ResMed Inc. (RMD)

Updated May 15th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$197	**5 Year CAGR Estimate:**	5.1%	**Market Cap:**	$28B
Fair Value Price:	$137	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	05/11/22
% Fair Value:	144%	**5 Year Valuation Multiple Estimate:**	-7.0%	**Dividend Payment Date:**	06/16/22
Dividend Yield:	0.9%	**5 Year Price Target**	$241	**Years Of Dividend Growth:**	1
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

ResMed is a medical devices company that engages in the development, manufacturing and marketing of devices that diagnose, treat and manage a range of respiratory disorders such as sleep apnea. The company was founded in 1989 and is headquartered in San Diego, CA.

ResMed reported its third quarter (fiscal 2022) earnings results on April 28. The company reported revenues of $860 million for the quarter, which was up 12% compared to the prior year's quarter. This was a weaker performance compared to what was expected by the analyst community, as estimates were missed by $35 million. Even though ResMed continues to invest in other business units, most of the revenue is still generated by the device business, which remains ResMed's largest unit by far. ResMed was not able to grow its margins further during the quarter, as gross margins actually contracted by 150 basis points, although from a very high level of 60%.

ResMed generated earnings-per-share of $1.32 during the third quarter, which missed analyst estimates by $0.12. ResMed's earnings-per-share were up by 2% compared to the prior year's quarter, which was significantly less than the growth rate in the recent past. It is expected that this year's earnings-per-share will surpass those from 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.71	$2.10	$2.39	$2.47	$2.49	$2.82	$3.53	$3.64	$4.76	$5.33	***$5.70***	***$10.05***
DPS	---	$0.68	$1.00	$1.12	$1.20	$1.32	$1.40	$1.48	$1.56	$1.56	***$1.68***	***$2.71***
Shares[1]	142	142	140	141	141	142	143	143	145	146	***147***	***150***

ResMed has been a reliable growth investment in the past. 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.

ResMed's strong 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, as well as via geographic expansion. 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 by 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 and growth is unlikely to slow down going forward. On top of that, ResMed is not impacted by the coronavirus crisis, as demand for its offerings does not depend on economic growth.

[1] In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.2	20.0	20.3	23.4	22.7	26.1	29.2	34.1	40.3	46.2	***34.6***	***24.0***
Avg. Yld.	---	1.6%	2.1%	1.9%	2.1%	2.0%	1.3%	1.2%	0.8%	0.6%	***0.9%***	***1.1%***

ResMed is a high-quality company with a compelling earnings growth track record, and the earnings growth outlook over the coming years is positive as well. 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 24 times net profits, but shares trade well above that level right now, which is why the stock looks overvalued today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	32.4%	41.8%	45.3%	48.2%	46.8%	39.7%	38.5%	32.8%	29.3%	***29.5%***	***26.9%***

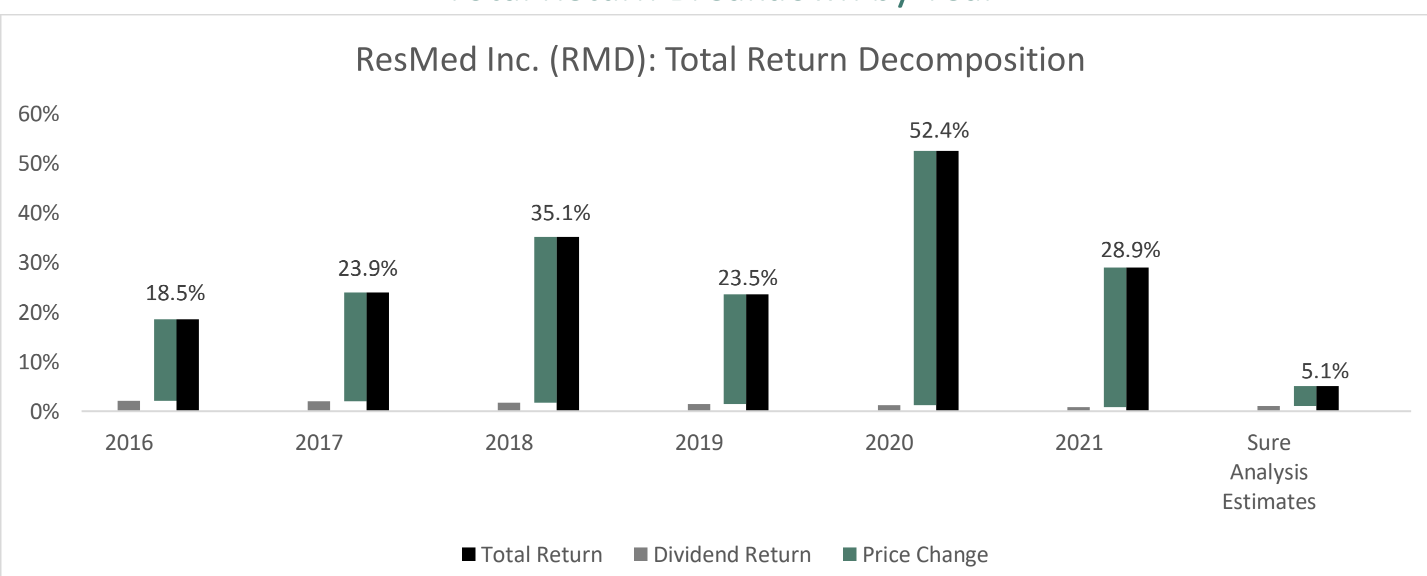
ResMed only started paying dividends in 2013, but since then the dividend has grown consistently. The most recent dividend increase of 7.7% was roughly in line with the average dividend growth rate over the last couple of years. Due to a relatively low dividend payout ratio of less than 30%, the dividend looks very safe, we believe.

