



Medtronic plc (MDT)

Updated November 25th, 2022, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$79 | 5 Year CAGR Estimate: | 11.7% | Market Cap: | \$105 B |
| Fair Value Price: | \$90 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 12/20/22 ¹ |
| % Fair Value: | 88% | 5 Year Valuation Multiple Estimate: | 2.6% | Dividend Payment Date: | 1/13/23 |
| Dividend Yield: | 3.4% | 5 Year Price Target | \$120 | Years Of Dividend Growth: | 45 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Rating: | Buy |

Overview & Current Events

Medtronic is the largest manufacturer of biomedical devices and implantable technologies in the world. It serves physicians, hospitals, and patients in more than 150 countries and has over 90,000 employees. Medtronic has four operating segments: Cardiovascular, Medical Surgical, Neuroscience and Diabetes. Medtronic has raised its dividend for 45 consecutive years. The \$105 billion market cap company generated \$32 billion in revenue in its last fiscal 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](#).

In late November, Medtronic reported (11/22/22) results for the second quarter of fiscal year 2023. Organic revenue grew 2% over last year's quarter but revenue dipped -3% and earnings-per-share fell -2% due to a strong dollar. Results were hurt by slow supply recovery and modest market procedure volumes in some businesses and hence Medtronic lowered its guidance for annual earnings-per-share from \$5.53-\$5.65 to \$5.25-\$5.30. We have thus lowered our forecast from \$5.60 to \$5.28. On the bright side, Medtronic expects a recovery of its business in the back half of the year.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$3.75 | \$3.82 | \$4.28 | \$4.34 | \$4.60 | \$4.77 | \$5.22 | \$4.59 | \$4.44 | \$5.55 | \$5.28 | \$7.07 |
| DPS | \$1.04 | \$1.12 | \$1.22 | \$1.52 | \$1.72 | \$1.84 | \$2.00 | \$2.16 | \$2.32 | \$2.52 | \$2.72 | \$3.90 |
| Shares² | 1,016 | 999 | 1,422 | 1,399 | 1,369 | 1,354 | 1,341 | 1,352 | 1,354 | 1,345 | 1,320 | 1,250 |

In the 2011 - 2021 stretch, Medtronic grew its earnings-per-share by 2.8% per annum. However, this includes down years in 2020 and 2021. From 2009 to 2019, earnings-per-share grew by 6% per year on average.

The significant jump in outstanding shares in 2015 was a result of Medtronic's \$42.9 billion cash and stock acquisition of Covidien. Moving forward, we anticipate that share repurchases 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 formed a headwind for Medtronic, especially with the deferral of elective procedures, but the company has proved resilient in the last two years, with record earnings in 2022. Over time, Medtronic stands to benefit from long-term healthcare trends. Moreover, we expect business performance to improve as soon as the aforementioned short-term headwinds attenuate. Overall, we expect Medtronic to earn \$5.28 per share this year and grow its earnings-per-share at a 6.0% average annual rate over the next five years.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 11.3 | 14.6 | 16.1 | 17.3 | 17.7 | 17.3 | 17.3 | 22.6 | 24.4 | 21.2 | 15.0 | 17.0 |
| Avg. Yld. | 2.5% | 2.0% | 1.8% | 2.0% | 2.1% | 2.2% | 2.2% | 2.1% | 2.1% | 2.1% | 3.4% | 3.3% |

¹ Estimated date.

² In millions.

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In the last decade, shares of Medtronic have traded hands at an average price-to-earnings ratio of 17.0. We believe that this is a fair valuation baseline, taking into consideration the quality of the company and average growth prospects. The stock is currently trading at an earnings multiple of 15.0. If it trades at fair valuation level in five years, it will enjoy a 2.6% annualized gain in its returns.

