



Medtronic plc (MDT)

Updated November 21st, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	13.1%	Market Cap:	\$100 B
Fair Value Price:	\$88	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	12/19/23
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Dividend Payment Date:	1/12/24
Dividend Yield:	3.6%	5 Year Price Target	\$124	Years Of Dividend Growth:	46
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 46 consecutive years. The \$100 billion market cap company generated \$31 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 November, Medtronic reported (11/21/23) financial results for the second quarter of fiscal year 2024. Organic revenue grew 5% over last year's quarter thanks to broad-based growth in all the four segments. Earnings-per-share dipped -4%, from \$1.30 to \$1.25, due to a -6% currency headwind but exceeded the analysts' consensus by \$0.07. Thanks to improved business momentum, Medtronic raised its guidance for 2024. It expects 4.75% organic revenue growth (vs. 4.5% previously) and earnings-per-share of \$5.13-\$5.19 (vs. \$5.08-\$5.16 previously). We have thus raised our forecast from \$5.13 to \$5.18. Medtronic has beaten the analysts' estimates in 19 of the last 22 quarters.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	\$5.22	\$4.59	\$4.44	\$5.55	\$5.29	\$5.18	\$7.27
DPS	\$1.12	\$1.22	\$1.52	\$1.72	\$1.84	\$2.00	\$2.16	\$2.32	\$2.52	\$2.72	\$2.76	\$3.96
Shares²	999	1,422	1,399	1,369	1,354	1,341	1,352	1,354	1,345	1,333	1,320	1,250

Medtronic has grown its earnings-per-share by 3.7% per year on average over the last nine years. This is a low growth rate but it has partly resulted from temporary headwinds, such as high cost inflation and supply chain issues.

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 pandemic 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. Medtronic benefits from long-term healthcare trends. Moreover, we expect business performance to improve as soon as supply chain issues ease and cost inflation moderates. Overall, we expect Medtronic to grow its earnings-per-share by 7.0% per year on average until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.6	16.1	17.3	17.7	17.3	17.3	22.6	24.4	21.2	16.3	14.7	17.0
Avg. Yld.	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.1%	2.1%	2.1%	3.1%	3.6%	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 14.7. If it trades at fair valuation level in five years, it will enjoy a 3.0% annualized gain in its returns.

Medtronic has an exceptional dividend growth record, with 46 consecutive years of dividend growth. It has grown its dividend by 16% per year on average over the last 46 years and by 6.7% per year on average over the last 5 years, though the latest dividend raise was only 1.5%. The 3.6% dividend yield is not spectacular, but investors should be encouraged by the safety and growth over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	29%	35%	37%	39%	38%	47%	52%	45%	51%	53%	55%

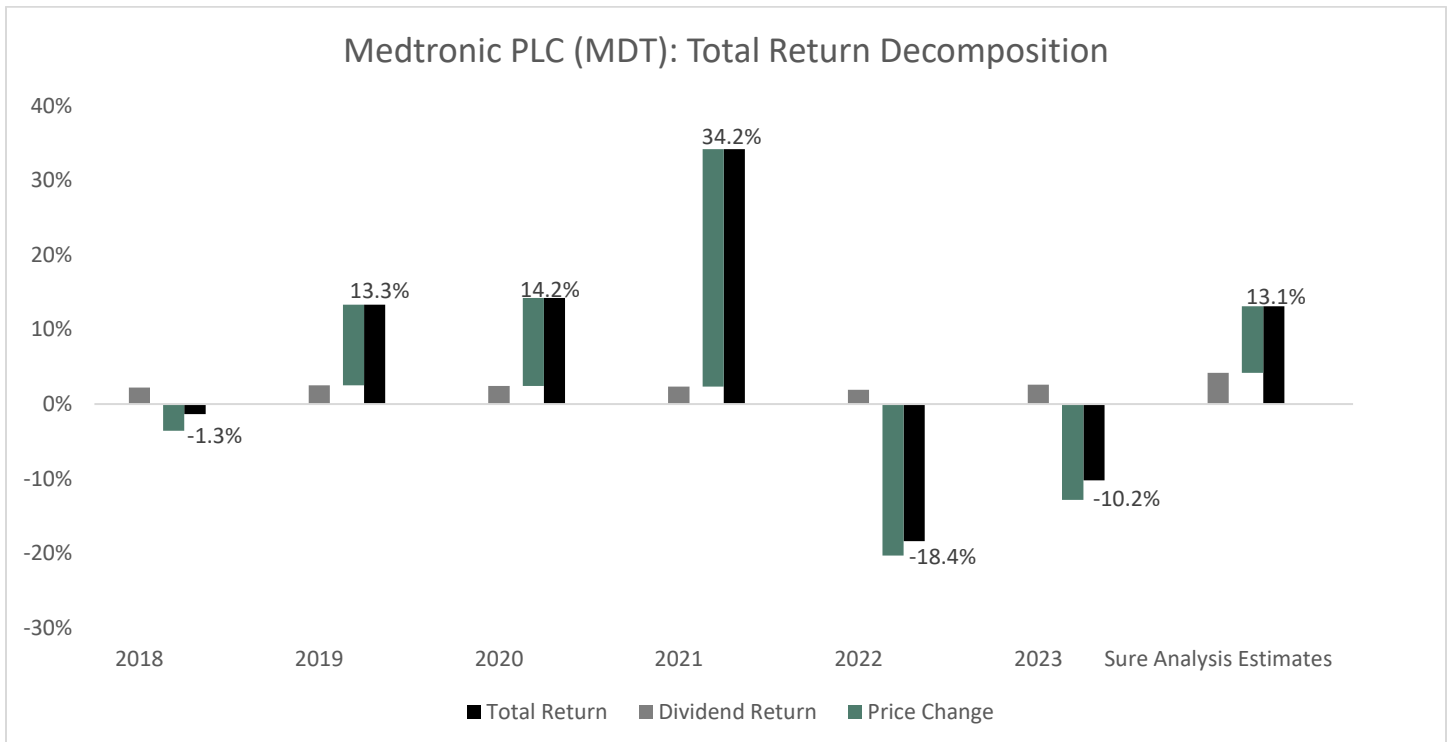
Medtronic's most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

