

Medtronic plc

NYSE: MDT

Analyst: Senan Lonergan

Sector: Healthcare

BUY

Price Target: \$92

Key Statistics as of 11/29/2015

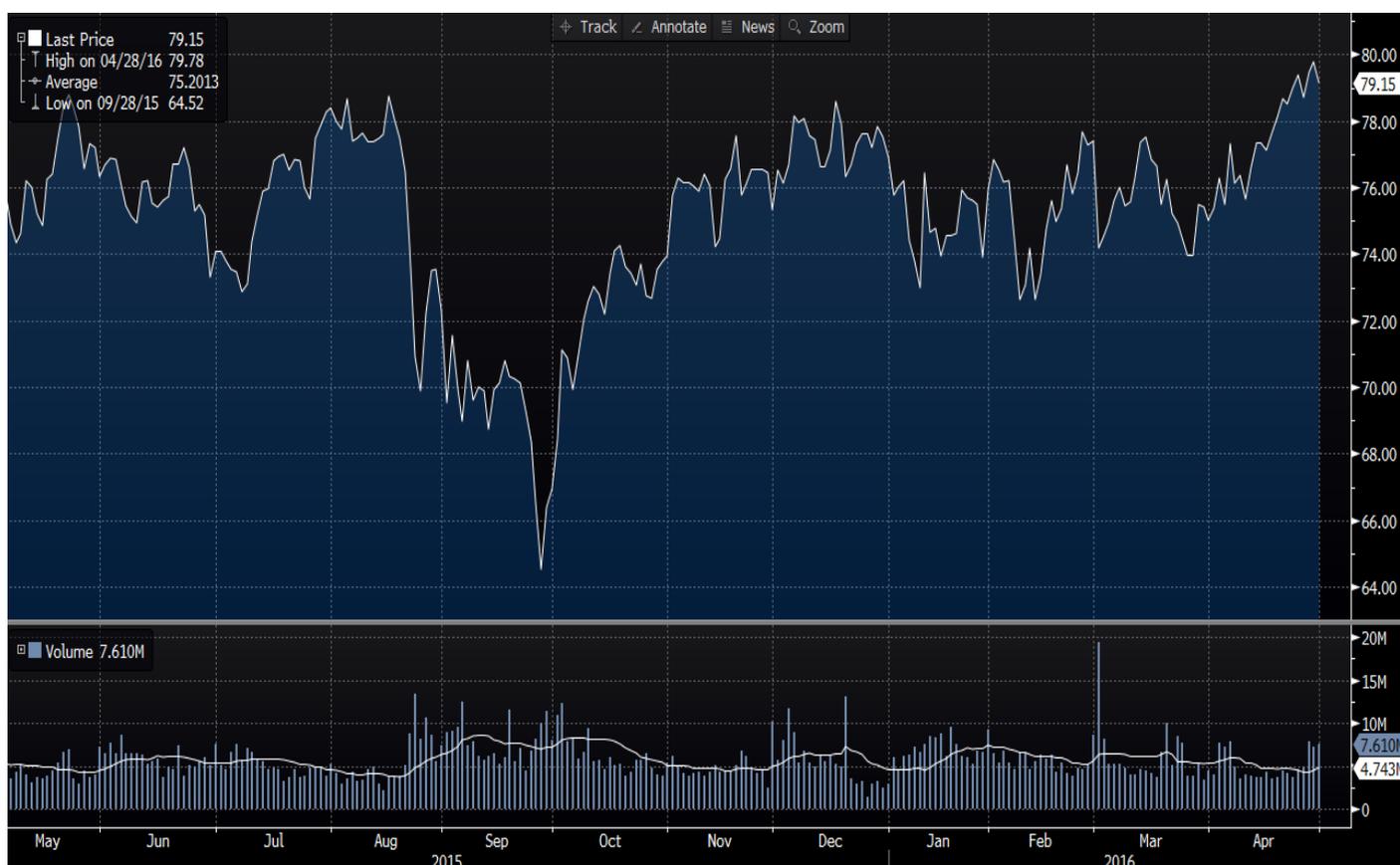
| | |
|----------------|-------------------------------|
| Market Price: | \$79.15 |
| Industry: | Medical Devices and Equipment |
| Market Cap: | \$110.89B |
| 52-Week Range: | \$55.54-80.74 |
| Beta: | 0.80 |

