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| **Company: Medtronic** | Ticker: MDT Current Price: 72.76 | Industry: Health Care | Sub Industry: Medical Appliances & Equipment |
| Target Price: $122.29  Stop Loss: 62  52 Week High/ Low: 79.50/55.54 | TTM P/E: 33.78  Forward P/E: 15.06 (fye Apr 24, 2017)  EPS: 2.15 (diluted) | Beta: 1.47  Credit Rating: A  Rating Outlook: stable | Market Cap: 107B  Avg Vol ( 12 M): 6.5 million  Dividend Yield: 1.7% |

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| **Company Background:** |
| Medtronic is an Irish medical device company headquartered in Dublin, Ireland. The company was founded in 1949 in northeast Minneapolis, Minnesota, USA. Medtronic is the world's largest standalone medical technology development company. The company has six segments: Cardiac and Vascular Group, Services and solution group, Diabetes Group, Minimally Invasive Therapies Group and Restorative Therapies Group. The composed of six main business units develop and manufacture devices and therapies treat more than 30 chronic diseases, including heart failure, Parkinson's disease, urinary incontinence, Down's syndrome, obesity, chronic pain, spinal disorders, and diabetes. Products includes: pacemakers, cardiac resynchronization therapy devices, gastrointestinal diagnostics, etc… In June 2014, Medtronic announced its acquisition of Covidien, PLC of Ireland for $50 billion, making it the largest ever medical technology acquisition. |
| **Industry Outlook:** |
| The fundamental outlook for the health care equipment sub-industry for the next 12 months is neutral. 2015 revenues is expected to rise in constant currency at a mid- to upper single digit pace, aided by new products, expansion into emerging markets, and, in some cases, acquisitions. Longer-term fundamentals is positive, because of including increasing global demand for quality health care, aging populations and rising R&D outlays, leading to a steady flow of new diagnostic and therapeutic products. |
| **Investment Thesis:** |
| The combination of Medtronic and Covidien positioned Medtronic positioned Medtronic a clear industry leader and set the stage for Medtronic to lead the transformation of healthcare. Eight equity investment analyst upgraded following the announcement, and by deal closure the market cap increased by 32 billion. Medtronic expected to result of minimum $850 million in cost synergies by the end of FY 18. Besides, the lower tax rate in Ireland provides MDT with a competitive advantage on future deals.  Financially, Medtronic FY15 revenue grew by 6 percent on a comparable, constant currency basis, which was at the upper end of mid-single digit baseline goal, and more than a 2 percentage point improvement from FY14. Following the Covidien acquisition, Medtronic have increased the percentage of our cash flow that is accessible. In June 2015, Medtronic announced to increase dividend for 38 consecutive years at a compounded annual growth rate of 18 percent.  Looking ahead, Medtronic has an opportunity to truly meet the universal needs of healthcare – improving clinical outcomes, expanding access, and optimizing cost and efficiency – in a way that no other company can. The industry-leading products, clinical and economic expertise, global footprint, and financial strength position Medtronic to be the preferred partner for physicians, hospital systems, patients, payers, and governments around the world. |
| **Investment Risks:** |
