



Medtronic plc (MDT)

Updated August 24th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	1.8%	Market Cap:	\$180 B
Fair Value Price:	\$97	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/23/21
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	10/15/21
Dividend Yield:	1.9%	5 Year Price Target	\$130	Years Of Dividend Growth:	44
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	8.6%

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: Cardiovascular, Medical Surgical, Neuroscience and Diabetes. Medtronic has increased its dividend for 44 consecutive years. The \$180 billion market cap company generated \$30 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 May 26th, 2021, Medtronic increased its dividend to \$0.63 per share; the company's 44th consecutive yearly increase.

On August 24th, 2021, Medtronic reported Q1 fiscal year 2022 results for the period ending July 30th, 2021. For the quarter Medtronic reported revenue of \$7.987 billion, a 22.7% increase compared to Q1 2021, as the company continues to see a strong recovery from the impact of the COVID-19 pandemic on elective procedures. This result was led by increases of 19%, 29%, 29% and 2% in the Cardiovascular, Medical Surgical, Neuroscience and Diabetes segments respectively. Adjusted net income equaled \$1.91 billion or \$1.41 per share compared to \$0.62 in Q1 2021.

Medtronic also updated its fiscal 2022 guidance. The company reiterated its expectation of approximately 9% sales growth and updated its EPS forecast to \$5.65 to \$5.75 (from \$5.60 to \$5.75 prior).

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.46	\$3.75	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	\$5.22	\$4.59	\$4.44	\$5.70	\$7.63
DPS	\$0.97	\$1.04	\$1.12	\$1.22	\$1.52	\$1.72	\$1.84	\$2.00	\$2.16	\$2.32	\$2.52	\$3.62
Shares¹	1,037	1,016	999	1,422	1,399	1,369	1,354	1,341	1,352	1,354	1,350	1,325

Note that Medtronic has already completed fiscal year 2021 (ended in April) but we have elected to show the above information closer to the actual calendar year. In the 2010 - 2020 stretch Medtronic grew its earnings-per-share by 2.8% per annum. However, this includes down years in 2019 and 2020. 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.

The COVID-19 pandemic has been a big unknown for Medtronic, especially with the deferral of elective procedures, but last year's results proved resilient. Over time Medtronic stands to benefit from long-term healthcare trends. Moreover, in the short-term, results are expected to bounce back materially. Taking these items collectively, we are forecasting \$5.70 in earnings-per-share for this year to go along with a 6% annual growth rate.

¹ In millions.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.7	11.3	14.6	16.1	17.3	17.7	17.3	17.3	22.6	24.4	23.4	17.0
Avg. Yld.	2.6%	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.1%	2.1%	1.9%	2.8%

In the last decade shares of Medtronic have traded hands at an average earnings multiple of 17 times earnings. We believe this is a fair valuation baseline, taking into consideration the quality of the company and average growth prospects. With shares presently trading near 23 times expected earnings, this implies a valuation headwind.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	28%	28%	29%	29%	35%	37%	39%	38%	47%	52%	44%	47%

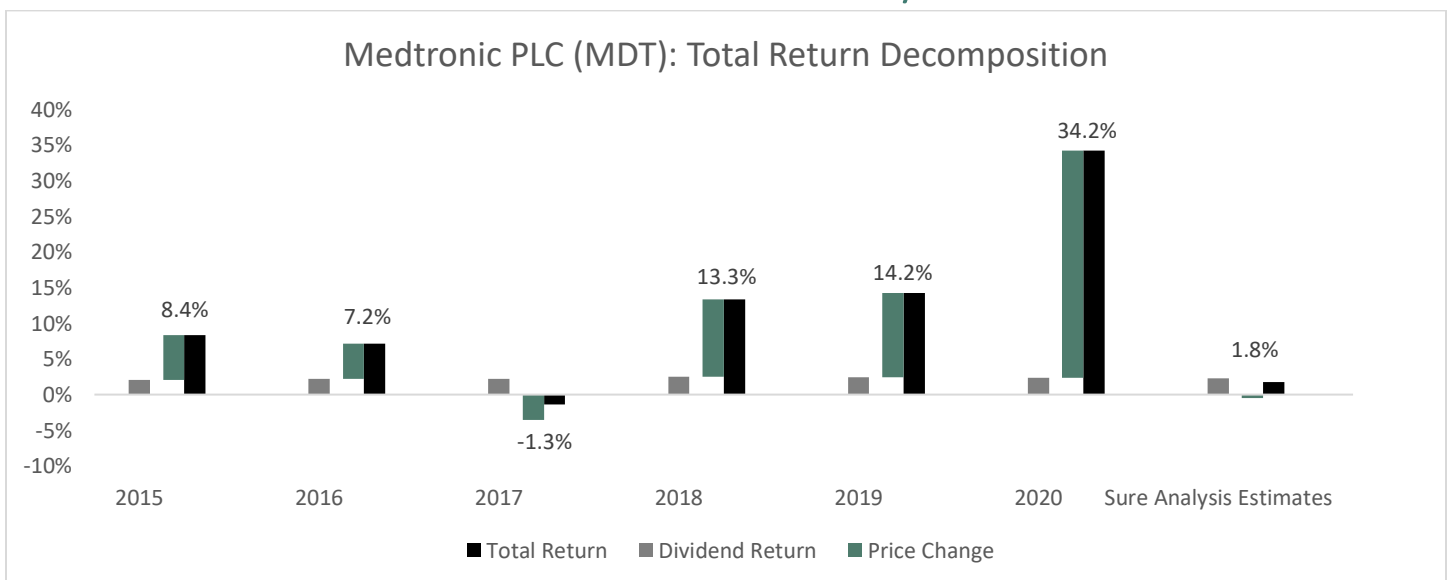
Medtronic's most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