Thesis Points:

- Leading provider of medical devices/equipment
- Diversified business portfolio
- Continued revenue growth with low volatility
- Organic growth coupled with acquisitions

Company Description:

Medtronic, Inc. is the world's leading medical technology company, controlling more than half of the \$8 billion global heart-pacing market, which includes pacemakers and defibrillators. The company's products and services also include implantable neurological pain, tremor, spasticity, and incontinence management systems; heart valves; catheters and stents for angioplasty; implantable drug administration systems; hydrocephalic shunts; autotransfusion equipment; disposable devices for handling and monitoring blood during surgery; and instruments and devices used in surgical procedures of the head and spine and by ear, nose, and throat physicians. Medtronic employs 85,000 individuals and is headquartered in Dublin, Ireland.



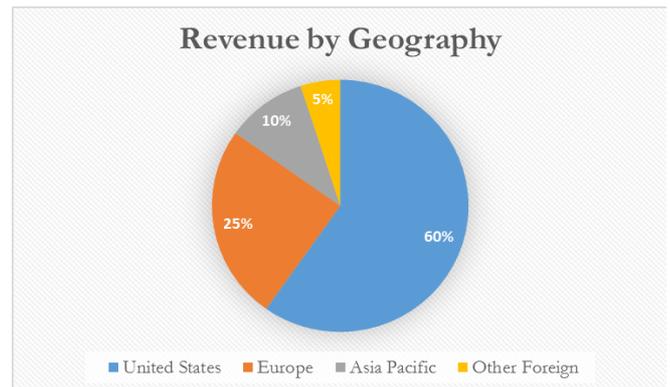
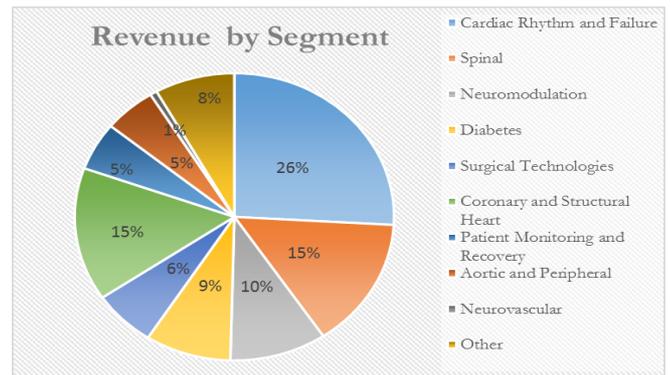
Thesis

Currently priced at \$79.15, MDT has the potential to reach \$92 a share in 2016, providing shareholders a 12-15% return on investment (including the 1.9% annual dividend). Medtronic's diversified business portfolio allows the upside potential of this stock to exceed the downside risk. Not only are they currently holding the largest market share in the medical devices industry, they are continuing to grow revenue through innovation and increased global exposure. The integration of Covidien, acquired in June 2014, is finally complete and the addition to Medtronic has provided considerable synergies and benefits.

