

Medtronic, Inc. (NYSE: MDT)

Sector: Health Care and Social Assistance (NAICS: 62)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$58.00	\$56.86	\$60.93	\$43.51	1.00	15.19	\$56.76B (Large Cap)	1.97%

Industry Trends

The healthcare sector has seen massive changes since the Affordable Care Act was signed into law in 2010. The effects of the bill on healthcare companies are not completely known, with most significant reform going into place on January 1st of this year. Early indications show that the new system will be a “value-based” healthcare system, rewarding companies for treating patients well, rather than treating patients in bulk.

Investment Thesis

MDT is a large medical device company that is actively adapting to the new healthcare system. The recent acquisition of Cardiocom is the first step for Medtronic to become more of a health care service provider; a move which will add significant value in the long-term based on the recently enacted healthcare laws. Management has a proven record of returning free cash flow to shareholders through their stock buyback and dividend programs. MDT has free cash flow of \$3.5bn, which given its market cap, translates to a free cash flow yield of 6.25%.

Business Summary

MDT operates primarily through their Cardiac & Vascular and Restorative Therapy groups, both of which account for approximately 50% of revenues. MDT has also moved into the diabetes space, which has seen significant growth over the past few years. In addition to these primarily medical device segments, the acquisition of Cardiocom is an indicator that MDT will move towards healthcare consulting in the future to complement their strong device segments. MDT has a strong global reach with ties to more than 140 countries. Management has indicated that over the coming years, MDT will put significant focus on these international markets. Last year more than 9 million people were treated with MDT devices and therapies and that number will continue to grow as they pursue expansion to foreign markets.

MDT 5-year stock performance vs. S&P 500:



(Yahoo Finance)

Corporate Social Responsibility:

ESG Disclosure Rating	35.95 (Ind. Avg.: 34.12)
Environmental Disclosure Score	24.81 (Ind. Avg.: 36.11)
Carbon Disclosure Score	1.00 (Ind. Avg.: 1.00)
Social Disclosure Score	42.11 (Ind. Avg.: 33.71)
Governance Disclosure Score	55.36 (Ind. Avg.: 55.02)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	\$64.40mm
Total Energy Consumption	0.52 (Ind. Avg.: 2.81)

Competition:

- Three of MDT’s major competitors are: Abbott Laboratories (\$60.1bn), Boston Scientific Corp. (\$17.7bn) and St. Jude Medical, Inc. (\$19.2bn).

Pros:

- Management’s commitment to return at least 50% of free cash flow to shareholders through buybacks and dividends
- Currently hold more than 28,000 patents related to medical devices and equipment
- Medtronic has demonstrated the ability to consistently grow revenues year over year
- Growth into healthcare consulting will benefit Medtronic in the newly adopted “value-based” healthcare system

Cons:

- Will have to deal with new healthcare laws related to Affordable Care Act.
- Although rare, Medtronic is susceptible to lawsuits related to faulty medical devices
- Face competition in nearly every segment from major competitors as well as niche companies
- Medical device companies require consistent innovation to grow top and bottom line

Value Estimate:

\$65 - \$75

(2016-2018)

Estimated Real Annual Return:

5%-9%

Overall Rating:

Expected inflation	3%
Current EPS	3.74
Forecasted EPS Growth	8-10%
Credit Quality	AA
ROE	21.2%
ROA	10.9%
Price/Book	3.01
Debt/Equity	0.65
Debt/Capital	0.31
Current Ratio	3.54
Price/Cash Flow	12.14
10 yr. Risk Free Rate	2.8%
WACC	7.6%

Three Stars

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