



ResMed Inc. (RMD)

Updated March 9th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$212	5 Year CAGR Estimate:	5.9%	Market Cap:	\$31B
Fair Value Price:	\$154	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	05/09/23 ¹
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	06/15/23 ²
Dividend Yield:	0.8%	5 Year Price Target	\$271	Years Of Dividend Growth:	2
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 second quarter (fiscal 2023) earnings results in February. The company reported revenues of \$1.03 billion for the quarter, which was up 16% compared to the prior year's quarter. This was a better performance compared to what was expected by the analyst community, as estimates were beaten by \$34 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, unlike in previous quarters, as its gross margin declined by 80 basis points, to a still pretty high 56.8%.

ResMed generated earnings-per-share of \$1.66 during the second quarter, which beat analyst estimates by \$0.04. ResMed's earnings-per-share were up 13% compared to the prior year's quarter. Fiscal 2022 was a solid year for the company, and ResMed is on track to be even more profitable this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.10	\$2.39	\$2.47	\$2.49	\$2.82	\$3.53	\$3.64	\$4.76	\$5.33	\$5.79	\$6.40	\$11.28
DPS	\$0.68	\$1.00	\$1.12	\$1.20	\$1.32	\$1.40	\$1.48	\$1.56	\$1.56	\$1.68	\$1.76	\$2.83
Shares³	142	140	141	141	142	143	143	145	146	147	148	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.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.0	20.3	23.4	22.7	26.1	29.2	34.1	40.3	46.2	36.8	33.1	24.0
Avg. Yld.	1.6%	2.1%	1.9%	2.1%	2.0%	1.3%	1.2%	0.8%	0.6%	0.8%	0.8%	1.0%

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32.4%	41.8%	45.3%	48.2%	46.8%	39.7%	38.5%	32.8%	29.3%	29.0%	27.5%	25.1%

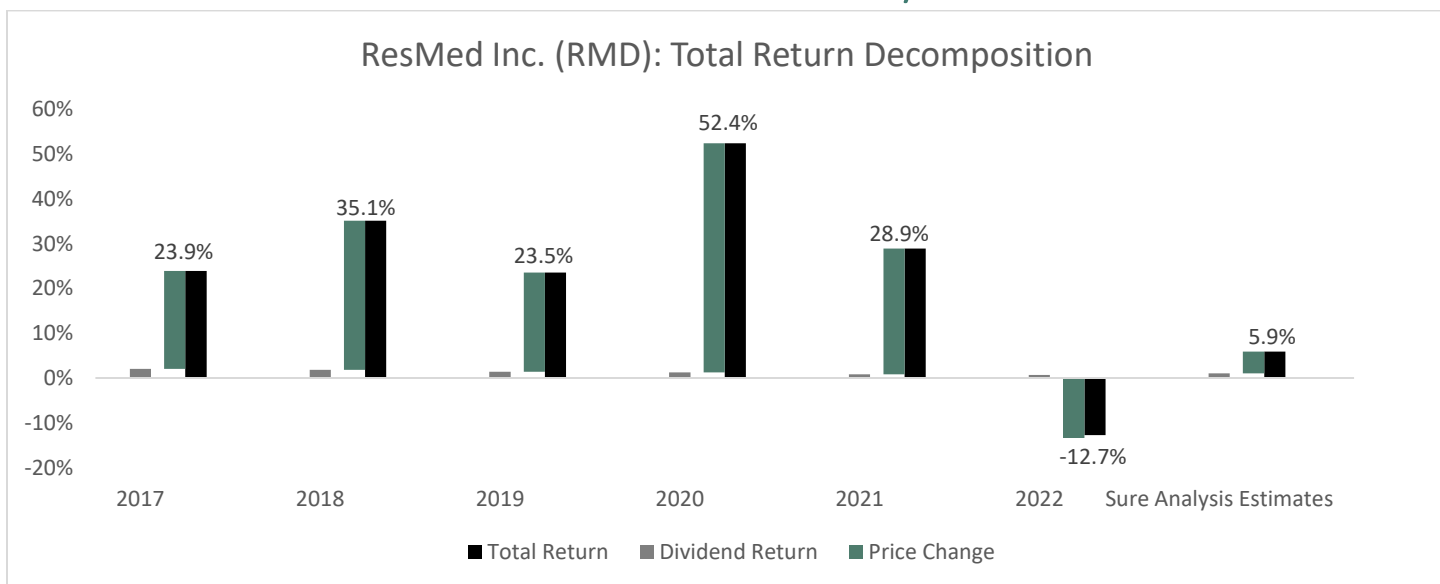
ResMed only started paying dividends in 2013, but since then the dividend has grown consistently. The most recent dividend increase of 7.7% was roughly in line with the average dividend growth rate over the last couple of years. Due to a relatively low dividend payout ratio of less than 30%, the dividend 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,514	1,555	1,679	1,839	2,067	2,340	2,607	2,957	3,197	3,578
Gross Profit	941	990	1,011	1,066	1,172	1,335	1,494	1,718	1,839	2,024
Gross Margin	62.1%	63.7%	60.2%	58.0%	56.7%	57.0%	57.3%	58.1%	57.5%	56.6%
SG&A Exp.	431	450	479	488	554	600	645	677	670	739
D&A Exp.	78	73	73	87	112	120	151	181	192	194
Operating Profit	355	411	409	436	457	560	636	809	912	1,000
Operating Margin	23.4%	26.5%	24.4%	23.7%	22.1%	23.9%	24.4%	27.4%	28.5%	28.0%
Net Profit	307	345	353	352	342	316	405	622	475	779
Net Margin	20.3%	22.2%	21.0%	19.2%	16.6%	13.5%	15.5%	21.0%	14.8%	21.8%
Free Cash Flow	331	310	311	480	343	434	382	696	620	195
Income Tax	78	86	83	87	76	206	114	111	409	181

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,211	2,361	2,182	3,257	3,468	3,064	4,108	4,587	4,728	5,096
Cash & Equivalents	876	906	717	731	822	189	147	463	295	274
Accounts Receivable	318	360	363	382	451	484	528	475	614	576
Inventories	146	165	247	224	268	269	350	417	457	744
Goodwill & Int. Ass.	324	335	311	1,359	1,327	1,284	2,378	2,338	2,320	2,282
Total Liabilities	600	603	594	1,562	1,508	1,005	2,035	2,090	1,842	1,735
Accounts Payable	61	85	81	93	93	93	116	136	138	159
Long-Term Debt	301	301	301	1,173	1,079	281	1,271	1,176	655	775
Shareholder's Equity	1,611	1,758	1,587	1,695	1,960	2,059	2,072	2,497	2,886	3,361
LTD/E Ratio	0.19	0.17	0.19	0.69	0.55	0.14	0.61	0.47	0.23	0.23

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.1%	15.1%	15.5%	13.0%	10.2%	9.7%	11.3%	14.3%	10.2%	15.9%
Return on Equity	19.1%	20.5%	21.1%	21.5%	18.7%	15.7%	19.6%	27.2%	17.6%	25.0%
ROIC	16.3%	17.4%	17.9%	14.8%	11.6%	11.7%	14.2%	17.7%	13.2%	20.3%
Shares Out.	142	140	141	141	142	143	143	145	146	147
Revenue/Share	10.34	10.77	11.77	12.98	14.51	16.25	18.04	20.30	21.83	24.33
FCF/Share	2.26	2.15	2.18	3.39	2.40	3.01	2.64	4.78	4.23	1.33

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

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