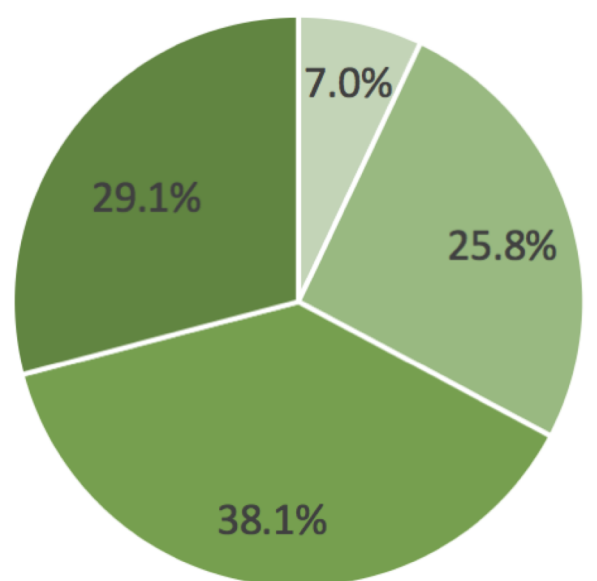


Company Overview

Figure 1. Revenue by Segments



■ Diabetes group ■ RTG ■ CVG ■ MITG

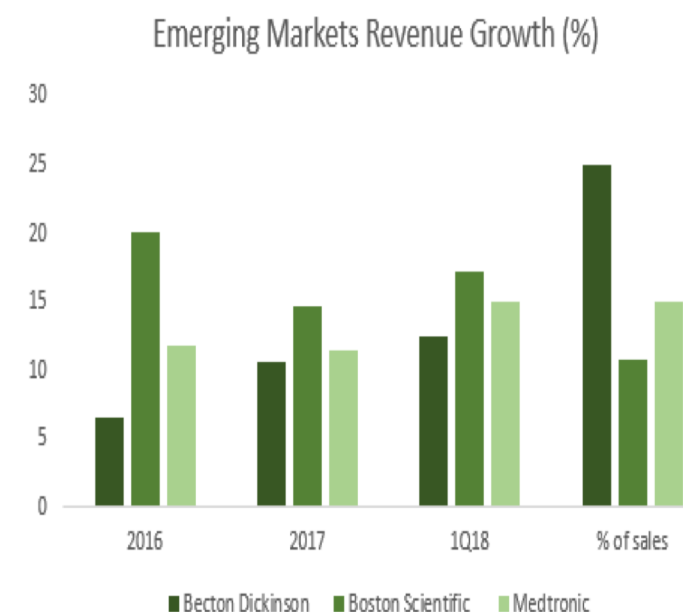
Source: Medtronic PLC annual report

Medtronic PLC is a medical technology company headquartered in Ireland. It has four main operating segments: Cardiac and Vascular Group, Minimally Invasive Therapies Group, Restorative Therapies Group and Diabetes Group. It manufactures and distributes device-based medical therapies and services to healthcare providers in 150 countries. It also invests in R&D to improvise medical devices.

(USD\$ M)	FY17A	FY18A	FY19E	FY20E
Revenue	29,710	29,953	31,750	33,020
Gr Rate (%)	3.04	0.82	6.00	4.00
EBITDA	8,247	9,295	9,525	9,906
Margin (%)	27.76	31.03	30.00	30.00
Net Income	4,028	3,104	4,286	4,458
Margin (%)	13.56	10.36	13.50	13.50
ROA (%)	4.04	3.40	4.00	4.00
ROE (%)	7.88	6.15	8.00	8.00
EV/EBITDA	16.20	13.42	13.10	12.59
P/E Ratio	23.67	22.17	31.29	30.0
D/E Ratio	0.6644	0.5068	0.5068	0.5068

