

## Medtronic

# FQ3 expected to be 5th straight qtr of mid-single-digit growth

Maintain Rating: BUY | PO: 100.00 USD | Price: 83.59 USD

## MDT's Jan comments suggest fine FQ3

MDT reports its FQ3 next week. MDT's comments in Jan suggest another quarter of mid-single digit rev growth (MDT said 4, soon to be 5, straight qtrs. of MSD growth). The Street is modeling 4.4% organic growth which represents 60bps of comp adj accel (others that have reported have seen +80bps on avg). The Street has FQ3 margins/EPS modeled flat sequentially when MDT usually steps up q/q although some of the upside could be taken away from emerging market FX (just like last year FQ3 margins were flat q/q instead of up due to Fx on inventory valuations & emerging market FX).

## Latest FY25 commentary – puts and takes

Investors will likely be focused on titrating FY25 EPS with any updated commentary. We generally think the Street is roughly in the right place after accounting for some FY24 EPS upside. At this stage we see FY25E EPS in the 3-5% EPS growth range. On the plus side we estimate MDT can get +5% from rev growth and +5% from GM productivity. But we see headwinds of 5-7% (-100-200bps tax, -200-300bps FX, and – 200bps inflation). The patient monitoring divestiture is a separate consideration but there are likely some ways MDT can help offset some of the potential \$0.40 of EPS dilution we estimate.

## MDT catalysts on deck

SMART trial is expected to be [in April at ACC](#) (see report). Affera US pivotal data is expected Spring 2024 (maybe at HRS? It won't be at EHRA). We expect good data given [CE Mark data](#) (see report, 78% efficacy in paroxysmal and persistent). We estimate [Affera approval later this year](#) (see report) but we think eyes will be on MDT's \$800m Cryo business as Farapulse hits the market. We could see RDN reimbursement pick up this year. RDN received FDA approval in Nov 2023 and we'd expect to see some reimbursement updates 6 mo+ post approval. Hugo could potentially get FDA approval in next 12 months as clinical trials have been progressing, but expectations likely stay low given Da Vinci 5. MDT's 780G+Simplera is expected to be submitted to FDA in 1H'CY24. The patient monitoring divestiture is also expected in 1H'FY25. We maintain our Buy rating as MDT's multiple remains attractive for its growth profile given improving execution.

Estimates (Apr) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.61	5.29	5.16	5.41	5.89
GAAP EPS	3.73	2.82	3.11	3.70	4.13
EPS Change (YoY)	26.4%	-5.7%	-2.5%	4.8%	8.9%
Consensus EPS (Bloomberg)			5.16	5.45	5.87
DPS	2.50	2.71	2.84	3.00	3.16
Valuation (Apr)					
P/E	14.9x	15.8x	16.2x	15.5x	14.2x
GAAP P/E	22.4x	29.6x	26.9x	22.6x	20.2x
Dividend Yield	3.0%	3.2%	3.4%	3.6%	3.8%
EV / EBITDA*	11.9x	12.6x	12.7x	12.1x	11.4x
Free Cash Flow Yield*	5.4%	4.1%	4.9%	5.4%	5.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

13 February 2024

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### Stock Data

Price	83.59 USD
Price Objective	100.00 USD
Date Established	22-Nov-2022
Investment Opinion	B-1-7
52-Week Range	68.84 USD - 92.02 USD
Mkt Val (mn) / Shares Out (mn)	111,219 USD / 1,330.5
Free Float	99.9%
Average Daily Value (mn)	495.85 USD
BofA Ticker / Exchange	MDT / NYS
Bloomberg / Reuters	MDT US / MDT.N
ROE (2024E)	13.3%
Net Dbt to Eqty (Apr-2023A)	44.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

MSD = mid-single digit

FX = foreign exchange

ACC = American College of Cardiology

RDN = renal denervation

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Timestamp: 13 February 2024 04:05PM EST

# iQprofile<sup>SM</sup> Medtronic

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.7%	8.2%	8.4%	9.0%	9.3%
Return on Equity	14.6%	13.5%	13.3%	13.7%	14.4%
Operating Margin	28.3%	26.6%	25.7%	26.8%	27.5%
Free Cash Flow	5,978	4,580	5,458	6,001	6,279

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.9x	1.0x	1.1x	1.0x
Asset Replacement Ratio	0.5x	0.5x	0.6x	0.7x	0.7x
Tax Rate	5.2%	19.3%	15.3%	12.0%	10.9%
Net Debt-to-Equity Ratio	38.7%	44.2%	40.8%	35.4%	30.0%
Interest Cover	16.2x	14.2x	11.8x	12.6x	13.5x

