



Medtronic plc (MDT)

Updated June 3rd, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	8.1%	Market Cap:	\$133 B
Fair Value Price:	\$95	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	6/23/22
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date¹:	7/15/22
Dividend Yield:	2.8%	5 Year Price Target	\$127	Years Of Dividend Growth:	45
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Medtronic is the largest manufacturer of biomedical devices and implantable technologies in the world. The company 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 \$133 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, which you can read about [here](#).

On May 25th, 2022, Medtronic raised its dividend to \$0.68 per share; the company's 45th consecutive yearly increase.

In late May, Medtronic reported (5/26/22) financial results for the fourth quarter of fiscal year 2022. Organic revenue grew only 1% over the prior year's quarter due to supply chain disruptions, particularly in Surgical Innovations, and lockdowns in China. Due to these headwinds, adjusted earnings were flat and adjusted earnings-per-share grew only 2%, from \$1.49 to \$1.52, thus missing the analysts' consensus by \$0.04.

Medtronic issued lackluster guidance for the new fiscal year, anticipating 4%-5% growth of organic revenue and essentially flat adjusted earnings-per-share of \$5.53-\$5.65.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.75	\$3.82	\$4.28	\$4.34	\$4.60	\$4.77	\$5.22	\$4.59	\$4.44	\$5.55	\$5.60	\$7.49
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	1,330	1,300

Medtronic has already completed fiscal year 2022 (ended in April) but we have elected to show the above information closer to the actual calendar year. In the 2010 - 2020 stretch, Medtronic grew its earnings-per-share by 2.8% per annum. However, this includes down years in 2019 and 2020. From 2008 to 2018, earnings grew by 6% per year on average.

The significant jump in outstanding shares in 2014 was a result of Medtronic's \$42.9 billion cash and stock acquisition of Covidien. Moving forward, we anticipate that share repurchase activity 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 been a big unknown for Medtronic, especially with the deferral of elective procedures, but the company has proved resilient in the last two years, with record earnings in 2021. Over time, Medtronic stands to benefit from long-term healthcare trends. Moreover, we expect business performance to improve as soon as the aforementioned short-term headwinds attenuate. Overall, we expect Medtronic to earn \$5.60 per share this year and grow its earnings-per-share at a 6.0% average annual rate over the next five years.

¹ Estimated date.

² In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.3	14.6	16.1	17.3	17.7	17.3	17.3	22.6	24.4	21.2	17.5	17.0
Avg. Yld.	2.5%	2.0%	1.8%	2.0%	2.1%	2.2%	2.2%	2.1%	2.1%	2.1%	2.8%	3.1%

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 17.5. If it trades at fair valuation level in five years, it will incur a -0.6% annualized drag 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 2.8% dividend yield is not spectacular, but investors should be encouraged by the safety and growth over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	28%	29%	29%	35%	37%	39%	38%	47%	52%	45%	49%	52%

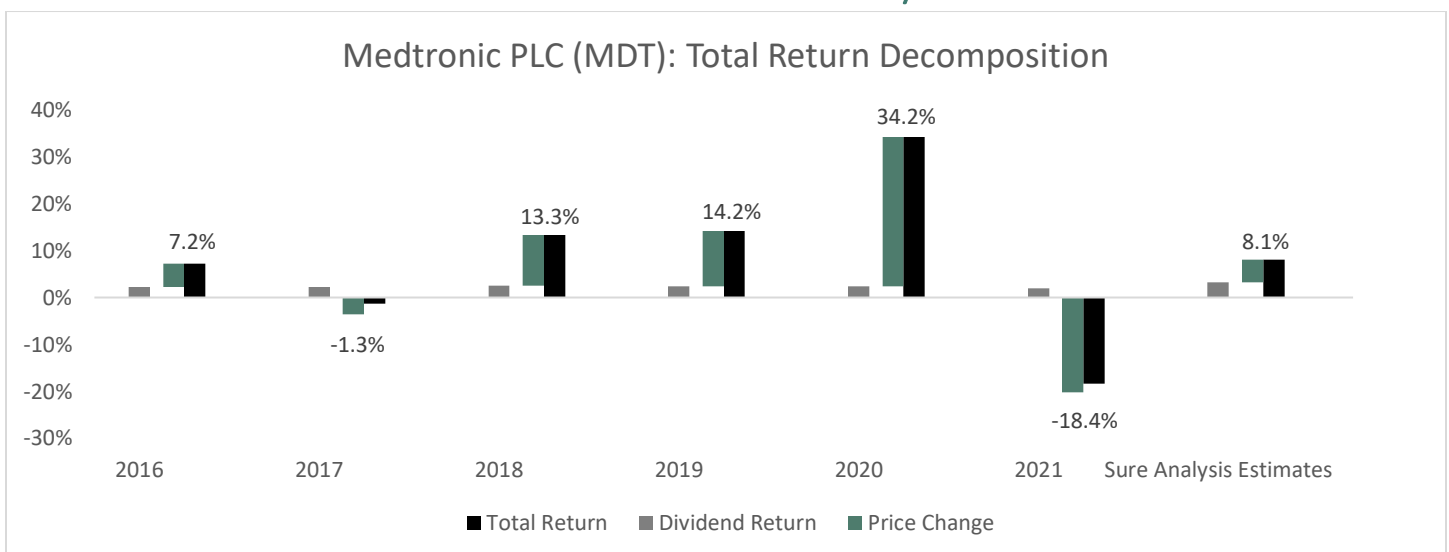
Medtronic's most compelling competitive advantage is its intellectual leadership in a complicated industry within the healthcare sector. Medtronic also has a strong product pipeline that should drive its growth for the foreseeable future.

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 44% 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 shed -27% off its peak nine months ago due to business deceleration and the correction of the broad stock market. From a quality, earnings and dividend growth standpoint, Medtronic is attractive. It could offer an 8.1% total annual return thanks to 6% earnings growth and the 2.8% dividend, which may be partly offset by a -0.6% valuation headwind. The stock receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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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