Business Diversity

Medtronic operates through a variety of segments that diversifies the company and keeps revenue volatility at a minimum. The largest segment is cardiac rhythm and heart failure products, which accounts for 25.9% of total revenue. Products in this segment include defibrillation systems, pacing systems, and atrial fibrillation. The coronary and structural heart segments takes up 15% of revenue, while the spinal segment accounts for 14.7%. Neuromodulation accounts for 9.8%, and the remaining 34.6% of revenue is a result of various other products. The pie chart further elaborates on the diversity of this company. This cross-market diversity enables the company to withstand demand fluctuations in specific segments. While growth has slowed in several of the company's key markets (i.e. implantable cardioverter defibrillators and spinal procedures), Medtronic remains focused on its fundamental strategy of innovation. As a result of this diverse mix of products, Medtronic is often first to the market with new products. In addition to product diversity, Medtronic's products have reached more than 140 countries. Approximately 60% of sales are in the U.S, 25% are in Europe, 10% Asia, and 5% other. The overall business diversity of MDT allows the stock to be far less cyclical than many of its

competitors. In the event of an economic crisis or bear market, MDT will prove to be a stable stock that is continuing to grow.



Market Share

The medical devices industry will continue to grow at an annualized rate slightly higher than GDP, and the competition is high. IBIS World statistics expect an annualized growth rate of 3.5% over the next five years. The industry is relatively saturated and because the barriers to entry are high, Medtronic's competition is made up of large, well-established corporations. However, Medtronic's revenue accounts for 34.3% of the nearly 45B dollar industry, which makes them the leading provider of medical devices/equipment. The next largest market share holders are General Electric, St. Jude Medical, and Johnson and Johnson, who hold 18.6%, 6.4%

and 5.4% respectively. By expanding its product line with R&D expenditure, and by tapping into emerging markets, Medtronic management expects their market share to increase as they obtain new customers around the world.

Acquisition

While Medtronic does continue to grow organically, the 60% revenue gain in 2015 is largely attributed to the 42.9 billion dollar acquisition of Covidien. This strategic acquisition has added value to the company in several ways which management estimates will total 850M in savings annually. These savings are a result of cost synergies, as well tax aversions. Medtronic is now headquartered in Dublin, Ireland where they pay significantly lower taxes.

Financials: Research and Development

Medtronic has continued to grow revenue on a year over year basis. Revenue has grown each year since 2012, including a 19.1% growth in 2015FY, and a remarkable 63% LTM. Their free cash flow of 4,856M, and an optimal capital structure of 33.9% debt allows Medtronic to invest in innovation. Research and Development is critical for this industry, and Medtronic continues to develop and patten products because of their devotion to this department. Funds allocated to R&D has increased the last three years, and the last 12 months totals 2,177M. The primary driver of this stock is revenue, but because there is always the possibility of a paradigm shift in the industry, the companies that focus on Research and Development are better off. Medtronic is dedicated to attracting the most impressive engineers, and management are comfortable with slightly higher SG&A, and R&D expenses in order to be the most innovative company.

Conclusion

In conclusion, investors in MDT can expect a one year return in the range of 12-15%. Medtronic's diverse portfolio of products, as well as its global reach to over 140 countries has allowed the company to continue growing revenue, while demonstrating little volatility. In the event of a bear market, Medtronic will prove to be a stable stock when compared to its biggest competitors. Furthermore, management acknowledges the possibility of future acquisitions or mergers, which provides investors with more upside potential. Medtronic will continue to be the leader in the medical devices/equipment industry, and management's dedication to R&D insures shareholders that any paradigm shift in the industry will be first recognized by Medtronic engineers.

Medtronic plc (mdt)

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BULLISH

Analysis by Senan Lonergan
5/1/2016

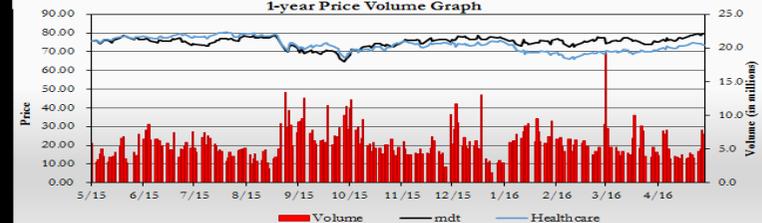
Current Price: **\$79.15**
Divident Yield: **2.0%**