Medtronic has an exceptional dividend growth record, with 45 consecutive years of dividend growth. It has grown its dividend by 16% per year on average over the last 45 years and by 8% per year on average over the last 5 years. The 3.4% dividend yield is not spectacular, but investors should be encouraged by the safety and growth over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 28% | 29% | 29% | 35% | 37% | 39% | 38% | 47% | 52% | 45% | 52% | 55% |

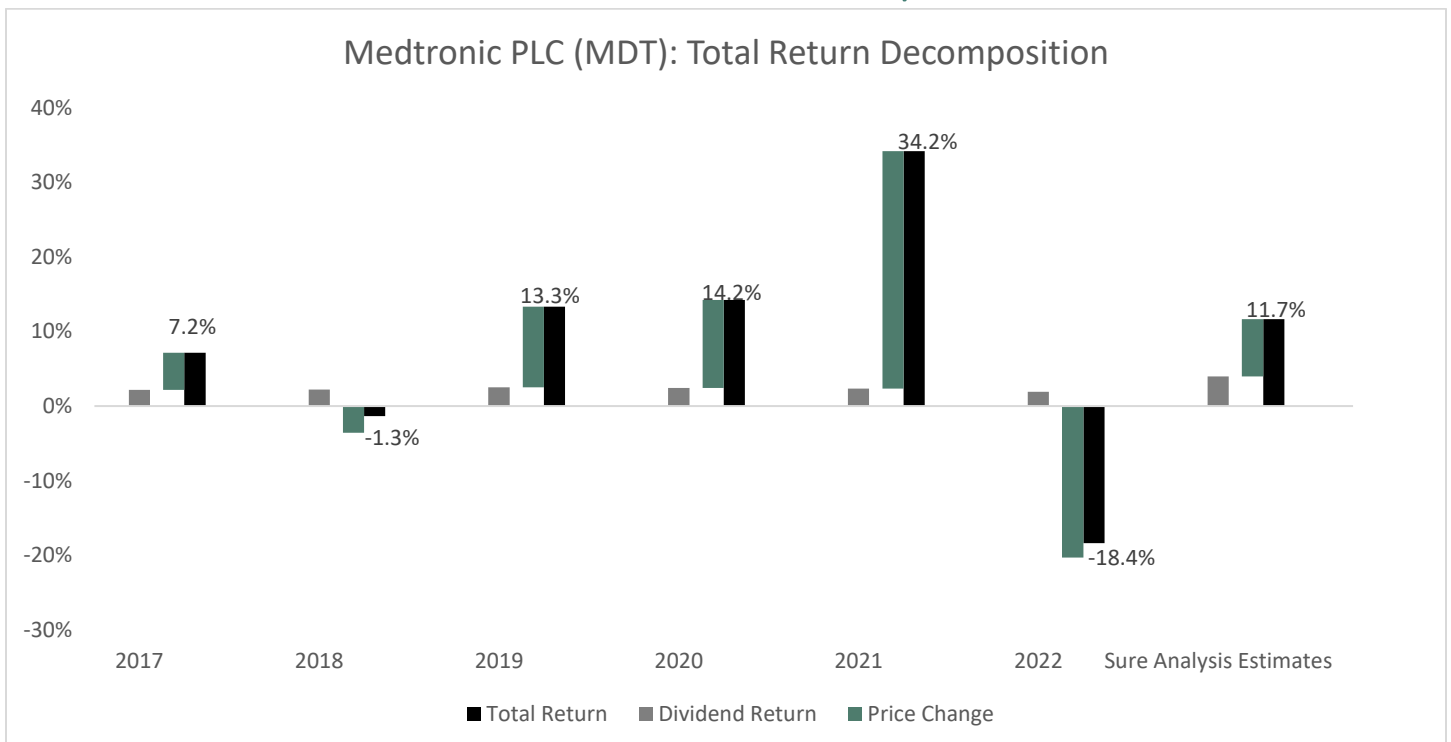
Medtronic's most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

In the last recession, Medtronic proved resilient, with 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 rising every year as well. While the payout ratio has been climbing from 25% in 2009 to 52% today, there is still ample room for dividend growth combined with share repurchases. Moreover, Medtronic has a rock-solid balance sheet, which is essential during downturns.