## Income Statement Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	31,686	31,227	32,036	32,835	34,299
% Change	5.2%	-1.4%	2.6%	2.5%	4.5%
Gross Profit	21,789	20,758	21,030	21,816	22,961
% Change	9.9%	-4.7%	1.3%	3.7%	5.2%
EBITDA	11,663	10,992	10,931	11,480	12,120
% Change	44.0%	-5.8%	-0.6%	5.0%	5.6%
Net Interest & Other Income	(247)	(100)	(41)	(20)	(100)
<b>Net Income (Adjusted)</b>	<b>7,582</b>	<b>7,046</b>	<b>6,884</b>	<b>7,229</b>	<b>7,878</b>
<b>% Change</b>	<b>26.2%</b>	<b>-7.1%</b>	<b>-2.3%</b>	<b>5.0%</b>	<b>9.0%</b>

## Free Cash Flow Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	8,232	6,591	6,934	7,715	8,308
Depreciation & Amortization	2,707	2,697	2,688	2,688	2,688
Change in Working Capital	(889)	(967)	(140)	(112)	(346)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(2,704)	(2,282)	(2,332)	(2,484)	(2,484)
Capital Expenditure	(1,368)	(1,459)	(1,692)	(1,806)	(1,886)
<b>Free Cash Flow</b>	<b>5,978</b>	<b>4,580</b>	<b>5,458</b>	<b>6,001</b>	<b>6,279</b>
<b>% Change</b>	<b>22.4%</b>	<b>-23.4%</b>	<b>19.2%</b>	<b>9.9%</b>	<b>4.6%</b>
Share / Issue Repurchase	(2,115)	(337)	156	308	308
Cost of Dividends Paid	(3,383)	(3,616)	(3,792)	(4,013)	(4,234)
Change in Debt	(1)	2,284	2,000	2,000	2,000

## Balance Sheet Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,714	1,543	5,133	9,429	13,782
Trade Receivables	5,551	5,998	5,899	6,054	6,324
Other Current Assets	13,794	14,134	14,392	14,306	14,459
Property, Plant & Equipment	5,413	5,569	4,987	4,105	3,304
Other Non-Current Assets	62,509	63,705	63,243	63,243	63,243
<b>Total Assets</b>	<b>90,981</b>	<b>90,949</b>	<b>93,654</b>	<b>97,137</b>	<b>101,112</b>
Short-Term Debt	3,742	20	519	519	519
Other Current Liabilities	8,652	9,032	8,973	8,930	9,007
Long-Term Debt	20,372	24,344	25,963	27,963	29,963
Other Non-Current Liabilities	5,494	5,888	5,901	5,901	5,901
<b>Total Liabilities</b>	<b>38,260</b>	<b>39,284</b>	<b>41,356</b>	<b>43,313</b>	<b>45,390</b>
<b>Total Equity</b>	<b>52,721</b>	<b>51,665</b>	<b>52,298</b>	<b>53,824</b>	<b>55,722</b>
<b>Total Equity &amp; Liabilities</b>	<b>90,981</b>	<b>90,949</b>	<b>93,654</b>	<b>97,137</b>	<b>101,112</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Medical Technology

## Company Description

Medtronic is a medical technology company that develops, manufactures and markets medical devices and technologies to hospitals, physicians, clinicians and patients. The company operates in four business segments: Cardiac & Vascular Group, Medical Surgical, Neuroscience, and Diabetes.

## Investment Rationale

MDT's mid single digit rev growth profile with exposure to several growth markets suggests MDT low valuation multiple could quickly expand if MDT can begin to execute and if MDT can begin to show sustainable EPS growth. FY24 sets up as a low bar given easy comps and risk reward remains favorable at this valuation. MDT's pipeline suggests upside as well.

## Stock Data

Average Daily Volume 5,931,889

## Quarterly Earnings Estimates

	2023	2024
Q1	1.13A	1.20A
Q2	1.30A	1.25A
Q3	1.30A	1.26E
Q4	1.57A	1.45E

# Large cap comp adjusted growth

## Exhibit 1: Large cap comp adjusted growth (green is consensus)

The Street is modeling MDT organic growth of 4.4% which represents 60bps of comp adjusted acceleration vs last qtr. The rest of large cap medtech on average accelerated 80bps this qtr.

