



Medtronic plc (MDT)

Updated February 22nd, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$85	5 Year CAGR Estimate:	10.1%	Market Cap:	\$114 B
Fair Value Price:	\$90	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	3/23/23 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	4/21/23
Dividend Yield:	3.2%	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 \$114 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.

In late February, Medtronic reported (2/21/23) results for the third quarter of fiscal year 2023. Organic revenue grew 4% over last year's quarter but revenue remained flat due to a strong dollar and earnings-per-share fell -4% due to high cost inflation. On the bright side, product availability and business conditions somewhat improved. As a result, Medtronic slightly improved its guidance for annual earnings-per-share from \$5.25-\$5.30 to \$5.28-\$5.30. We have thus marginally raised our forecast from \$5.28 to \$5.29. Medtronic expects to remain in recovery mode in the upcoming quarters.

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	\$5.29	\$7.08
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 three 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 supply chain issues ease and demand in China recovers. Overall, we expect Medtronic to earn \$5.29 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	16.1	17.0
Avg. Yld.	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.1%	2.1%	2.1%	3.2%	3.2%

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 16.1. If it trades at fair valuation level in five years, it will enjoy a 1.1% 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 3.2% 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%	51%	55%

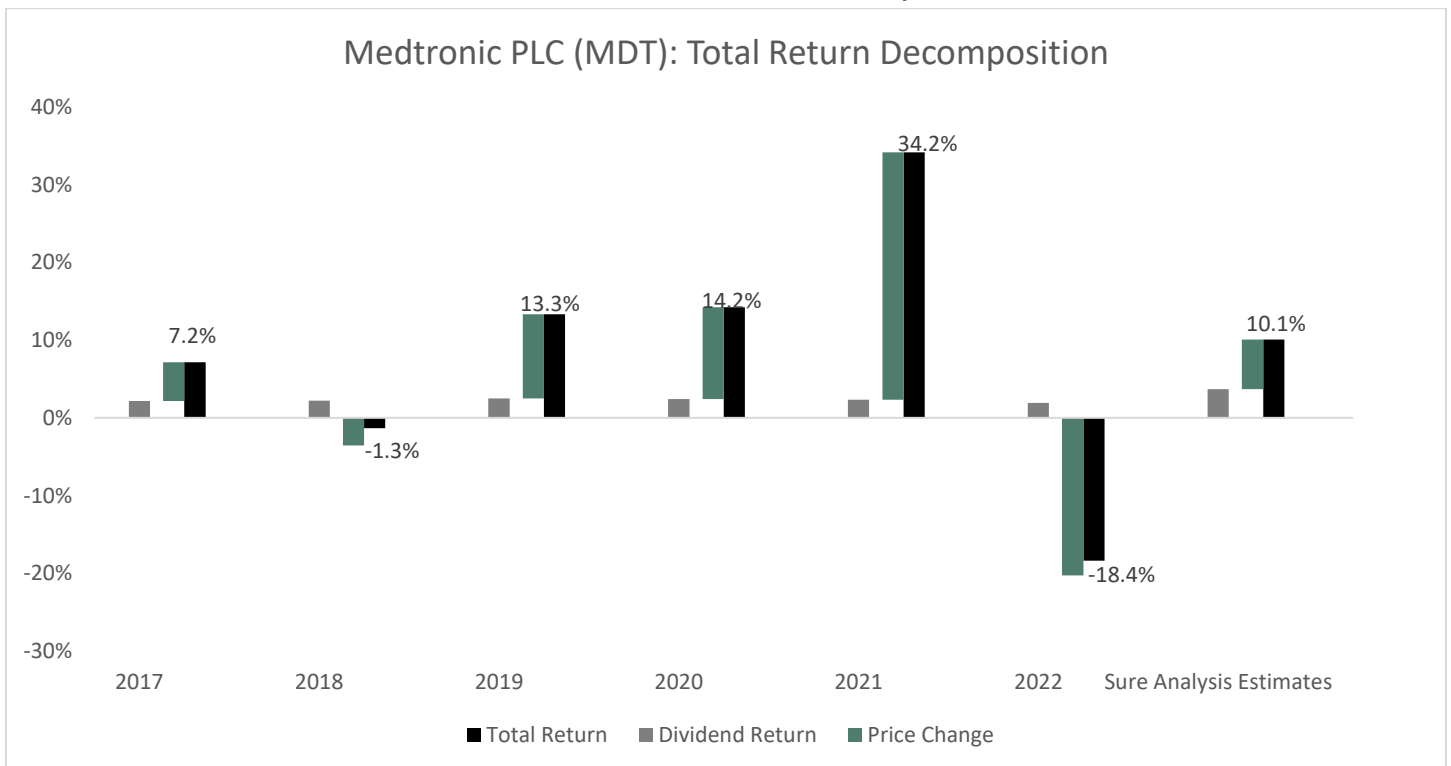
Medtronic's most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

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 51% 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 rallied 9% this year thanks to the expected recovery of its business. From a quality, earnings and dividend growth standpoint, Medtronic remains attractive. It could offer a 10.1% total annual return thanks to 6.0% earnings growth, its 3.2% dividend and a 1.1% valuation tailwind and thus maintains its 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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