

Medtronic Plc

US Satellite*

Recommended since 13.10.2020

29.10.2024



Country US	Market capitalization (bn) USD 117,0	Perf. since reco. (%)
Sector Health Care	Free float 99,9%	Medtronic Plc -15,3
Factset MDT-US	Closing price USD 90,60	Sector 37,3
ISIN IE00BTN1Y115	ESG Risk score* 22,2 Medium risk	



Profile
 Founded in 1949, Medtronic plc specialises in medical technology for chronic diseases. Its business is divided into four segments: 1/ Cardiovascular (37% of sales), which includes cardiac rhythm management, vascular intervention, valvular diseases ; 2/ Neuroscience (29% of sales), covering spinal disorders, neuromodulation ; 3/ Medical Surgery (26% of sales), which includes surgical equipment, respiratory devices, gastrointestinal disorders, kidney care ; 4/ Diabetes (8% of sales), covering the management of type 1 & 2 diabetes. The head office is located in Dublin (Ireland).

Strengths/opportunities

- ⊕ A leading company in cardiac devices, products for the spine, insulin infusion pumps, pain neurostimulators.
- ⊕ Constant innovation, with a large pipeline of new products.
- ⊕ A diversified portfolio, offering solid growth over time.

Weaknesses/threats

- ⊖ Increased competition in the field of diabetes.
- ⊖ Recall/litigation risks in case of defective products.
- ⊖ Changes in insurance coverage policy; reimbursement would impact the Group's profitability.

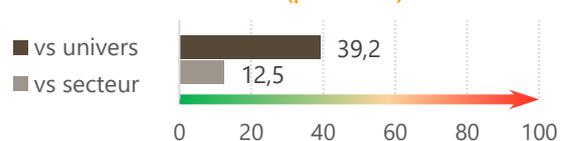
Investment case

- ⊕ As a major player in medical technologies, Medtronic benefits from leading positions in the majority of its products (particularly in the cardiac field) and a diverse portfolio enabling it to generate historically solid growth.
- ⊕ The multiple setbacks encountered in 2022-23 (lower sales for the Hugo surgical assistance robot, production issues in the Diabetes division, slowing hospital capex), which led to pressure on sales and margins, are gradually lifting and should enable better execution in the medium term.
- ⊕ Organic growth is returning to solid levels (+4-5%) and will be underpinned by product launches, notably the new Evolut aortic valve and the Inceptiv spinal cord neuromodulator. The partnership forged with Abbott in August, to develop a CGM (Continuous Glucose Measurement) system operating exclusively with Medtronic insulin pumps, is key for the Diabetes division. It will enable the division to continue its recovery after losing market share in recent years.
- ⊕ We anticipate organic growth of 4-5%/year and EPS of 8%/year by 2028. The 2025 targets are in line with this, with expected sales of \$33.5-33.7 billion (+4.5-5% organic) and EPS of \$5.42-5.50 (+9-11% at constant exchange rates). Although the currency hedging program (implemented over several years) is still penalizing 2025 results (EPS +5% on a reported basis), its impact will lessen by the end of the year.

Valuation

Valuation remains reasonable, with a NTM PE of 16x for EPS growth of 8%/year, i.e. a PEG (2025-28) of 2x.

ESG risk vs. universe & sector (percentile)*



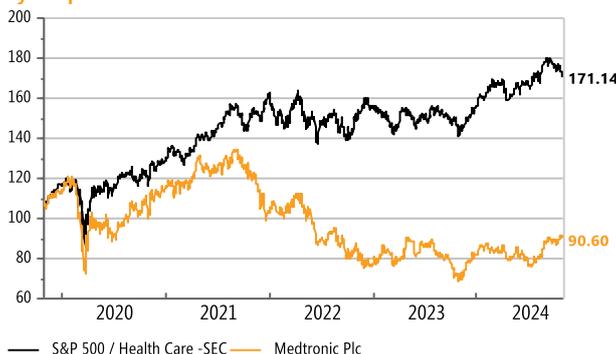
USD	04/2024	04/2025e	04/2026e
Sales revenue (mio)	32 364	33 633	35 245
Sales growth	5,9%	3,9%	4,8%
EBIT adjusted (mio)	8 248	8 669	9 236
% of sales	25,5%	25,8%	26,2%
Net income (mio)	6 918	7 047	7 537
Net income growth	-1,8%	1,9%	7,0%
FCF/Sales	16,1%	17,3%	18,1%
Net debt/Ebitda	2,2x	2,0x	1,6x
Dividend yield	3,1%	3,0%	3,1%
PE	17,4x	16,6x	15,5x
P/BV	2,4x	2,3x	2,3x

Factset estimates

ESG - risks and key points

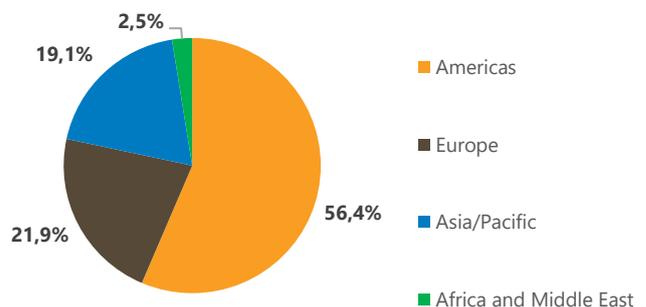
- ⊕ Medtronic's ESG risk level is medium.
- ⊕ Strong performance in corporate governance and management of ESG issues globally.
- ⊕ However, the risks of litigation and recall of defective products are higher than the industry average, due to strong exposure to the US market and the marketing of products (such as defibrillators, neurostimulators, etc.) that are more at risk. The Group has been involved in numerous controversies in the past.

5-year performance vs sector



Source: FactSet

Sales breakdown - 04/2024



*: see overleaf

Source: Factset, Sustainabilitycs

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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