WW Device Businesses	Organic Growth				Organic Growth vs 2019				Organic Growth				Consensus Organic Growth				Consensus Organic Growth					
	1Q19A	2Q19A	3Q19A	4Q19A	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	
ABT devices (ex-Diabetes)	3.6%	5.7%	5.6%	6.3%	-1.6%	2.9%	2.9%	1.8%	7.8%	2.7%	3.5%	2.9%	8.5%	10.9%	10.1%	12.7%	9.5%	7.3%	7.4%	6.5%	7.7%	
2 yr avg					1.0%	4.3%	4.2%	4.1%	3.1%	2.8%	3.2%	2.4%	8.2%	6.8%	6.8%	7.8%	9.0%	9.1%	8.8%	9.6%	9.1%	
3 yr avg									3.3%	3.8%	4.0%	3.7%	4.9%	5.5%	5.5%	5.8%	8.6%	7.0%	7.0%	7.4%	7.5%	
MDT (adj for calendar basis)	3.6%	3.5%	4.1%	2.6%	-1.1%	4.5%	0.7%	0.6%	1.4%	-3.6%	2.2%	4.1%	5.6%	6.0%	5.0%	4.4%	4.2%	4.9%	4.7%	4.6%	4.6%	
2 yr avg					1.3%	4.0%	2.4%	1.6%	0.2%	0.4%	1.4%	2.4%	3.5%	1.2%	3.6%	4.2%	4.9%	5.5%	4.8%	4.5%	4.9%	
3 yr avg									1.3%	1.5%	2.3%	2.4%	2.0%	2.3%	2.6%	3.0%	3.7%	2.4%	4.0%	4.3%	3.6%	
BSX	6.3%	6.3%	9.3%	7.3%	3.0%	8.9%	4.1%	6.7%	9.7%	6.6%	11.5%	7.1%	14.0%	11.6%	10.2%	13.6%	8.0%	8.7%	9.2%	9.2%	8.8%	
2 yr avg					4.7%	7.6%	6.7%	7.0%	6.4%	7.8%	7.8%	6.9%	11.9%	9.1%	10.9%	10.4%	11.0%	10.2%	9.7%	11.4%	10.6%	
3 yr avg									6.3%	7.3%	8.3%	7.0%	8.9%	9.0%	8.6%	9.1%	10.6%	9.0%	10.3%	10.0%	9.9%	
EW	9.0%	13.6%	18.9%	19.3%	19.2%	24.5%	18.1%	12.4%	12.7%	4.5%	6.7%	7.3%	12.6%	12.1%	10.9%	13.0%	9.2%	8.9%	10.1%	9.9%	9.5%	
2 yr avg					14.1%	19.1%	18.5%	15.9%	15.9%	14.5%	12.4%	9.9%	12.7%	8.3%	8.8%	10.2%	10.9%	10.5%	10.5%	11.5%	10.8%	
3 yr avg									13.6%	14.2%	14.6%	13.0%	14.8%	13.7%	11.9%	10.9%	11.5%	8.5%	9.2%	10.1%	9.8%	
EW WW TAVR	9.8%	18.2%	26.6%	29.6%	30.4%	30.7%	20.9%	13.4%	13.7%	4.9%	6.1%	4.8%	10.8%	9.8%	9.9%	12.1%	8.6%	8.5%	9.2%	9.5%	8.9%	
2 yr avg					20.1%	24.4%	23.8%	21.5%	22.0%	17.8%	13.5%	9.1%	12.3%	7.4%	8.0%	8.5%	9.7%	9.1%	9.6%	10.8%	9.8%	
3 yr avg									18.0%	17.9%	17.9%	15.9%	18.3%	15.1%	12.3%	10.1%	11.0%	7.7%	8.4%	8.8%	8.9%	
ISRG Procedures	18.2%	17.1%	19.6%	19.1%	27.5%	35.7%	28.8%	27.7%	19.0%	14.0%	20.0%	18.0%	26.0%	22.0%	19.0%	21.0%	13.5%	14.4%	16.0%	16.1%	15.0%	
2 yr avg					22.8%	26.4%	24.2%	23.4%	23.3%	24.9%	24.4%	22.8%	22.5%	18.0%	19.5%	19.5%	19.7%	18.2%	17.5%	18.6%	18.5%	
3 yr avg									21.6%	22.3%	22.8%	21.6%	24.2%	23.9%	22.6%	22.2%	19.5%	16.8%	18.3%	18.4%	18.3%	
JNJ Devices	4.3%	3.4%	5.1%	2.7%	3.0%	7.0%	4.0%	4.5%	8.6%	3.4%	8.1%	3.8%	6.6%	10.0%	6.0%	9.1%	5.6%	5.8%	6.3%	6.4%	6.0%	
2 yr avg					3.7%	5.2%	4.6%	3.6%	5.8%	5.2%	6.1%	4.2%	7.6%	6.7%	7.1%	6.5%	6.1%	7.9%	6.1%	7.7%	7.0%	
3 yr avg									5.3%	4.6%	5.7%	3.7%	6.1%	6.8%	6.0%	5.8%	6.9%	6.4%	6.8%	6.4%	6.6%	
SYK	7.3%	8.5%	7.6%	8.0%	4.7%	9.3%	8.4%	6.2%	9.2%	6.1%	9.9%	13.2%	12.6%	11.9%	10.2%	11.4%	7.6%	8.5%	8.8%	8.9%	8.5%	
2 yr avg					6.0%	8.9%	8.0%	7.1%	7.0%	7.7%	9.2%	9.7%	10.9%	9.0%	10.1%	12.3%	10.1%	10.2%	9.5%	10.1%	10.0%	
3 yr avg									7.1%	8.0%	8.6%	9.1%	8.8%	9.1%	9.5%	10.3%	9.8%	8.8%	9.6%	11.2%	9.9%	
ZBH adj for spin	1.5%	1.9%	2.2%	3.5%	-8.7%	-0.7%	0.6%	-4.6%	5.5%	6.0%	5.0%	10.1%	12.2%	6.4%	6.2%	5.1%	4.8%	4.0%	4.8%	6.0%	4.9%	
2 yr avg					-3.6%	0.6%	1.4%	-0.6%	-1.6%	2.7%	2.8%	2.7%	8.9%	6.2%	5.6%	7.6%	8.5%	5.2%	5.5%	5.6%	6.2%	
3 yr avg									-0.6%	2.4%	2.6%	3.0%	3.0%	3.9%	3.9%	3.5%	7.5%	5.5%	5.3%	7.1%	6.3%	

