

Medtronic plc

NYSE: MDT

Analyst: Senan Lonergan

Sector: Healthcare

BUY

Price Target: \$92

Key Statistics as of 11/29/2015

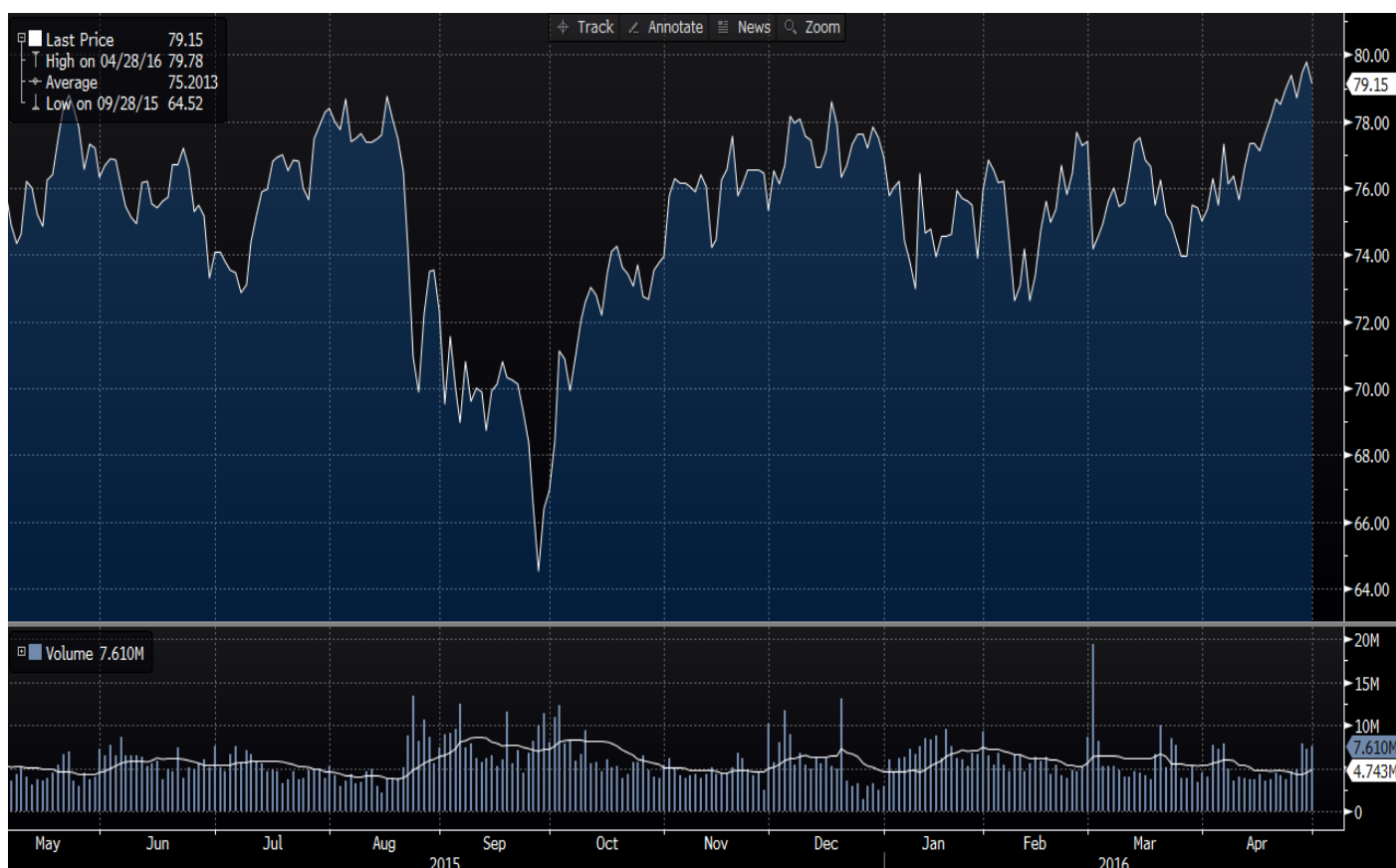
Market Price:	\$79.15
Industry:	Medical Devices and Equipment
Market Cap:	\$110.89B
52-Week Range:	\$55.54-80.74
Beta:	0.80

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.



