

Covidien PLC Ticker: COV Sector: Health Care Industry: Medical Instruments & Supplies	Intrinsic Value: \$ 85.89 Current Price: \$ 71.00 Stop Loss: \$60.35 Upside Review: \$98.77	TTM P/E: 20.63 Forward P/E: 15.78 Beta: 1.13	Market Cap: \$32.00B Dividend Yield: 1.28(1.8%) 52 Wk Range: \$ 53.05 - 71.16
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Industry Trends: A diversified industry maintains strong growth. The global medical device market generated \$331 billion in sales in 2012, grow by 3%.The industry will face challenges over the next several years including constrained hospital capital expenditure budgets, the impact of healthcare information technology and increasing regulatory or law for R&D increased cost. Every one put eyes on potential Chinese market and although India and other emerging countries are smaller, the markets are still growing fast.

Investment Thesis: Become the pure-play device firm after they spin-off the pharmaceutical business. Its growth prospects to be among the best in the industry, and with emerging markets also fueling growth, we can expect strong revenue and earnings momentum. Firm has invested significantly in R&D to inject life into its mature device business. These products offer opportunities for better differentiation and make Covidien's competitive position more defensible. Covidien operates businesses with strong competitive advantages in its medical devices segment, where it enjoys brand recognition, technological innovation, and substantial scale.

Business Summary: A large global healthcare products company and a leading manufacturer of medical devices and supplies with 2013 revenue of \$10.2 billion. It has 38,000 employees worldwide in more than 70 countries, with products sold in over 150 countries and 41 manufacturing facilities in 17 countries. The company committed to creating innovative medical solutions for better patient outcomes and delivering value through clinical leadership and excellence. Their business segments include Medical Devices-endomechanical, soft tissue repair, energy, oximetry and monitoring, airway and ventilation, vascular and other products and Medical Supplies-nursing care, medical surgical, SharpSafety and OEM products. They have key brands-Kendall, Nellcor, Puritan Bennett and Valleylab.

Competitive Analysis:

Covidien is a top-five manufacturer of devices by sales; with a salesforce of more than 4,000 reps, the company has a sizable presence in hospitals worldwide, including direct sales presence in more than 50 countries.

Pros:

- ✧ Fiscal first quarter earnings of \$1.00 per share (beating analysts' estimates by \$0.06) on revenue of \$2.64 billion (beating analysts' estimates by \$30 million).
- ✧ Compared to last year total revenue has increased by 3%. Gross profit increased 2% from the prior year. Research and Development expenses increased 13% year over year
- ✧ Covidien is a top-five manufacturer of devices by sales;
- ✧ Cost advantages stem from its massive distribution infrastructure and its sizable database that supports both clinical and economical value of its products.
- ✧ Covidien's latest product launches have the potential to become strong contributors to the top line.(wireless energy device, Sonicision)
- ✧ The Given acquisition brings one of the strongest sales teams in the gastrointestinal market.
- ✧ Robust growth in vascular business.

Risk Factors:

- ✧ Competition from giant JNJ in soft tissue business, From Applied Medical in endomechanical business.
- ✧ The regulatory environment is changing in the U.S., and most device firms are likely to see an increase in R&D costs as a result of more stringent approval requirements.

5 year Stock Performance:



Total Return Estimates:

3 Yr FV Reversion*: 5.39%
5 Yr FV Reversion*: 5.09%
 (* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth: 3%
 WACC: 8.55%
 Expected Inflation: 1.5%
 Terminal Growth Rate: 3%
 10 yr. Risk Free Rate: 2.62%
 Equity Risk Premium: 5.9%
 Tax Rate: 22.49%

Key Financial Data:

Est. 2013 EPS: 4.015
 Est. 2014 EPS: 4.50
 3-5 Yr. Est. EPS Growth: 8.59%
 PEG (TTM): 1.85
 Credit Quality: AA-
 ROE: 15.25
 ROA: 6.7
 Price /Book: 3.40
 Price/Cash Flow: 15.1
 Debt/Equity: 53.45
 Current Ratio: 2.63
 Quick Ratio: 1.58

CSR characteristics

Human Rights: 0/0
 Business Ethics Policy: 1/1
 ESG Disclosure: 19.83/24.35
 Equal Opportunity: 1/1
 Emission Reduction: 1/1
 Environmental Disclosure Score: 6.98/23.10

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	Market Cap	Net Income	P/E	Dividend	5-Yr Rev	Med Ope
	\$Mil	\$Mil		Yield%	CAGR%	Margin%
Covidien PLC	32,002	1,605	21.5	1.6	0.6	20.5
Johnson & Johnson	261,716	12,879	20.7	2.8	1.9	25.1
Baxter International	37,489	2,180	17.5	2.8	4.7	20.8
Cooper Companies	5,979	296	21	0	8.7	17.1
Hologic Inc	5,830	-1,181	-	-	8.3	4.2
Industry Average	2,570	902	35.5	1.2	9.4	-