| -The industry is experiencing greater scrutiny and regulation by governmental authorities, which may lead to greater regulation in the future.  - subject to costly and complex U.S. and foreign laws and governmental regulations  - substantially dependent on patent and other proprietary rights  - The change of healthcare policy might has adverse effect  - R&D heavily rely on investment |
| **3-5 take away from last quarter investor call transcript:** |
| - three growth strategies; therapy innovation, globalization and economic value.  - focused on achieving the expected minimum of $850 million in cost synergies by the end of FY'18  - disciplined process of assessing and prioritizing the numerous revenue synergy opportunities, which include leveraging the legacy Covidien's peripheral vascular sales force to drive sales of drug-coated balloons and leveraging Covidien's Neurovascular Division to enhance Medtronic Neuroscience strategy in RTG. |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | 2015 | Q1-2016 | | Revenue | 16,184.0 | 16,590.0 | 17,005.0 | 20,261.0 | 7,274.0 | | Operating Profit | 4,658.0 | 4,510.0 | 3,994.0 | 3,766.0 | 1,131.0 | | Net Income | 3,617.0 | 3,467.0 | 3,065.0 | 2,675.0 | 820.0 | | Revenue Growth % | 4.36 | 2.51 | 2.50 | 19.15 | 70.23 | | EBITDA% | 33.93 | 32.12 | 28.49 | 25.03 | 25.19 | | Operating Profit % | 28.78 | 27.19 | 23.49 | 18.59 | 15.55 | | Net Income Margin | 22.35 | 20.90 | 18.02 | 13.20 | 11.27 | | D/E | 1.92 | 1.89 | 1.91 | 1.99 | 1.99 | | Interest Coverage | 29.69 | 28.43 | 34.08 | 13.23 | 5.92 | | EPS | 3.41 | 3.37 | 3.02 | 2.41 | 0.57 | | PE Ratio | 11.35 | 12.91 | 15.18 | 23.67 | 25.56 | | Current Ratio | 2.76 | 4.52 | 3.82 | 3.36 | 3.81 | | ROE | 21.87 | 19.38 | 16.08 | 7.36 | 7.28 | | ROA | 11.39 | 10.24 | 8.42 | 3.70 | 3.69 | | Dividend Per share | 0.97 | 1.04 | 1.12 | 1.22 | 0.38 | | Debt to capital | 38.32 | 36.32 | 38.02 | 40.47 | 40.24 | | |  |  |  | | --- | --- | --- | |  | 2001-14 | 2015-19 | | Avg Revenue growth | 9.93 | 11.07 | | Avg EBITDA Margin | 34.45% | 38.2% | | Avg Net Income Margin | 18.97% | 23.51% | | Avg Debt/Equity | 49.75 | 49.75 | | Avg Interest / EBITDA | 46.54 | 46.54 | | Cost of Debt | | 2.05% | | Tax Rate | | 12.77% | | Cost of Equity | | 9.78% | | WACC | | 7.90% | | Perpetuity growth rate | | 2.3% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy: 20 | Hold: 5 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 4 star Buy | $89 | | Morning Star | 3 Star | $76 | | Value Line | Tameness 3  Safety 1 | 75.00 - 90.00 | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | FY2014 | MEDTRONIC PLC | SONOVA HOLDING AG-REG | OSSUR HF | SMITH & NEPHEW PLC | STRAUMANN HOLDING AG-REG | INDUSTRY | | P/E | 24.88 | 25.12 | 28.73 | 27.25 | 49.48 | 31.09 | | P/B | 2.04 | 4.87 | 3.32 | 3.75 | 7.74 | 3.99 | | Dividend Yield | 1.70 | - | - | 1.79 | - | 1.16 | | PEG Ratio | 2.48 | 2.11 | - | 1.94 | 2.42 | 2.24 | | EPS | 2.41 | 5.78 | 0.12 | 0.62 | 5.98 | 2.39 | | Revn Grth lst 3 Yrs | 8.05 | 7.94 | 8.75 | 2.72 | 0.83 | 6.34 | | NI Grth lst 3 Yrs | (0.24) | 29.44 | 29.48 | (0.07) | - | 14.65 | | Operating Margin | 15.55 | 21.62 | 17.47 | 19.32 | 20.75 | 14.39 | | Debt / Equity | 67.34 | 0.44 | 19.65 | 39.47 | 36.54 | 30.41 | | Market Cap | 107B | 9B | 1.5B | 15B | 4.4B | 23.36B | | Debt to capital | 40.24 | 0.43 | 16.42 | 28.30 | 26.76 | 21.36 | | |  |  |  |  | | --- | --- | --- | --- | |  | MDT | Sector | S&P 500 | | YTD | 0.66% | 5.64 % | 3.23 % | | Last 3 Years | 74.71% | 23.12 % | 16.41 % | | Last 5 Years | 101.00% | 20.25 % | 14.44 % |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | MDT | Industry | | ESG Disclosure Score | 40.08 | 39.67 | | Governance Disclosure Score | 57.14 | 53.57 | | Social Disclosure Score | 47.37 | 41.52 | | Environmental Disclosure Score | 41.52 | 32.82 | |