2 Yr Stacked Sequential Accel/ Decel	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
ABT devices (ex-Diabetes)	3.3%	0.0%	-0.2%	-1.0%	-0.3%	0.4%	-0.9%	5.8%	-1.4%	0.0%	1.0%	1.2%	0.1%	-0.3%	0.8%	1.7%
MDT (adj for calendar basis)	2.7%	-1.6%	-0.8%	-1.4%	0.3%	1.0%	0.9%	1.1%	-2.3%	2.4%	0.6%	0.6%	0.6%	-0.6%	-0.4%	1.8%
BSX	3.0%	-0.9%	0.3%	-0.7%	1.4%	0.1%	-0.9%	5.0%	-2.8%	1.8%	-0.5%	0.6%	-0.8%	-0.5%	1.7%	0.0%
EW	5.0%	-0.5%	-2.6%	0.1%	-1.4%	-2.1%	-2.5%	2.8%	-4.4%	0.5%	1.4%	0.8%	-0.4%	0.0%	1.0%	0.9%
EW WW TAVR	4.3%	-0.7%	-2.3%	0.5%	-4.3%	-4.3%	-4.4%	3.2%	-4.9%	0.6%	0.4%	1.2%	-0.5%	0.4%	1.3%	0.9%
ISRG Procedures	3.6%	-2.2%	-0.8%	-0.1%	1.6%	-0.5%	-1.6%	-0.3%	-4.5%	1.5%	0.0%	0.2%	-1.5%	-0.7%	1.1%	-1.4%
JNJ Devices	1.6%	-0.7%	-1.0%	2.2%	-0.6%	0.8%	-1.9%	3.5%	-0.9%	0.4%	-0.6%	-0.3%	1.8%	-1.8%	1.6%	0.0%
SYK	2.9%	-0.9%	-0.9%	-0.2%	0.7%	1.5%	0.6%	1.2%	-1.9%	1.1%	2.3%	-2.2%	0.1%	-0.7%	0.6%	-0.6%
ZBH adj for spin	4.2%	0.8%	-2.0%	-1.1%	4.3%	0.2%	-0.1%	6.1%	-2.7%	-0.6%	2.0%	0.9%	-3.3%	0.3%	0.1%	-0.9%
<b>Average (excl EW WW TAVR)</b>	<b>3.3%</b>	<b>-0.8%</b>	<b>-1.0%</b>	<b>-0.3%</b>	<b>0.7%</b>	<b>0.2%</b>	<b>-0.8%</b>	<b>3.1%</b>	<b>-2.6%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.2%</b>	<b>-0.4%</b>	<b>-0.5%</b>	<b>0.8%</b>	<b>0.2%</b>