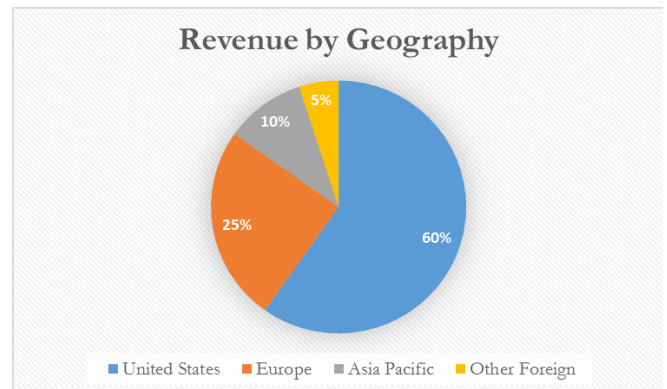
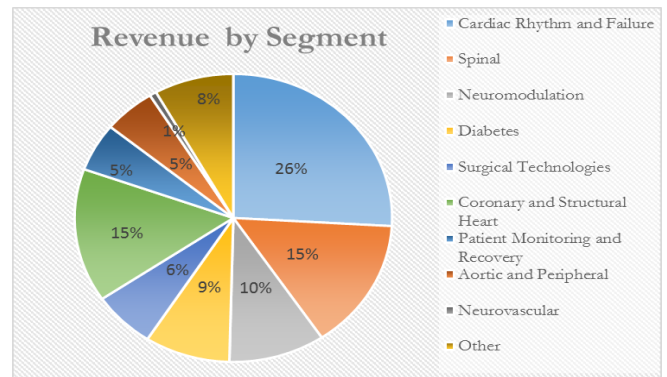
Thesis

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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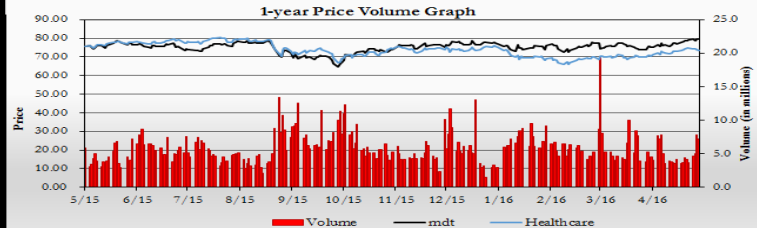
BULLISH

Analysis by Senan Lonergan
5/1/2016

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

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

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

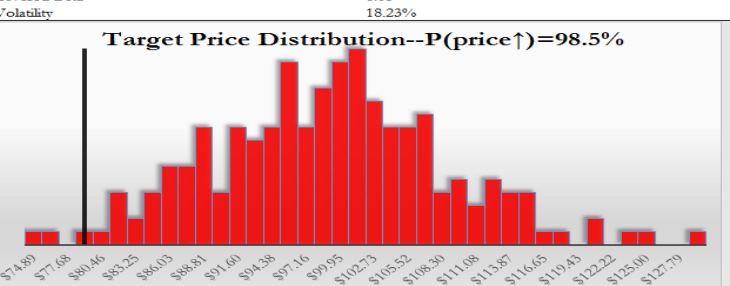


Description	
Medtronic plc manufactures and sells device-based medical therapies worldwide.	
General Information	
Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	May 31, 2016
Estimated Country Risk Premium	2.40%
Effective Tax rate	6%
Effective Operating Tax rate	16%

Market Data	
Market Capitalization	\$110,892.57
Daily volume (mil)	7.61
Shares outstanding (mil)	1401.04
Diluted shares outstanding (mil)	1432.03
% shares held by institutions	78%
% shares held by investments Managers	79%
% shares held by hedge funds	1%
% shares held by insiders	0.10%
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	
1/23/2015	-39.19%
4/24/2015	-20.89%
7/31/2015	-20.67%
10/30/2015	-22.32%
1/29/2016	-4.62%
Mean	-21.54%
Standard error	5.5%

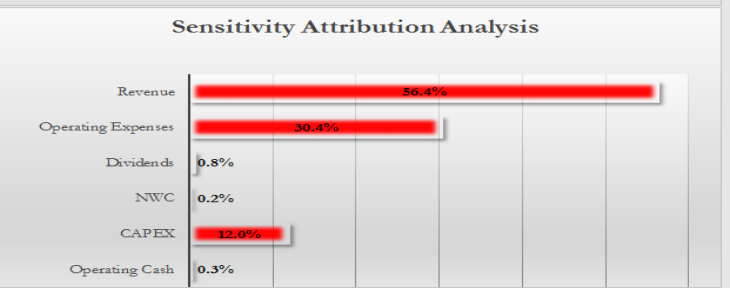


Management	
Ishrak, Omar	Chairman and Chief Executive
Ellis, Gary	Chief Financial Officer and
Coyle, Michael	Executive Vice President and
Hanson, Bryan	Executive Vice President and
Kuntz, Richard	Chief Scientific, Clinical &
Warren, Jeff	Vice President of Investor R