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. 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 also continue to grow its dividend. Shares trade above our fair value estimate, however, which is why we rate ResMed a hold, even though the company looks strong on a fundamental basis.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,369	1,514	1,555	1,679	1,839	2,067	2,340	2,607	2,957	3,197
Gross Profit	821	941	990	1,011	1,066	1,202	1,335	1,494	1,718	1,839
Gross Margin	60.0%	62.1%	63.7%	60.2%	58.0%	58.1%	57.0%	57.3%	58.1%	57.5%
SG&A Exp.	403	431	450	479	488	554	600	645	677	670
D&A Exp.	86	78	73	73	87	112	120	151	181	192
Operating Profit	294	355	411	409	436	457	560	636	809	912
Operating Margin	21.5%	23.4%	26.5%	24.4%	23.7%	22.1%	23.9%	24.4%	27.4%	28.5%
Net Profit	255	307	345	353	352	342	316	405	622	475
Net Margin	18.6%	20.3%	22.2%	21.0%	19.2%	16.6%	13.5%	15.5%	21.0%	14.8%
Free Cash Flow	322	331	310	311	480	343	434	382	696	620
Income Tax	77	78	86	83	87	76	206	114	111	409

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,138	2,211	2,361	2,182	3,257	3,468	3,064	4,108	4,587	4,728
Cash & Equivalents	810	876	906	717	731	822	189	147	463	295
Accounts Receivable	283	318	360	363	382	451	484	528	475	614
Inventories	174	146	165	247	224	268	269	350	417	457
Goodwill & Int. Ass.	311	324	335	311	1,359	1,327	1,284	2,378	2,338	2,320
Total Liabilities	530	600	603	594	1,562	1,508	1,005	2,035	2,090	1,842
Accounts Payable	55	61	85	81	93	93	93	116	136	138
Long-Term Debt	251	301	301	301	1,173	1,079	281	1,271	1,176	655
Shareholder's Equity	1,608	1,611	1,758	1,587	1,695	1,960	2,059	2,072	2,497	2,886
LTD/E Ratio	0.16	0.19	0.17	0.19	0.69	0.55	0.14	0.61	0.47	0.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	12.1%	14.1%	15.1%	15.5%	13.0%	10.2%	9.7%	11.3%	14.3%	10.2%
Return on Equity	15.3%	19.1%	20.5%	21.1%	21.5%	18.7%	15.7%	19.6%	27.2%	17.6%
ROIC	13.8%	16.3%	17.4%	17.9%	14.8%	11.6%	11.7%	14.2%	17.7%	13.2%
Shares Out.	142	142	140	141	141	142	143	143	145	146
Revenue/Share	9.17	10.34	10.77	11.77	12.98	14.51	16.25	18.04	20.30	21.83
FCF/Share	2.16	2.26	2.15	2.18	3.39	2.40	3.01	2.64	4.78	4.23

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