\$79.15
2.0%

Intrinsic Value: **\$90.38**
Target Price: **\$96.40**

\$90.38
\$96.40

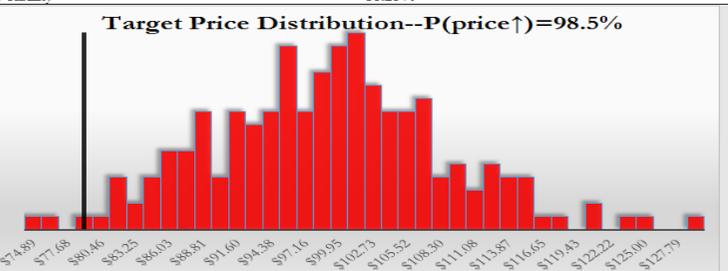
Target 1 year Return: **23.79%**
Probability of Price Increase: **98.5%**



| | | | |
|--|-----------------------------------|---------------------------------------|--------------|
| Description | | Market Data | |
| Medtronic plc manufactures and sells device-based medical therapies worldwide. | | Market Capitalization | \$110,892.57 |
| General Information | | Daily volume (mil) | 7.61 |
| Sector | Healthcare | Shares outstanding (mil) | 1401.04 |
| Industry | Healthcare Equipment and Supplies | Diluted shares outstanding (mil) | 1432.03 |
| Last Guidance | November 3, 2015 | % shares held by institutions | 78% |
| Next earnings date | May 31, 2016 | % shares held by investments Managers | 79% |
| Estimated Country Risk Premium | 2.40% | % shares held by hedge funds | 1% |
| Effective Tax rate | 6% | % shares held by insiders | 0.10% |
| Effective Operating Tax rate | 16% | Short interest | 0.88% |
| | | Days to cover short interest | 2.23 |
| | | 52 week high | \$80.74 |
| | | 52-week low | \$55.54 |
| | | Levered Beta | 1.05 |
| | | Volatility | 18.23% |

| Past Earning Surprises | |
|------------------------|---------|
| Quarter ending | Revenue |
| 1/23/2015 | -36.80% |
| 4/24/2015 | -1.82% |
| 7/31/2015 | 0.25% |
| 10/30/2015 | -0.93% |
| 1/29/2016 | -1.73% |
| Mean | -8.21% |
| Standard error | 7.2% |

| EBITDA | | Peers | |
|----------------|---------|-------------------------------|--------|
| Quarter ending | EBITDA | Company | EBITDA |
| 1/23/2015 | -39.19% | Boston Scientific Corporation | |
| 4/24/2015 | -20.89% | St. Jude Medical Inc. | |
| 7/31/2015 | -20.67% | Edwards Lifesciences Corp. | |
| 10/30/2015 | -22.32% | Abbott Laboratories | |
| 1/29/2016 | -4.62% | CR Bard Inc. | |
| Mean | -21.54% | Stryker Corporation | |
| Standard error | 5.5% | Heartware International Inc. | |
| | | Zimmer Biomet Holdings, Inc. | |

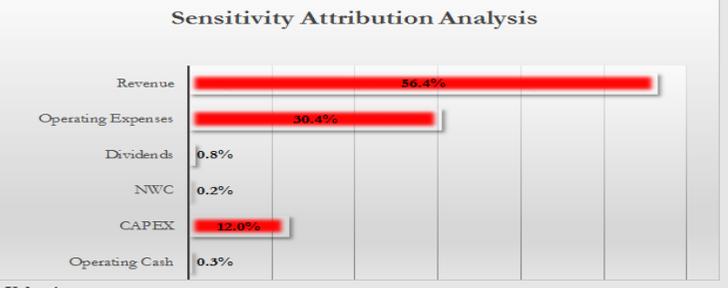


| Management | | Position | |
|----------------|------------------------------|----------|--|
| Ishrak, Omar | Chairman and Chief Executive | | |
| Ellis, Gary | Chief Financial Officer and | | |
| Coyle, Michael | Executive Vice President and | | |
| Hanson, Bryan | Executive Vice President and | | |
| Kuntz, Richard | Chief Scientific, Clinical & | | |
| Warren, Jeff | Vice President of Investor R | | |