3 Yr Stacked Sequential Accel/ Decel	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
ABT devices (ex-Diabetes)	-	-	-	-	-	-	-	1.2%	0.6%	0.0%	0.3%	2.8%	-1.7%	0.1%	0.4%	2.1%
MDT (adj for calendar basis)	-	-	-	-	-	-	-	-0.5%	0.3%	0.3%	0.4%	0.7%	-1.3%	1.5%	0.4%	1.1%
BSX	-	-	-	-	-	-	-	1.9%	0.1%	-0.4%	0.5%	1.4%	-1.6%	1.3%	-0.3%	1.0%
EW	-	-	-	-	-	-	-	1.8%	-1.1%	-1.8%	-1.0%	0.6%	-3.0%	0.7%	0.8%	-3.0%
EW WW TAVR	-	-	-	-	-	-	-	2.4%	-3.2%	-2.8%	-2.2%	0.9%	-3.3%	0.7%	0.4%	-4.8%
ISRG Procedures	-	-	-	-	-	-	-	2.6%	-0.3%	-1.3%	-0.4%	-2.7%	-2.7%	1.5%	0.0%	-5.0%
JNJ Devices	-	-	-	-	-	-	-	2.4%	0.7%	-0.8%	-0.2%	1.1%	-0.5%	0.4%	-0.4%	0.5%
SYK	-	-	-	-	-	-	-	-0.3%	0.3%	0.4%	0.8%	-0.5%	-0.9%	0.8%	1.5%	0.4%
ZBH adj for spin	-	-	-	-	-	-	-	0.0%	0.9%	0.0%	-0.4%	4.0%	-2.0%	-0.1%	1.7%	2.7%
<b>Average (excl EW WW TAVR)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.1%</b>	<b>0.2%</b>	<b>-0.4%</b>	<b>-0.3%</b>	<b>0.9%</b>	<b>-1.7%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>0.0%</b>

Source: Company financials, Visible Alpha.

## Medtronic catalysts

### Exhibit 2: MDT catalyst summary table

Key upcoming catalysts for MDT include 1-yr results from the SMART trial at ACC in April, data from the Affera US trial in 1H CY24 and potential approval later this year, potential reimbursement for renal denervation this year, potential 780G+Simplera approval later this year, and the patient monitoring / respiratory interventions spin in 1H FY25.

Company	Device/ Catalyst	Timing	End Market
MDT	PulseSelect	CE Mark in Nov 2023 and will be commercially available early in 2024. US approval Dec 2023. Commercialization early 2024	Electrophysiology
MDT	Sphere-9 Mapping and Ablation Catheter (Pulse Field Ablation)	CE Mark in March 2023 and in LMR. US pivotal trial 12-mo follow up to be completed end of '23 and FDA submission will follow. US IDE data results in 1H CY24. Potential US approval in 2024.	Electrophysiology
MDT	Evolut FX	CE Mark in Nov 2023	Structural Heart
MDT	SMART trial	1 yr data at ACC in April (1 yr results for evolut vs sapien head to head in small annuli patients)	Structural Heart
MDT	Aurora EV-ICD	CE Mark in Feb 2023. FDA approval in October 2023 followed by limited launch. Full launch in 2024E	Cardiology
MDT	Micra AV2 and VR2	FDA approval in May 2023. CE Mark Jan 2024	Cardiology
MDT	Micra AR (sinus node dysfunction)	FY2024+	Cardiology
MDT	Symplcity Spyral (Renal Denervation)	FDA approval and immediate commercialization in Nov'23. Reimbursement potentially in 2024 (our estimate).	Cardiology
MDT	Percept PC & RC with adaptive therapy (closed loop)	FY24+ Launch	Neuroscience
MDT	Inceptiv ECAPS	CE Mark approval in FQ1'24 (Aug 2023), with availability in the following months. Submitted for FDA approval	Neuroscience
MDT	SCS Expanded Indication	Upper limb and neck CY2024?	Neuroscience
MDT	Hugo	Activated new sites for Expand URO U.S. pivotal trial, progressing to plan as of Sept 2023. In FQ2 received FDA approval to move forward with an IDE for Hernia indication	General Surgery (Robotics)
MDT	780G	US approval in April 2023, started shipping in June 2023	Diabetes
MDT	Simplera (standalone)	CE Mark approval in Sept 2023, first commercial patients started in October with expanded rollout in FY2H'24	Diabetes
MDT	780G + Simplera	CE Mark approval in Jan 2024; Fully enrolled U.S. pivotal (ages 7-80) with final study completion expected in FY24Q4; followed by 780G+Simplera FDA submission expected in H1 CY24	Diabetes
MDT	InPen + Simplera	As of June 2023 under FDA/CE Mark review	Diabetes
MDT	8-Series Pump ACHL + Next Gen CGM	In development as of June 2023	Diabetes
MDT	Patch Pump + Next Gen CGM	FY2025+	Diabetes
MDT	Extended infusion set	Global rollout of 7-day wear continues as of Sept 2023	Diabetes
MDT	PM/RI Separation	1H FY25	Corporate

