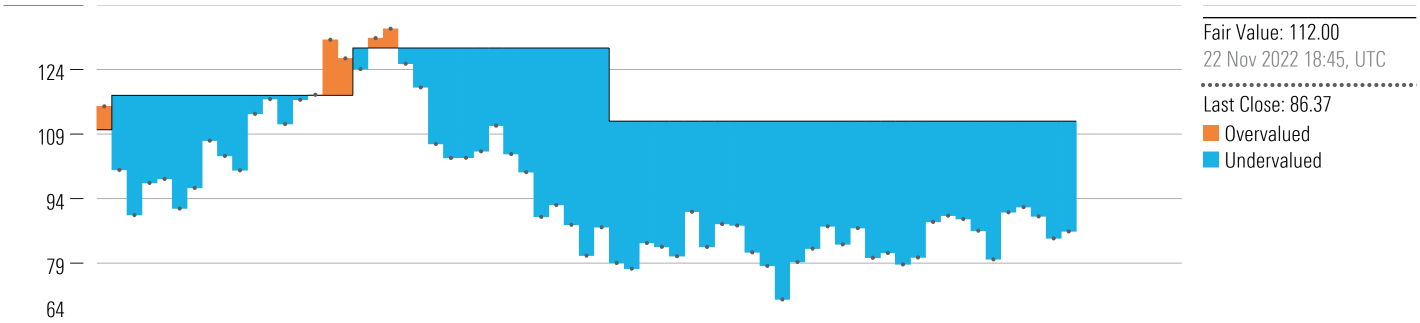
Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

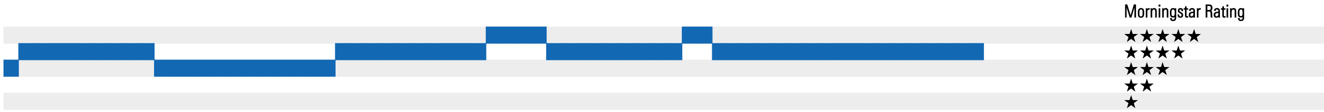
| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 86.37 USD<br>20 May 2025 | 112.00 USD<br>22 Nov 2022 18:45, UTC | 0.77 | 108.26 USD Bil<br>21 May 2025 | Narrow | Large Value | Medium | Standard | 7 May 2025 05:00, UTC |

## Price vs. Fair Value




| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD | |
|---|---|---|---|---|---|---|---|
| | 0.99 | 0.80 | 0.69 | 0.74 | 0.71 | 0.77 | Price/Fair Value |
| | 5.26 | -9.58 | -22.29 | 9.53 | 0.35 | 9.00 | Total Return % |

Morningstar Rating




Total Return % as of 20 May 2025. Last Close as of 20 May 2025. Fair Value as of 22 Nov 2022 18:45, UTC.

**Contents**





[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

# Medtronic Earnings: New Spinoff of Diabetes Business to Aid in Raising Profitability

**Analyst Note** Debbie S. Wang, Senior Equity Analyst, 21 May 2025

Medtronic delivered another quarter of solid, consistent results with revenue and adjusted EPS up 5% and 11%, respectively. It also announced plans to spin off its diabetes business within 18 months.

**Why it matters:** Over the last few years, Medtronic has demonstrated that it can maintain market-level growth. However, questions surround how to translate that top-line growth into stronger earnings growth.

- We were pleased to see key products contribute to growth this quarter, including neuromodulation (up 10% in constant currency), diabetes (up 12%), and cardiac rhythm and heart failure (up 10%, driven by strong double-digit growth in cardiac ablation solutions).
- For the full year, Medtronic's operating margin increased to 18%, up 200 basis points year over year, with further improvement expected with the diabetes spinoff.

**The bottom line:** Our fair value estimate of $112 is intact for now, but we will adjust it as more details of the diabetes spinoff are shared.

- We anticipate the absence of diabetes revenue will be partially offset by slight improvement to consolidated gross margin.
- We see little in this spinoff news to change our view of Medtronic's narrow moat, which stems from substantial intangible assets and switching costs across many product categories.