Final Thoughts & Recommendation

Medtronic has shed -26% in the last 12 months due to business deceleration and the correction of the broad stock market. From a quality, earnings and dividend growth standpoint, Medtronic has become exceptionally attractive. It could offer an 11.7% total annual return thanks to 6.0% earnings growth, its 3.4% dividend and a 2.6% valuation tailwind and thus earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 16,590 | 17,005 | 20,261 | 28,833 | 29,710 | 29,953 | 30,557 | 28,913 | 30,117 | 31,686 |
| Gross Profit | 12,464 | 12,672 | 13,952 | 19,691 | 20,416 | 20,886 | 21,402 | 19,489 | 19,634 | 21,541 |
| Gross Margin | 75.1% | 74.5% | 68.9% | 68.3% | 68.7% | 69.7% | 70.0% | 67.4% | 65.2% | 68.0% |
| SG&A Exp. | 5,698 | 5,847 | 6,904 | 9,469 | 10,018 | 10,238 | 10,418 | 10,109 | 10,148 | 10,292 |
| D&A Exp. | 819 | 850 | 1,306 | 2,820 | 2,917 | 2,644 | 2,659 | 2,663 | 2,702 | 2,707 |
| Operating Profit | 4,770 | 4,818 | 4,557 | 5,960 | 5,986 | 6,034 | 6,632 | 5,222 | 4,895 | 5,908 |
| Operating Margin | 28.8% | 28.3% | 22.5% | 20.7% | 20.1% | 20.1% | 21.7% | 18.1% | 16.3% | 18.6% |
| Net Profit | 3,467 | 3,065 | 2,675 | 3,538 | 4,028 | 3,104 | 4,631 | 4,789 | 3,606 | 5,039 |
| Net Margin | 20.9% | 18.0% | 13.2% | 12.3% | 13.6% | 10.4% | 15.2% | 16.6% | 12.0% | 15.9% |
| Free Cash Flow | 4,485 | 4,563 | 4,331 | 4,172 | 5,626 | 3,616 | 5,873 | 6,021 | 4,885 | 5,978 |
| Income Tax | 784 | 640 | 811 | 798 | 578 | 2,580 | 547 | (751) | 265 | 456 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 34,900 | 37,943 | 106,685 | 99,644 | 99,857 | 91,393 | 89,694 | 90,689 | 93,083 | 90,981 |
| Cash & Equivalents | 919 | 1,403 | 4,843 | 2,876 | 4,967 | 3,669 | 4,393 | 4,140 | 3,593 | 3,714 |
| Accounts Receivable | 3,727 | 3,811 | 5,112 | 5,562 | 5,591 | 5,987 | 6,222 | 4,645 | 5,462 | 5,551 |
| Inventories | 1,712 | 1,725 | 3,463 | 3,473 | 3,338 | 3,579 | 3,753 | 4,229 | 4,313 | 4,616 |
| Goodwill & Int. Ass. | 13,002 | 12,879 | 68,631 | 68,399 | 61,922 | 61,266 | 60,519 | 58,904 | 59,701 | 56,097 |
| Total Liabilities | 16,229 | 18,500 | 53,455 | 47,581 | 49,527 | 40,571 | 39,482 | 39,817 | 41,481 | 38,259 |
| Accounts Payable | 681 | 742 | 1,610 | 1,709 | 1,555 | 1,628 | 1,953 | 1,996 | 2,106 | 2,276 |
| Long-Term Debt | 10,449 | 11,719 | 35,962 | 30,881 | 33,373 | 25,737 | 25,299 | 24,747 | 26,318 | 24,114 |
| Shareholder's Equity | 18,671 | 19,443 | 53,230 | 52,063 | 50,208 | 50,720 | 50,091 | 50,737 | 51,428 | 52,551 |
| LTD/E Ratio | 0.56 | 0.60 | 0.68 | 0.59 | 0.66 | 0.51 | 0.51 | 0.49 | 0.51 | 0.46 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 10.2% | 8.4% | 3.7% | 3.4% | 4.0% | 3.2% | 5.1% | 5.3% | 3.9% | 5.5% |
| Return on Equity | 19.4% | 16.1% | 7.4% | 6.7% | 7.9% | 6.2% | 9.2% | 9.5% | 7.1% | 9.7% |
| ROIC | 12.3% | 10.2% | 4.4% | 4.1% | 4.8% | 3.9% | 6.1% | 6.3% | 4.7% | 6.5% |
| Shares Out. | 1,016 | 999 | 1,422 | 1,399 | 1,369 | 1,354 | 1,341 | 1,352 | 1,354 | 1,345 |
| Revenue/Share | 16.15 | 16.78 | 18.27 | 20.22 | 21.35 | 21.89 | 22.51 | 21.40 | 22.24 | 23.45 |
| FCF/Share | 4.37 | 4.50 | 3.91 | 2.93 | 4.04 | 2.64 | 4.33 | 4.46 | 3.61 | 4.42 |

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

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