Source: Company materials

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## MDT latest commentary

### FY25 puts and takes

"We're a different fiscal cycle than many companies out there. We're not on a calendar year, we're on a fiscal year, our fiscal year ends in April. So we are in the midst of our planning process for next fiscal year. So we're not ready to give formal guidance at this stage. But we're looking ahead with great confidence to '25...**We've got a really strong pipeline that creates that durable mid-single-digit top line. We've already delivered the mid-single-digit top line 4 quarters in a row now. I mentioned soon to be 5.** Our guidance is in the mid-single digit for this coming quarter. And we're really focused on this earnings power down the P&L to deliver that leverage down the P&L and to over time, with our strong and growing dividend, to get back to delivering that double-digit total shareholder return. **We've got headwinds that we're managing. Inflation is moderating a bit. It's still higher than normal, but it's moderating. Currency is fluid and dynamic. And as we look at it today is a**

headwind next year, but we're focused on driving and managing that. We've got strong programs to deliver that COGS cost down that Geoff talked about. And we continue to focus on driving leverage from the P&L by growing the top line and managing within the head count that we've got. And so global tax reform is likely to be a headwind. But as always, when we've got tax going on, we're focused on offsetting it in all ways that we can. And so we're excited about what's to come. And again, we're focused on delivering that durable mid-single-digit top line, and ultimately, that durable really strong leveraged bottom line." – MDT CFO, 1/8/24

## Upcoming catalysts

### SMART trial data

"We also have a near-term catalyst in this business with our SMART trial, which is looking at our valve performance directly mono-to-mono versus Edwards SAPIEN in small annulus patients, which make up about 40% of the market. **We expect the 1-year data will be presented this spring, and super excited about that.**" – MDT CEO, 1/8/24

### Pulse Field Ablation

"We executed against our plan and not only received early approval, but we also made history by being the first company with FDA approval of a PF catheter in the U.S. with our PulseSelect technology. **We're also making progress bringing our Sphere-9 focal ablation catheter market. It's already in limited launch in Europe and we're ramping manufacturing, and we expect US IDE results here in the first half of the calendar year.**" – MDT CEO, 1/8/24

"So we play in about 15% of the total ablation market today, and we have the majority position there with cryo. But now we have a broader footprint. With Affera, we're going to have the point-by-point or individual content, which is 85% of the market with a mapping system. So you can see what you're doing, where you're going, what you've done, really, really important and a favored and broader arrhythmia set that you can treat with that. **And the first PulseSelect approval in the United States is attracting a lot of interest from all ablators, whether they normally do kind of single-shot work or if they do point-by-point in their day job, they all are very, very interested.** And the reason they're interested in it is because pulsed field ablation, I'll speak for ours, is exquisitely safe. You can go in there and do very rapid procedures with some of the lowest complication rates ever seen. That's really important, because if you want to expand the market, this is an underpenetrated \$8 billion market, you have to take away complication rates and make sure patients can get out of the hospital quickly. So things like -- scary things like when you have a fistula that connects the atrium to the esophagus, which is right behind the atrium, right behind where you're doing the ablation work, that can be fatal about 65% of the time. It's a rare complication, but it's one that everybody worries about because it's late presenting. We haven't seen that yet, and we don't see any preclinical work. So it's safer, it's faster. **And for us, it's also an opportunity to price to value so you can get more value out of that. So look, I think the worry about cannulization is misplaced. We have a lot of greenfield to go after, and we have a complete set of tools to do it with, with a great team worldwide to make it happen. So I'm very bullish about our pulsed field ablation and our entire EP portfolio.**" – VP & President of Cardiovascular, 1/8/24

### Diabetes

"And we're pleased to announce that today, we received CE mark for our 780G system to be used with our new Simplera Sync CGM. Now Simplera Sync is half the size of our previous sensor. It's disposable and a whole lot easier to apply. **We've also completed enrollment for this system in the U.S. and expect to submit here in the first half of the calendar year.**" – MDT CEO, 1/8/24



## Renal Denervation

**"I feel very confident in our ability to get reimbursement for renal denervation to the label that we have approved.** And to remind you, that's for patients with uncontrolled hypertension, who aren't able to use lifestyle or drugs alone to get to their goal. So it's a pretty broad set of patients. **This device has proven breakthrough designation. And what that means is it allows you to have certain transitional pathways both in the inpatient setting as well as the outpatient setting, and it would qualify you for other kind of coverage with evidence development. So typically, something like a new technology add-on payment takes about a year. So you file that October, that's the fiscal year for the government, so the next October.** So that would be one way of covering things with prior authorization, which is a bit of a pain for the hospitals. They have to call up, kind of get piece by piece those approvals. **But I'll just remind you that we've created numerous markets in our history. This is in our wheelhouse. We know how to do this. We've got the evidence, we've got the experience, we've got the knowledge. So we're very confident in driving reimbursement for this to the labeled indication."** – VP & President of Cardiovascular, 1/8/24