In 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 44% 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 28% since our August 2020 report. From a quality, earnings and dividend growth standpoint, Medtronic is attractive. However, our total annual return expectation is 1.8% per annum, stemming from 6% growth and the 1.9% 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 hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	16184	16590	17005	20261	28833	29710	29953	30557	28913	30120
Gross Profit	12295	12464	12672	13952	19691	20416	20886	21402	19489	19630
Gross Margin	76.0%	75.1%	74.5%	68.9%	68.3%	68.7%	69.7%	70.0%	67.4%	65.2%
SG&A Exp.	5623	5698	5847	6904	9469	10018	10238	10418	10109	10150
D&A Exp.	833	819	850	1306	2820	2917	2644	2659	2663	2702
Operating Profit	4483	4770	4818	4557	5960	5986	6034	6632	5222	4895
Operating Margin	27.7%	28.8%	28.3%	22.5%	20.7%	20.1%	20.1%	21.7%	18.1%	16.3%
Net Profit	3617	3467	3065	2675	3538	4028	3104	4631	4789	3606
Net Margin	22.3%	20.9%	18.0%	13.2%	12.3%	13.6%	10.4%	15.2%	16.6%	12.0%
Free Cash Flow	3986	4485	4563	4331	4172	5626	3616	5873	6021	4885
Income Tax	730	784	640	811	798	578	2580	547	-751	265

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	32818	34900	37943	106685	99644	99857	91393	89694	90689	93080
Cash & Equivalents	1172	919	1403	4843	2876	4967	3669	4393	4140	3593
Accounts Receivable	3808	3727	3811	5112	5562	5591	5987	6222	4645	5462
Inventories	1800	1712	1725	3463	3473	3338	3579	3753	4229	4313
Goodwill & Int. Ass.	12581	13002	12879	68631	68399	61922	61266	60519	58904	59700
Total Liabilities	15705	16229	18500	53455	47581	49527	40571	39482	39817	41480
Accounts Payable	565	681	742	1610	1709	1555	1628	1953	1996	2106
Long-Term Debt	10454	10499	11775	36041	30970	33413	25731	25308	24797	26320
Shareholder's Equity	17113	18671	19443	53230	52063	50208	50720	50091	50737	51430
D/E Ratio	0.61	0.56	0.61	0.68	0.59	0.67	0.51	0.51	0.49	0.51

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.4%	10.2%	8.4%	3.7%	3.4%	4.0%	3.2%	5.1%	5.3%	3.9%
Return on Equity	21.9%	19.4%	16.1%	7.4%	6.7%	7.9%	6.2%	9.2%	9.5%	7.1%
ROIC	13.6%	12.2%	10.2%	4.4%	4.1%	4.8%	3.9%	6.1%	6.3%	4.7%
Shares Out.	1,037	1,016	999	1,422	1,399	1,369	1,354	1,341	1,352	1354
Revenue/Share	15.27	16.15	16.78	18.27	20.22	21.35	21.89	22.51	21.40	22.24
FCF/Share	3.76	4.37	4.50	3.91	2.93	4.04	2.64	4.33	4.46	3.61

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

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