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| Sector | Industry |
|---|---|
| Healthcare | Medical Devices |

**Business Description**

One of the largest medical-device companies, Medtronic develops and manufactures therapeutic medical devices for chronic diseases. Its portfolio includes pacemakers, defibrillators, transcatheter heart valves, stents, insulin pumps, spinal fixation devices, neurovascular products, advanced energy, and surgical tools. The company primarily markets its products to healthcare institutions and physicians in the United States, Western Europe, and Japan. Foreign sales account for roughly 50% of the company's total sales.

**Big picture:** We believe this is a good time for Medtronic to separate its diabetes business, which has been growing robustly thanks to its 780g pump and improvements to its sensors. We think it's been difficult for the diabetes unit to get credit for the progress it has made.

- On one hand, the diabetes device market has been a hotbed of innovation, and Medtronic has been able to remain competitive, especially on the strength of its proprietary data and algorithms.
- On the other, we suspect it has been challenging for this unit to compete against other investment opportunities within Medtronic, including renal denervation and TAVR, to secure the resources needed to push forward on the innovation front.

**Business Strategy & Outlook** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

Medtronic's standing as the largest pure-play medical-device maker remains a force to be reckoned with in the med-tech landscape. Medtronic's diversified product portfolio aimed at a wide range of chronic diseases spans therapeutic areas including cardiac, diabetes, chronic pain, as well as various products for acute care. This has put Medtronic in a strong position as a major vendor to hospital customers.

All along, the firm has largely remained true to its fundamental strategy of innovation, which has often resulted in differentiated technology. It is often first to market with new products and has invested heavily in internal research and development efforts as well as acquiring emerging technologies. However, in the postreform healthcare world where there are higher hurdles for securing reimbursement for next-generation technology, Medtronic has had to move in the direction of introducing meaningful innovation that can demonstrate measurable safety or efficacy improvements. The firm has also begun to partner more closely with its hospital clients by offering greater breadth of products and services to help hospitals operate more efficiently.

While some technology platforms, such as cardiac rhythm management, have reached maturity, Medtronic has established a significant footprint in new therapies, including transcatheter aortic valves and stent retrievers for ischemic stroke. The firm is also early out of the gate for emerging technologies like renal denervation for uncontrolled hypertension and pulsed field ablation for atrial fibrillation.

As with many devicemakers, Medtronic has augmented its internal innovation with acquisitions of technology platforms, running the risk of overpaying. The large acquisition of Covidien depressed returns for far longer than typically seen among devicemakers when engaging in mergers and acquisitions. We remain wary that Medtronic, by virtue of its size and cash flows, remains one of the few medical device competitors that could entertain another truly large acquisition.

**Bulls Say** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

- Medtronic has historically held roughly 50% share in its core heart devices. It's also the market leader in spinal products, insulin pumps, and neuromodulators for chronic pain.

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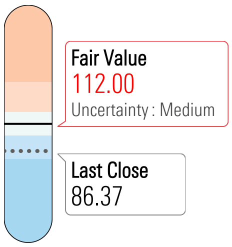
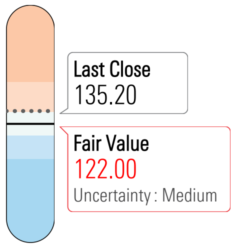
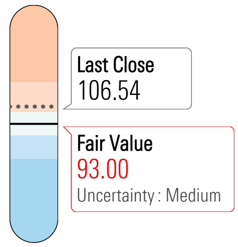
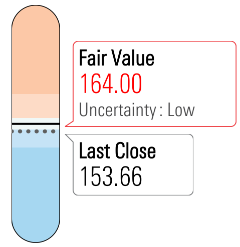
## Competitors