| Total compensations growth | | Total return to shareholders | |
|----------------------------|--------------------------|------------------------------|--------------------------|
| Period | Growth | Period | Return |
| 1/23/2015 | 16.39% per annum over 3y | 1/23/2015 | 18.3% per annum over 3y |
| 4/24/2015 | 36.1% per annum over 5y | 4/24/2015 | -0.03% per annum over 5y |
| 7/31/2015 | 40.92% per annum over 4y | 7/31/2015 | 2.31% per annum over 4y |
| 10/30/2015 | 43.53% per annum over 3y | 10/30/2015 | 18.3% per annum over 3y |
| 1/29/2016 | N/M | 1/29/2016 | N/M |
| Mean | N/M | Mean | N/M |
| Standard error | N/M | Standard error | N/M |

| Profitability | | Invested Funds | |
|-----------------------------|-----------|--|-----------|
| Metric | mdt (LTM) | Metric | mdt (LTM) |
| ROIC | 7.9% | Total Cash/Total Capital | 16.6% |
| NOPAT Margin | 24% | Estimated Operating Cash/Total Capital | 2.6% |
| Revenue/Invested Capital | 0.33 | Non-cash working Capital/Total Capital | 4.1% |
| ROE | 7.5% | Invested Capital/Total Capital | 86.8% |
| Adjusted net margin | 20% | | |
| Revenue/Adjusted Book Value | 0.38 | | |

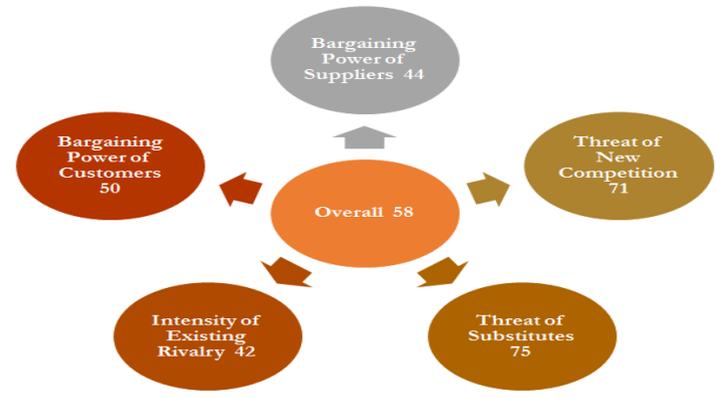
| Industry (LTM) | | Industry (LTM) | |
|-----------------------------|--------|--|-------|
| Metric | Value | Metric | Value |
| ROIC | 33.69% | Total Cash/Total Capital | 22.8% |
| NOPAT Margin | 44.42% | Estimated Operating Cash/Total Capital | 2.7% |
| Revenue/Invested Capital | 0.76 | Non-cash working Capital/Total Capital | 6.4% |
| ROE | 28.37% | Invested Capital/Total Capital | 79.8% |
| Adjusted net margin | 41.94% | | |
| Revenue/Adjusted Book Value | 0.68 | | |



| Capital Structure | | Invested Funds | |
|---------------------------------|-----------|--|----------------------------------|
| Metric | mdt (LTM) | Metric | mdt (5 years historical average) |
| Total Debt/Common Equity (LTM) | 0.35 | Total Cash/Total Capital | 22.8% |
| Cost of Existing Debt | 4.12% | Estimated Operating Cash/Total Capital | 2.7% |
| Estimated Cost of new Borrowing | 4.48% | Non-cash working Capital/Total Capital | 6.4% |
| CGFS Risk Rating | CCC | Invested Capital/Total Capital | 79.8% |
| Unlevered Beta (LTM) | 0.80 | | |
| WACC | 5.96% | | |

