



Medtronic plc (MDT)

Updated February 23rd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$119	5 Year CAGR Estimate:	0.4%	Market Cap:	\$160 B
Fair Value Price:	\$72	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	03/26/21
% Fair Value:	164%	5 Year Valuation Multiple Estimate:	-9.4%	Dividend Payment Date¹:	04/17/21
Dividend Yield:	2.0%	5 Year Price Target	\$106	Years Of Dividend Growth:	43
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	7.4%

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 90,000 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 43 consecutive years. The \$160 billion market cap company generated \$29 billion in revenue and \$6 billion in profit last year.

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, which you can read about [here](#).

On February 23rd, 2020 Medtronic reported Q3 fiscal year 2021 results for the period ending January 29th, 2021. (Medtronic's fiscal year ends the Friday closest to April 30th.) For the quarter Medtronic reported sales of \$7.775 billion, a 0.8% increase compared to the same quarter last year. Sales in the Cardiac and Vascular Group, Minimally Invasive Therapies Group (MITG), Diabetes Group and Restorative Therapies Group were down -4.0%, up 6.3%, up 3.3% and up 0.7% respectively. Adjusted net income equaled \$1.753 billion or \$1.29 per share, a -10% year-over-year decline.

Given the uncertainty of the COVID-19 pandemic, management reiterated that it is not providing guidance at this time.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.37	\$3.46	\$3.75	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	\$5.22	\$4.59	\$4.25	\$6.24
DPS	\$0.90	\$0.97	\$1.04	\$1.12	\$1.22	\$1.52	\$1.72	\$1.84	\$2.00	\$2.16	\$2.32	\$3.41
Shares²	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354	1,341	1,352	1,350	1,325

Note that Medtronic has already completed fiscal year 2020 (ended in April) but we have elected to show the above information closer to the actual calendar year. Over the past decade Medtronic has grown earnings-per-share by about 3.6% per annum. However, this includes 2019's down year. From 2008 to 2018, earnings grew by 6% annually.

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. In addition, Medtronic's pipeline in new treatments could lead to further market share gains. With those items in mind, the ongoing COVID-19 pandemic is a big unknown. While Medtronic stands to benefit from products related to the pandemic along with long-term healthcare trends, in the short-term the deferral of procedures has become a strong headwind. We are reiterating our estimate of \$4.25 in earnings-per-share and an 8% intermediate term growth rate coming off a lower base this year.

¹ Estimated date.

² In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.0	10.7	11.3	14.6	16.1	17.3	17.7	17.3	17.3	22.6	27.9	17.0
Avg. Yld.	2.4%	2.6%	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.1%	2.0%	3.2%

From 2008 through 2012 shares routinely traded in the 10 to 14 times earnings range. Then from 2013 through 2019, it had been typical to see the security trade hands in the 15 to 19 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 assumes a “fair” multiple of 17 times earnings. With shares now trading near 28 times our estimated earnings, this implies the potential for a meaningful valuation headwind. 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 is a storied topic at Medtronic, having not only been paid but also increased for over four decades. The dividend yield is not spectacular, but investors should be encouraged by the safety and growth over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27%	28%	28%	29%	29%	35%	37%	39%	38%	47%	55%	55%

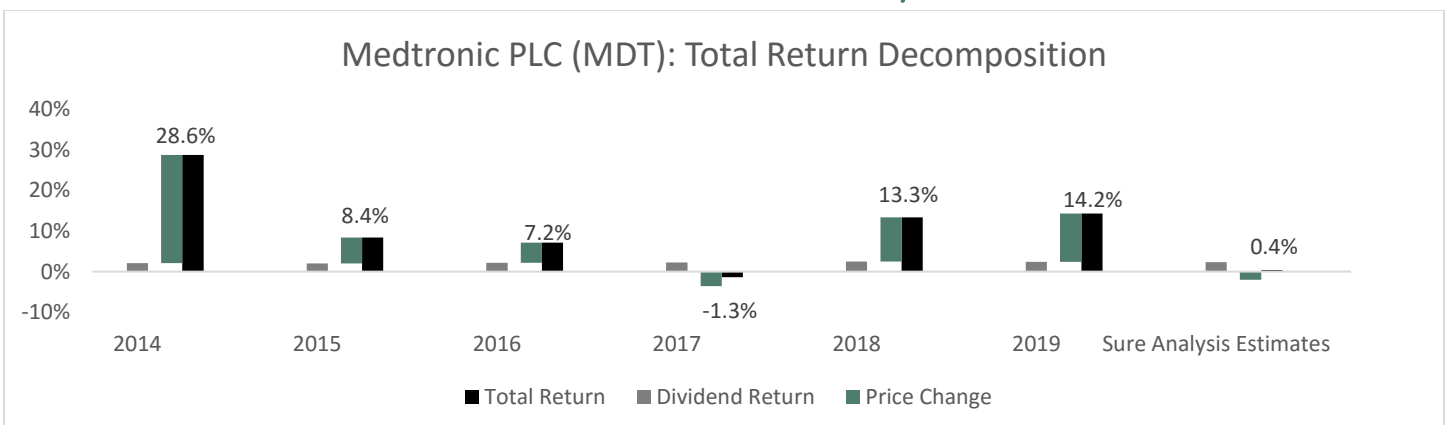
Medtronic’s most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. It has filed more than 53,000 patents and spends more than \$2 billion per year on research and development. Medtronic also has a strong product pipeline that should 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 25% in 2009 to over 50% today, this still leaves ample room for dividend growth combined with share repurchases. Medtronic’s balance sheet is good shape to weather the current crisis.