| | Medtronic PLC MDT | Abbott Laboratories ABT | Boston Scientific Corp BSX | Johnson & Johnson JNJ |
|---|---|---|---|---|
| |  |  |  |  |
| Economic Moat | Narrow | Narrow | Narrow | Wide |
| Currency | USD | USD | USD | USD |
| Fair Value | 112.00 22 Nov 2022 18:45, UTC | 122.00 17 Mar 2025 21:58, UTC | 93.00 23 Apr 2025 15:16, UTC | 164.00 19 Sep 2022 11:58, UTC |
| 1-Star Price | 151.20 | 164.70 | 125.55 | 205.00 |
| 5-Star Price | 78.40 | 85.40 | 65.10 | 131.20 |
| Assessment | Undervalued 21 May 2025 | Fairly Valued 21 May 2025 | Overvalued 21 May 2025 | Undervalued 21 May 2025 |
| Morningstar Rating | ★★★★20 May 2025 21:29, UTC | ★★★20 May 2025 21:28, UTC | ★★20 May 2025 21:29, UTC | ★★★★20 May 2025 21:27, UTC |
| Analyst | Debbie S. Wang, Senior Equity Analyst | Debbie S. Wang, Senior Equity Analyst | Debbie S. Wang, Senior Equity Analyst | Karen Andersen, Director |
| Capital Allocation | Standard | Standard | Standard | Standard |
| Price/Fair Value | 0.77 | 1.11 | 1.15 | 0.94 |
| Price/Sales | 3.38 | 5.58 | 9.04 | 4.18 |
| Price/Book | 2.24 | 4.82 | 7.09 | 4.73 |
| Price/Earning | 16.20 | 17.59 | 39.46 | 19.02 |
| Dividend Yield | 3.24% | 1.69% | 0.00% | 3.23% |
| Market Cap | 108.26 Bil | 231.49 Bil | 154.81 Bil | 368.56 Bil |
| 52-Week Range | 75.96—96.25 | 99.71—141.23 | 71.88—107.17 | 140.68—169.99 |
| Investment Style | Large Value | Large Blend | Large Growth | Large Value |

- Medtronic is just beginning to commercialize new treatments for hypertension and atrial fibrillation. If these new therapies prove effective, Medtronic could dominate several more potentially large markets.
- Medtronic often finds novel ways to apply familiar technologies, like using the implantable electronic stimulation in pacemakers to address fecal incontinence and chronic pain.

**Bears Say** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

- As smaller firms introduce new insulin pump technology, Medtronic may face a stiffer fight to maintain its leadership in this arena.
- Medtronic's devices are indirectly subject to Medicare reimbursement rates; increasing pressure on payments could hurt profitability.
- Over the years, Medtronic has issued a number of voluntary recalls of some of its products. Although the fatalities associated with these problems have been few, recalls generally require time and effort, and potentially, legal settlements.

**Economic Moat** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

We leaving Medtronic's narrow moat unchanged. Though we think the firm's underlying business is highly attractive and could support a wide moat based on intangible assets and switching costs, we remain wary of potential value destruction through M&A. Similar to most other medical devicemakers, Medtronic engages in M&A to augment internally developed innovation. The smaller, tuck-in acquisitions have generally not destroyed shareholder value. However, unlike most rivals, Medtronic's purchase of Covidien depressed ROIC for a prolonged period of time. While most substantial targets have been snapped up as the industry has consolidated, Medtronic remains one of the few firms large enough to potentially acquire some of the remaining sizable targets. These two factors, on balance, leave us mindful of this risk of material value destruction, which is another factor we consider when assessing a company's moat.

Medtronic's underlying business in highly engineered medical devices to treat chronic diseases, including those beyond its historical stronghold in heart disease, exhibits wide-moat characteristics. Medtronic's strongest moat source is intangible assets and, secondarily, switching costs that are associated with specific products.

There are several aspects to Medtronic's intangible assets. First, the firm relies on intellectual property to protect its technology. Competitors in this industry have demonstrated that they're willing to aggressively defend their intellectual property, especially foundational patents that protect meaningful innovation with implications for subsequent generations on that platform. We expect Medtronic to continue its record of innovation, based on its extensive patent portfolio. According to independent intellectual property evaluation publications Device Link and The Patent Board, Medtronic holds the strongest intellectual property position based on number and technological strength of its patents.

However, we recognize that the utility patents that typically cover medical devices leave open the possibility for rivals to engineer around them and develop non-infringing, competitive products that generally achieve the same ends. Further, device product cycles are relatively quick, and typically, next-gen products are commercialized before the patents on existing products expire. This underscores the importance of the firm's ability to consistently churn out innovation that differentiates its devices.