12M Industry Outlook

Figure 2. Revenue Growth of med-tech companies in Emerging Markets



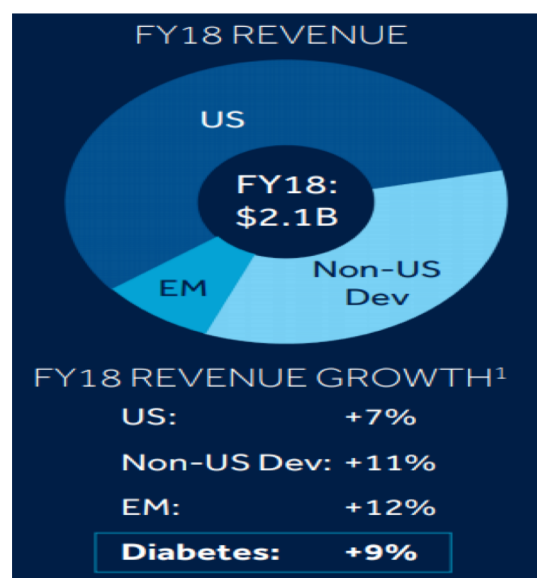
Source: Bloomberg

1. **Emerging Markets a key growth driver;** Healthcare is a continual need and people fall sick regardless of economic conditions. Hence, healthcare demand in emerging markets is expected to grow stronger in the long-term. Large-cap med-tech companies, which assist these markets in developing their healthcare system, will have the first-mover advantage in establishing a regional stronghold. On average, large-cap device makers grew at a pace of 13% in 1Q, according to Bloomberg.

1. **Increasing consolidation of companies in the healthcare industry;** Consolidation and strategic alliances pool R&D resources together and bring forth cutting-edge technologies for patients. However, with greater bargaining power, med-tech companies will face increasing pricing pressure from bulk purchasers. Small-cap med-tech companies with concentrated product streams will face greater headwinds compared to large-cap med-tech companies with a diversified portfolio.

Investment Thesis

Figure 3. Medtronic's Diabetes Group Revenue Growth

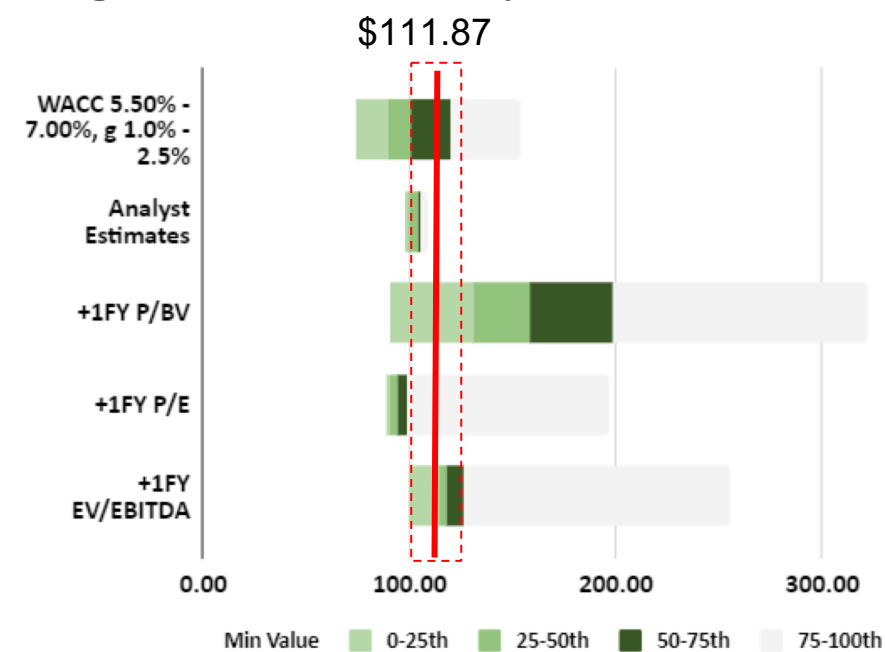


Source: Medtronic Analyst Day Presentation Slides

- Emphasis on increased penetration in emerging markets;** Medtronic has partnered with local government to establish healthcare infrastructure, and also manufactures cost-effective products, specifically for the emerging markets. These strong barriers to entry give Medtronic significant growth potential.
- Product portfolio expansion to drive sales;** With the recent purchase of Mazor, Medtronic acquires the core technology to shift its focus towards state-of-the-art procedures for spinal surgery. Future prudent acquisitions of advanced technologies are expected to boost long-term organic growth potential, as rising demand for off-hand surgery is expected.
- Strong moat in Diabetes Group;** Medtronic's new device, the 670G, is being used by 22% of its customer base. With improved functionality, the 670G is expected to grow pump penetration rapidly. Medtronic also expands its market reach by healthcare contracting, as shown by its recent collaboration with United in bringing 670G to more diabetes patients.

Valuations

Figure 4. Valuation Summary



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Our 12-month target price from the date of coverage is **US\$111.87**, and we assume a **terminal growth rate of 2%** and a **WACC of 6.1%**.

Given Medtronic's untapped growth potential in the emerging markets, the forecasted 2% y-o-y growth is a conservative estimate, giving us a reasonable margin of safety. As well, with Medtronic's strong emphasis on R&D efforts, we expect that Medtronic can stay ahead of their competitors in the long-run. This further shows the conservativeness of our forecasted terminal growth rate, lending support to our target price.

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