## PM/RI spin

"And we've said all along that the spin sets a high bar and that remains a likely way that we'll separate. **We're expecting to close it first half of next fiscal year,** if not sooner. In terms of Form 10, you'll see it when you see it. And in terms of the margins of the business, yes, they are good margins and slightly higher than the company." – MDT CFO, 8/22/23

## Sum of the parts model

### Exhibit 3: MDT SOTP for Patient Monitoring (PM) and Respiratory Interventions (RI)

In FY25 we model \$5,.01 for core MDT and \$0.34 for PM and RI (including stand up costs of \$86m)

	FY 2023A			FY 2024E			FY 2025E		
	Medtronic (RemainCo)	PM and RI	Total	Medtronic (RemainCo)	PM and RI	Total	Medtronic (RemainCo)	PM and RI	Total
<b>Revenue</b>	<b>29,194</b>	<b>2,033</b>	<b>31,227</b>	<b>30,044</b>	<b>2,084</b>	<b>32,127</b>	<b>31,396</b>	<b>2,152</b>	<b>33,547</b>
Operating Income	7,680	615	8,295	7,547	636	8,183	7,974	662	8,636
Stand up costs	0	0	0	0	0	0	0	(86)	(86)
Operating Income (incl stand up costs)	7,680	615	8,295	7,547	636	8,183	7,974	576	8,550
<b>EBITDA</b>	<b>10,214</b>	<b>778</b>	<b>10,992</b>	<b>10,129</b>	<b>802</b>	<b>10,931</b>	<b>10,732</b>	<b>748</b>	<b>11,480</b>
Interest Expense/ Other	(100)	0	(100)	(41)	0	(41)	(57)	(40)	(97)
<b>Pretax Income</b>	<b>7,580</b>	<b>615</b>	<b>8,195</b>	<b>7,506</b>	<b>636</b>	<b>8,142</b>	<b>7,917</b>	<b>536</b>	<b>8,453</b>
Tax Expense	(1,040)	(84)	(1,124)	(1,141)	(95)	(1,236)	(1,227)	(80)	(1,308)
Non Controlling Interests	(25)	0	(25)	(12)	0	(12)	(2)	0	(2)
<b>Net Income</b>	<b>6,515</b>	<b>531</b>	<b>7,046</b>	<b>6,353</b>	<b>540</b>	<b>6,893</b>	<b>6,688</b>	<b>455</b>	<b>7,143</b>
<b>Diluted EPS</b>	<b>\$4.89</b>	<b>\$0.40</b>	<b>\$5.29</b>	<b>\$4.77</b>	<b>\$0.41</b>	<b>\$5.17</b>	<b>\$5.01</b>	<b>\$0.34</b>	<b>\$5.35</b>
Shares	1,332.8	1,332.8	1,332.8	1,333.1	1,333.1	1,333.1	1,335.5	1,335.5	1,335.5
Margin Assumptions									
Rev growth	-0.8%	-9.5%	-1.4%	2.9%	2.5%	2.9%	4.5%	3.3%	4.4%
Op margin	26.3%	30.3%	26.6%	25.1%	30.5%	25.5%	25.4%	30.8%	25.7%
Op margin (incl stand up costs)	26.3%	30.3%	26.6%	25.1%	30.5%	25.5%	25.4%	26.8%	25.5%
EBITDA margin	35.0%	38.3%	35.2%	33.7%	38.5%	34.0%	34.2%	34.8%	34.2%
Effective Tax Rate	13.7%	13.7%	13.7%	15.2%	15.0%	15.2%	15.5%	15.0%	15.5%
EPS Growth	-5.5%	-8.6%	-5.8%	-2.5%	1.8%	-2.2%	5.1%	-15.9%	3.4%
Stand-up costs % of revenue	-	-	-	-	-	-		4.0%	
Stand-up costs % of opex	-	-	-	-	-	-		10.9%	

**Exhibit 3: MDT SOTP for Patient Monitoring (PM) and Respiratory Interventions (RI)**  
In FY25 we model \$5.01 for core MDT and \$0.34 for PM and RI (including stand up costs of \$86m)

	FY 2023A			FY 2024E			FY 2025E		
Total Cash	1,543	0	1,543	5,133	0	5,133	8,679	750	9,429
Total Debt	24,364	0	24,364	26,482	0	26,482	26,482	2,000	28,482

Source: Company filings, BofA Global Research estimates.

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## Price objective basis & risk

### Medtronic (MDT)

Our \$100 price objective for MDT is based on 18.5x our calendar 2024E EPS. This multiple is in line with the average medtech multiple 2023 EPS and is warranted for a company with a mid single digit (MSD) growth profile that competes in MDT's markets.