| Industry (LTM) | | Industry (LTM) | |
|---------------------------------|-------|--|-------|
| Metric | Value | Metric | Value |
| Total Debt/Common Equity (LTM) | 0.25 | Total Cash/Total Capital | 21% |
| Cost of Existing Debt | 3.80% | Estimated Operating Cash/Total Capital | N/A |
| Estimated Cost of new Borrowing | 3.82% | Non-cash working Capital/Total Capital | 9% |
| CGFS Risk Rating | BB | Invested Capital/Total Capital | 74% |
| Unlevered Beta (LTM) | 0.80 | | |
| WACC | 5.88% | | |

Porter's 5 forces (scores are out of 100)



| Revenue growth | | Valuation | |
|-------------------|----------------|--------------|-------|
| Period | Revenue growth | Metric | Value |
| Base Year | 63.3% | NOPAT margin | 1.32 |
| 1/29/2017 | 10.6% | | 1.85 |
| 1/29/2018 | 3.3% | | 1.62 |
| 1/29/2019 | 5.3% | | 1.75 |
| 1/29/2020 | 3.8% | | 1.79 |
| 1/29/2021 | 3.5% | | 1.70 |
| 1/29/2022 | 3.3% | | 1.63 |
| 1/29/2023 | 3.1% | | 1.56 |
| 1/29/2024 | 2.8% | | 1.48 |
| 1/29/2025 | 2.6% | | 1.41 |
| 1/29/2026 | 2.4% | | 1.33 |
| Continuing Period | 2.1% | | 1.27 |

| ROIC/WACC | | Price per share | |
|-------------------|-----------|-----------------|-----------------|
| Period | ROIC/WACC | Year | Price per share |
| Base Year | 1.32 | 2015 | \$90.49 |
| 1/29/2017 | 1.85 | 2016 | \$97.11 |
| 1/29/2018 | 1.62 | 2017 | \$101.00 |
| 1/29/2019 | 1.75 | 2018 | \$104.66 |
| 1/29/2020 | 1.79 | 2019 | \$109.05 |
| 1/29/2021 | 1.70 | 2020 | \$112.11 |
| 1/29/2022 | 1.63 | 2021 | \$114.90 |
| 1/29/2023 | 1.56 | 2022 | \$117.44 |
| 1/29/2024 | 1.48 | 2023 | \$119.74 |
| 1/29/2025 | 1.41 | 2024 | \$121.82 |
| 1/29/2026 | 1.33 | 2025 | \$123.67 |
| Continuing Period | 1.27 | | |

| Invested Capital | | Net Claims | |
|-------------------|------------------|------------|-------------|
| Period | Invested Capital | Year | Net Claims |
| Base Year | \$20,822.84 | 2015 | \$24,980.02 |
| 1/29/2017 | \$22,426.17 | 2016 | \$27,975.84 |
| 1/29/2018 | \$23,897.58 | 2017 | \$26,018.03 |
| 1/29/2019 | \$26,577.82 | 2018 | \$24,914.01 |
| 1/29/2020 | \$86,677.78 | 2019 | \$20,791.34 |
| 1/29/2021 | \$90,449.85 | 2020 | \$18,492.18 |
| 1/29/2022 | \$103,653.80 | 2021 | \$16,535.39 |
| 1/29/2023 | \$107,306.71 | 2022 | \$14,925.39 |
| 1/29/2024 | \$112,416.21 | 2023 | \$13,693.17 |
| 1/29/2025 | \$116,054.63 | 2024 | \$12,856.90 |
| 1/29/2026 | \$119,260.32 | 2025 | \$12,437.79 |
| Continuing Period | | | |