	2070	3099	3096	3617	3467	3065	2675	3538	4028	3104
Net Margin	14.2%	19.6%	20.0%	22.3%	20.9%	18.0%	13.2%	12.3%	13.6%	10.4%
Free Cash Flow	3215	3496	3240	3986	4485	4563	4331	4172	5626	3616
Income Tax	370	870	609	730	784	640	811	798	578	2580

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	23.59	28.09	30.42	32.82	34.90	37.94	106.69	99.64	99.86	91.39
Cash & Equivalents	1271	1400	1382	1172	919	1403	4843	2876	4967	3669
Accounts Receivable	3123	3335	3822	3808	3727	3811	5112	5562	5591	5987
Inventories	1426	1481	1695	1800	1712	1725	3463	3473	3338	3579
Goodwill & Int. Ass.	10672	10950	12314	12581	13002	12879	68631	68399	61922	61266
Total Liabilities	10406	13461	14456	15705	16229	18500	53455	47581	49527	40571
Accounts Payable	382	420	511	565	681	742	1610	1709	1555	1628
Long-Term Debt	6775	9519	9835	10185	10399	11687	35949	30881	33373	25737
Shareholder's Equity	13182	14629	15968	17113	18671	19443	53230	52063	50208	50720
D/E Ratio	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
Return on Assets	9.0%	12.0%	10.6%	11.4%	10.2%	8.4%	3.7%	3.4%	4.0%	3.2%
Return on Equity	16.7%	22.3%	20.2%	21.9%	19.4%	16.1%	7.4%	6.7%	7.9%	6.2%
ROIC	10.8%	14.1%	12.4%	13.6%	12.3%	10.2%	4.4%	4.1%	4.8%	3.9%
Shares Out.	1,125	1,097	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354
Revenue/Share	12.96	14.26	14.34	15.27	16.15	16.78	18.27	20.22	21.35	21.89
FCF/Share	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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