Final Thoughts & Recommendation

Shares are up 4% since our last report. From a quality, earnings and dividend growth standpoint, Medtronic is attractive. However, our total annual return expectation is just 0.4% per annum, stemming from 8% growth and the 2% dividend yield offset by the potential for a valuation headwind. If Medtronic were to continue trading at 20+ times earnings, the security is set up to offer better returns. Alternatively, if the price returns to a lower valuation, as had been the case in prior years, the total return potential does not look compelling. Shares earn a sell rating due to the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15508	16184	16590	17005	20261	28833	29710	29953	30557	28913
Gross Profit	11808	12295	12464	12672	13952	19691	20416	20886	21402	19489
Gross Margin	76.1%	76.0%	75.1%	74.5%	68.9%	68.3%	68.7%	69.7%	70.0%	67.4%
SG&A Exp.	5427	5623	5698	5847	6904	9469	10018	10238	10418	10109
D&A Exp.	804	833	819	850	1306	2820	2917	2644	2659	2663
Operating Profit	4460	4483	4770	4818	4557	5960	5986	6034	6632	5222
Operating Margin	28.8%	27.7%	28.8%	28.3%	22.5%	20.7%	20.1%	20.1%	21.7%	18.1%
Net Profit	3096	3617	3467	3065	2675	3538	4028	3104	4631	4789
Net Margin	20.0%	22.3%	20.9%	18.0%	13.2%	12.3%	13.6%	10.4%	15.2%	16.6%
Free Cash Flow	3240	3986	4485	4563	4331	4172	5626	3616	5873	6021
Income Tax	609	730	784	640	811	798	578	2580	547	-751

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	30424	32818	34900	37943	106685	99644	99857	91393	89694	90689
Cash & Equivalents	1382	1172	919	1403	4843	2876	4967	3669	4393	4140
Accounts Receivable	3822	3808	3727	3811	5112	5562	5591	5987	6222	4645
Inventories	1695	1800	1712	1725	3463	3473	3338	3579	3753	4229
Goodwill & Int. Ass.	12314	12581	13002	12879	68631	68399	61922	61266	60519	58904
Total Liabilities	14456	15705	16229	18500	53455	47581	49527	40571	39482	39817
Accounts Payable	511	565	681	742	1610	1709	1555	1628	1953	1996
Long-Term Debt	9835	10454	10499	11775	36041	30970	33413	25731	25308	24797
Shareholder's Equity	15968	17113	18671	19443	53230	52063	50208	50720	50091	50737
D/E Ratio	0.62	0.61	0.56	0.61	0.68	0.59	0.67	0.51	0.51	0.49

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.6%	11.4%	10.2%	8.4%	3.7%	3.4%	4.0%	3.2%	5.1%	5.3%
Return on Equity	20.2%	21.9%	19.4%	16.1%	7.4%	6.7%	7.9%	6.2%	9.2%	9.5%
ROIC	12.4%	13.6%	12.2%	10.2%	4.4%	4.1%	4.8%	3.9%	6.1%	6.3%
Shares Out.	1,070	1,037	1,016	999	1,422	1,399	1,369	1,354	1,341	1,352
Revenue/Share	14.34	15.27	16.15	16.78	18.27	20.22	21.35	21.89	22.51	21.40
FCF/Share	3.00	3.76	4.37	4.50	3.91	2.93	4.04	2.64	4.33	4.46

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

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