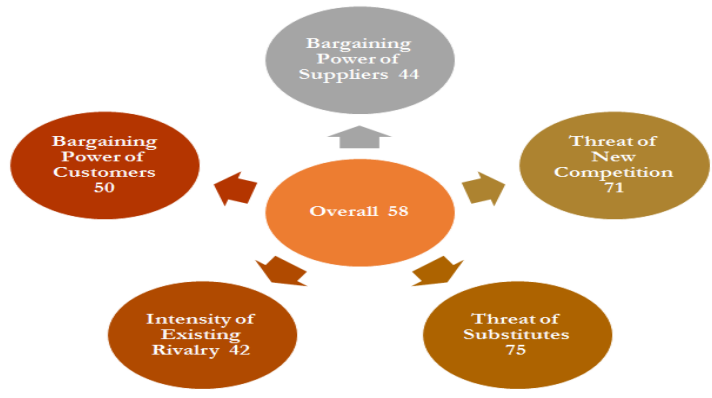
Peers	
Boston Scientific Corporation	
St. Jude Medical Inc.	
Edwards Lifesciences Corp.	
Abbott Laboratories	
CR Bard Inc.	
Stryker Corporation	
Heartware International Inc.	
Zimmer Biomet Holdings, Inc.	

Profitability	
ROIC	7.9%
NOPAT Margin	24%
Revenue/Invested Capital	0.33
ROE	7.5%
Adjusted net margin	20%
Revenue/Adjusted Book Value	0.38
Invested Funds	
Total Cash/Total Capital	16.6%
Estimated Operating Cash/Total Capital	2.6%
Non-cash working Capital/Total Capital	4.1%
Invested Capital/Total Capital	86.8%
Capital Structure	
Total Debt/Common Equity (LTM)	0.35
Cost of Existing Debt	4.12%
Estimated Cost of new Borrowing	4.48%
CGFS Risk Rating	CCC
Unlevered Beta (LTM)	0.80
WACC	5.96%

Total compensations growth	
16.39% per annum over 3y	36.1% per annum over 5y
40.92% per annum over 4y	43.53% per annum over 3y
N/M	N/M
N/M	N/M
Total return to shareholders	
18.3% per annum over 3y	-0.03% per annum over 5y
2.31% per annum over 4y	18.3% per annum over 3y
N/M	N/M
N/M	N/M
Industry (LTM)	
33.69%	12.82%
44.42%	21.6%
0.76	0.59
28.37%	14.79%
41.94%	18.5%
0.68	0.80
Industry (LTM)	
22.8%	21%
2.7%	N/A
6.4%	9%
79.8%	74%
Industry (LTM)	
0.25	0.21
3.80%	3.72%
3.82%	3.72%
BB	B
0.80	0.74
5.88%	5.90%



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



Revenue growth	
Base Year	63.3%
1/29/2017	10.6%
1/29/2018	3.3%
1/29/2019	5.3%
1/29/2020	3.8%
1/29/2021	3.5%
1/29/2022	3.3%
1/29/2023	3.1%
1/29/2024	2.8%
1/29/2025	2.6%
1/29/2026	2.4%
Continuing Period	2.1%
Invested Capital	
Base Year	\$20,822.84
1/29/2017	\$22,426.17
1/29/2018	\$23,897.58
1/29/2019	\$26,577.82
1/29/2020	\$86,677.78
1/29/2021	\$90,449.85
1/29/2022	\$103,653.80
1/29/2023	\$107,306.71
1/29/2024	\$112,416.21
1/29/2025	\$116,054.63
1/29/2026	\$119,260.32
Continuing Period	

Valuation	
NOPAT margin	23.9%
1/29/2017	30.5%
1/29/2018	29.3%
1/29/2019	30.9%
1/29/2020	31.7%
1/29/2021	29.8%
1/29/2022	28.1%
1/29/2023	26.5%
1/29/2024	24.9%
1/29/2025	23.3%
1/29/2026	21.7%
Continuing Period	20.1%
ROIC/WACC	
1.32	1.85
1.62	1.75
1.79	1.70
1.70	1.63
1.56	1.56
1.48	1.48
1.41	1.41
1.33	1.33
1.27	1.27
Net Claims	
\$24,980.02	\$90.49
\$27,975.84	\$97.11
\$26,018.03	\$101.00
\$24,914.01	\$104.66
\$20,791.34	\$109.05
\$18,492.18	\$112.11
\$16,535.39	\$114.90
\$14,925.39	\$117.44
\$13,693.17	\$119.74
\$12,856.90	\$121.82
\$12,437.79	\$123.67
Price per share	