ResMed Inc. (RMD)

Updated November 3rd, 2023 by Jonathan Weber

Key Metrics

Current Price:	$153	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$22B
Fair Value Price:	$158	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date:**	02/09/24[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	03/15/24[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$267	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 first quarter (fiscal 2024) earnings results on October 26. The company reported revenues of $1.1 billion for the quarter, which was up 16% 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 $10 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 160 basis points, to a still pretty high 56.0%.

ResMed generated earnings-per-share of $1.64 during the first quarter, which beat analyst estimates by $0.02. ResMed's earnings-per-share were up by a solid 9% compared to the prior year's quarter. Fiscal 2023 was a strong year for the company, but ResMed will likely beat those results in the current year, fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.39	$2.47	$2.49	$2.82	$3.53	$3.64	$4.76	$5.33	$5.79	$6.44	***$7.20***	***$12.13***
DPS	$1.00	$1.12	$1.20	$1.32	$1.40	$1.48	$1.56	$1.56	$1.68	$1.76	***$1.92***	***$3.09***
Shares[3]	140	141	141	142	143	143	145	146	147	148	***149***	***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.

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[1] Estimated date

[2] Estimated date

[3] In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.3	23.4	22.7	26.1	29.2	34.1	40.3	46.2	36.8	33.5	***21.3***	***22.0***
Avg. Yld.	2.1%	1.9%	2.1%	2.0%	1.3%	1.2%	0.8%	0.6%	0.8%	0.8%	***1.3%***	***1.2%***

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 22 times net profits. Today, shares trade slightly below that level, as the stock has gotten cheaper over the last couple of months.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41.8%	45.3%	48.2%	46.8%	39.7%	38.5%	32.8%	29.3%	29.0%	27.3%	***26.7%***	***25.5%***

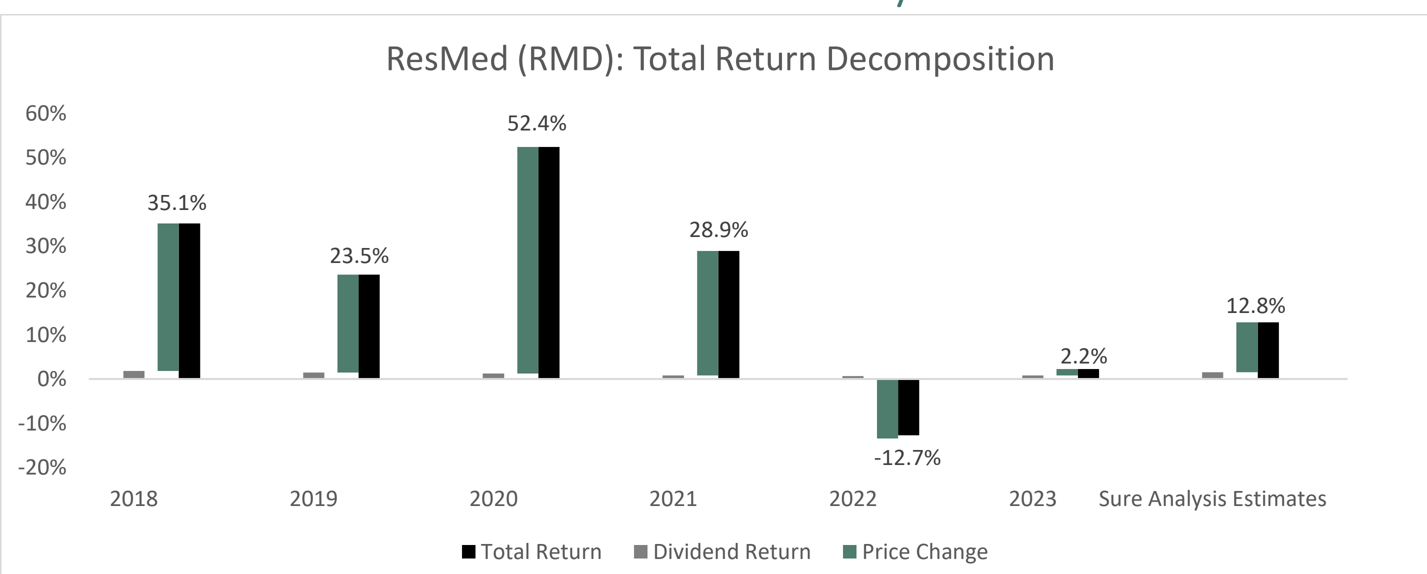
ResMed only started paying dividends in 2013, but since then the dividend has grown consistently. The most recent dividend increase of 7.7% was roughly in line with the average dividend growth rate over the last couple of years. Due to a relatively low dividend payout ratio of less than 30%, the dividend 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 increase its dividend. Shares trade slightly below our fair value estimate, and based on strong total return expectations, we rate the stock a buy right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,555	1,679	1,839	2,067	2,340	2,607	2,957	3,197	3,578	4,223
Gross Profit	990	1,011	1,066	1,172	1,335	1,494	1,718	1,839	2,024	2,356
Gross Margin	63.7%	60.2%	58.0%	56.7%	57.0%	57.3%	58.1%	57.5%	56.6%	55.8%
SG&A Exp.	450	479	488	554	600	645	677	670	738	874
D&A Exp.	73	73	87	112	120	151	181	192	194	198
Operating Profit	411	409	436	457	560	636	809	912	1,002	1,152
Operating Margin	26.5%	24.4%	23.7%	22.1%	23.9%	24.4%	27.4%	28.5%	28.0%	27.3%
Net Profit	345	353	352	342	316	405	622	475	779	898
Net Margin	22.2%	21.0%	19.2%	16.6%	13.5%	15.5%	21.0%	14.8%	21.8%	21.3%
Free Cash Flow	310	311	480	343	434	382	696	620	195	559
Income Tax	86	83	87	76	206	114	111	409	181	204

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,361	2,182	3,257	3,468	3,064	4,108	4,587	4,728	5,096	6,752
Cash & Equivalents	906	717	731	822	189	147	463	295	274	228
Accounts Receivable	360	363	382	451	484	528	475	614	576	705
Inventories	165	247	224	268	269	350	417	457	744	998
Goodwill & Int. Ass.	335	311	1,359	1,327	1,284	2,378	2,338	2,320	2,282	3,323
Total Liabilities	603	594	1,562	1,508	1,005	2,035	2,090	1,842	1,735	2,622
Accounts Payable	85	81	93	93	93	116	136	138	159	151
Long-Term Debt	301	301	1,173	1,079	281	1,271	1,176	655	775	1,441
Shareholder’s Equity	1,758	1,587	1,695	1,960	2,059	2,072	2,497	2,886	3,361	4,130
LTD/E Ratio	0.17	0.19	0.69	0.55	0.14	0.61	0.47	0.23	0.23	0.35

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.1%	15.5%	13.0%	10.2%	9.7%	11.3%	14.3%	10.2%	15.9%	15.2%
Return on Equity	20.5%	21.1%	21.5%	18.7%	15.7%	19.6%	27.2%	17.6%	25.0%	24.0%
ROIC	17.4%	17.9%	14.8%	11.6%	11.7%	14.2%	17.7%	13.2%	20.3%	18.5%
Shares Out.	140	141	141	142	143	143	145	146	147	148
Revenue/Share	10.77	11.77	12.98	14.51	16.25	18.04	20.30	21.83	24.33	28.64
FCF/Share	2.15	2.18	3.39	2.40	3.01	2.64	4.78	4.23	1.33	3.79

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