Downside risks to our price objective are 1) RDN data disappoints, 2) slower-than-expected revenue growth from new products, 3) other pipeline setbacks, 4) increased competition or share losses, and 5) China VBP.

## Analyst Certification

I, Travis Steed, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Medical Technology & Devices Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Abbott Laboratories	ABT	ABT US	Travis Steed
	Axonics	AXNX	AXNX US	Travis Steed
	Bausch & Lomb	BLCO	BLCO US	Craig Bijou
	Becton Dickinson	BDX	BDX US	Travis Steed
	Boston Scientific	BSX	BSX US	Travis Steed
	Dexcom	DXCM	DXCM US	Travis Steed
	Inari Medical	NARI	NARI US	Travis Steed
	Inspire Medical	INSP	INSP US	Travis Steed
	Insulet	PODD	PODD US	Travis Steed
	Intuitive Surgical	ISRG	ISRG US	Travis Steed
	Medtronic	MDT	MDT US	Travis Steed
	Paragon 28	FNA	FNA US	Craig Bijou
	Procept BioRobotics Corporation	PRCT	PRCT US	Craig Bijou
	RxSight	RXST	RXST US	Craig Bijou
	Shockwave Medical	SWAV	SWAV US	Travis Steed
	Si-Bone	SIBN	SIBN US	Craig Bijou
	Stryker	SYK	SYK US	Travis Steed
	The Cooper Companies	COO	COO US	Craig Bijou
<b>NEUTRAL</b>				
	Baxter International Inc	BAX	BAX US	Travis Steed
	Conmed	CNMD	CNMD US	Travis Steed
	Edwards Lifesciences	EW	EW US	Travis Steed
	GE HealthCare	GEHC	GEHC US	Craig Bijou
	Integer Holdings Corporation	ITGR	ITGR US	Craig Bijou
	Merit Medical	MMSI	MMSI US	Craig Bijou
	Teleflex Incorporated	TFX	TFX US	Craig Bijou
	Zimmer Biomet	ZBH	ZBH US	Travis Steed
<b>UNDERPERFORM</b>				
	Embecta	EMBC	EMBC US	Travis Steed
	Globus Medical	GMED	GMED US	Craig Bijou
	Integra Lifesciences	IART	IART US	Craig Bijou
	Nevro	NVRO	NVRO US	Travis Steed
	Outset Medical	OM	OM US	Travis Steed
	Silk Road Medical	SILK	SILK US	Travis Steed
	Tandem Diabetes Care	TNDM	TNDM US	Travis Steed



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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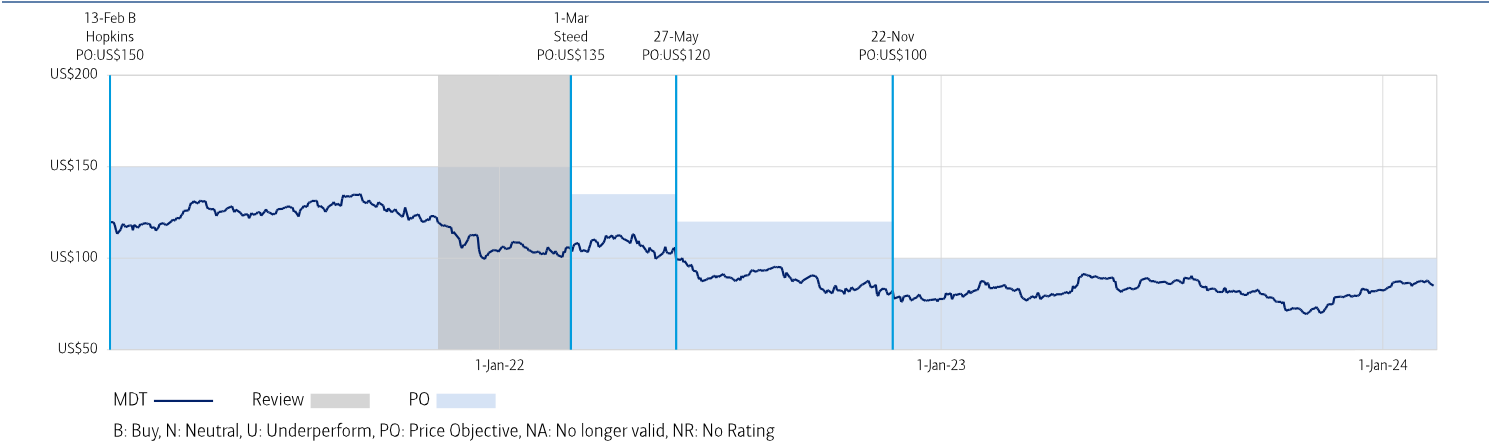
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## Important Disclosures

### Medtronic (MDT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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