In the Great 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 53% 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

From a quality, earnings and dividend growth standpoint, Medtronic is attractive. It could offer a 13.1% total annual return over the next five years thanks to 7.0% earnings growth, its 3.6% dividend and a 3.0% valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,005	20,261	28,833	29,710	29,953	30,557	28,913	30,117	31,686	31,227
Gross Profit	12,672	13,952	19,691	20,416	20,886	21,402	19,489	19,634	21,541	20,508
Gross Margin	74.5%	68.9%	68.3%	68.7%	69.7%	70.0%	67.4%	65.2%	68.0%	65.7%
SG&A Exp.	5,847	6,904	9,469	10,018	10,238	10,418	10,109	10,148	10,292	10,415
D&A Exp.	850	1,306	2,820	2,917	2,644	2,659	2,663	2,702	2,707	2,697
Operating Profit	4,818	4,557	5,960	5,986	6,034	6,632	5,222	4,895	5,908	5,830
Operating Margin	28.3%	22.5%	20.7%	20.1%	20.1%	21.7%	18.1%	16.3%	18.6%	18.7%
Net Profit	3,065	2,675	3,538	4,028	3,104	4,631	4,789	3,606	5,039	3,758
Net Margin	18.0%	13.2%	12.3%	13.6%	10.4%	15.2%	16.6%	12.0%	15.9%	12.0%
Free Cash Flow	4,563	4,331	4,172	5,626	3,616	5,873	6,021	4,885	5,978	4,580
Income Tax	640	811	798	578	2,580	547	(751)	265	456	1,580

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	37,943	106,685	99,644	99,857	91,393	89,694	90,689	93,083	90,981	90,948
Cash & Equivalents	1,403	4,843	2,876	4,967	3,669	4,393	4,140	3,593	3,714	1,543
Accounts Receivable	3,811	5,112	5,562	5,591	5,987	6,222	4,645	5,462	5,551	5,998
Inventories	1,725	3,463	3,473	3,338	3,579	3,753	4,229	4,313	4,616	5,293
Goodwill & Int. Ass.	12,879	68,631	68,399	61,922	61,266	60,519	58,904	59,701	56,097	56,269
Total Liabilities	18,500	53,455	47,581	49,527	40,571	39,482	39,817	41,481	38,259	39,283
Accounts Payable	742	1,610	1,709	1,555	1,628	1,953	1,996	2,106	2,276	2,662
Long-Term Debt	11,719	35,962	30,881	33,373	25,737	25,299	24,747	26,318	24,114	24,300
Shareholder's Equity	19,443	53,230	52,063	50,208	50,720	50,091	50,737	51,428	52,551	51,483
LTD/E Ratio	0.60	0.68	0.59	0.66	0.51	0.51	0.49	0.51	0.46	0.47

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.4%	3.7%	3.4%	4.0%	3.2%	5.1%	5.3%	3.9%	5.5%	4.1%
Return on Equity	16.1%	7.4%	6.7%	7.9%	6.2%	9.2%	9.5%	7.1%	9.7%	7.2%
ROIC	10.2%	4.4%	4.1%	4.8%	3.9%	6.1%	6.3%	4.7%	6.5%	4.9%
Shares Out.	999	1,422	1,399	1,369	1,354	1,341	1,352	1,354	1,345	1,333
Revenue/Share	16.78	18.27	20.22	21.35	21.89	22.51	21.40	22.24	23.45	23.43
FCF/Share	4.50	3.91	2.93	4.04	2.64	4.33	4.46	3.61	4.42	3.44

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

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