Second, outside of intellectual property, we acknowledge that highly engineered medical devices are typically differentiated and physicians often develop preferences for certain vendors and/or individual devices based on user experience. How easily and reliably a guidewire works compared with others, or how quick the procedure is with one device compared with another can lead to strong practitioner preference.

Product differentiation (often in combination with practitioner skill) can also lead to differences in patient safety and clinical outcomes. Clinical studies that capture this data can also amount to another intangible asset. Peer-reviewed clinical data that demonstrates safety or efficacy can be influential with physicians. Those firms with expertise in designing and conducting large clinical trials tend to have an edge here.

Third, Medtronic benefits from strong relationships between its sales reps and the practitioners who make the brand choice. Doctors often rely on medical-device sales reps for their deep device knowledge as well as their experience with device usage in a wide range of patients. As a result, Medtronic's reps play the role of highly specialized experts who create sticky relationships with medical practitioners We have consistently heard from physicians that Medtronic reps are viewed as well-trained and offer high-touch service. This dynamic can help reinforce physician preferences for Medtronic devices.

Additionally, we think Medtronic has made significant progress in building relationships with hospitals at the institutional level, which has grown in importance thanks to health care reform. This offers the firm opportunities to collaborate with clients on long-standing operational, patient safety, patent access issues. In particular, Medtronic has contracted with hospitals to manage some hospital facilities, such as the cath lab and operating rooms—areas where many Medtronic products are used. We think this suggests the firm’s products are virtually certain to be plentiful and fully stocked in these areas of the hospital.

We also think some of Medtronic’s products benefit from switching costs, including cardiac rhythm management devices, spinal cord stimulators, transcatheter aortic valve replacements, implantable stimulators for incontinence, deep brain stimulation for epilepsy and Parkinson’s, and spinal implants.

Medtronic enjoys two types of switching costs. On one hand, many of the electronic devices are designed to work as systems of wires and generators. Once the wires are implanted, native tissue grows around them and over time it can be risky to explant them. When the battery needs to be replaced, practitioners choose another generator of the same brand to avoid compromising the intended operation of the system.

On the other hand, some of Medtronic's devices also leverage by high switching costs for practitioners. We think spinal implants and transcatheter heart valves fall into this category. For both, there is a longer learning curve specific to the product that can influence patient outcomes. This dynamic tends to keep physicians using these products, as long as the company does not fall too far behind its competitors when it comes to introducing new technology.

In terms of environmental, social, and governance issues, Sustainalytics rates Medtronic's ESG risk at medium, and we concur. The risk profile is driven primarily by exposure to potential defects in life-sustaining and life-saving products, such as cardiac rhythm management devices, insulin pumps, and heart valves. Some of this risk is mitigated by Medtronic's strong management measures.

As with other cardiac devicemakers, Medtronic has also weathered periodic product recalls, ensuing litigation, and ponied up funds to settle suits. However, we note none of the recalls we've observed in two decades has permanently damaged Medtronic's economic profits or its reputation with practitioners. There are several reasons for this.

First, because device markets are relatively small, the pool of complainants usually numbers in the thousands or tens of thousands, not millions of people. This translates into settlements that are relatively small and manageable.

Second, devicemakers that rely on the FDA's premarket approval process are granted significant protection from legal liability on devices sold in the US This counter-intuitive situation is the result of a confluence of factors, including how the 1976 Medical Device Amendments to the Food, Drug, and Cosmetic Act from 1938 that established the FDA were written (and further amended), and a series of cases that ran up to the Supreme Court. We estimate a significant proportion of Medtronic's products, including the life-saving Class III products, go through the premarket approval pathway. This also acts to largely limit the size of the settlements to the costs of ensuing medical care for affected patients.

Third, Medtronic's device product cycles are relatively short and product defects can often be addressed by the engineers. As a result, new products or even previous-generation products that have demonstrated their safety and efficacy can be marketed fairly quickly, saving some of the lost sales. We've seen this most recently with Medtronic's recall of its 600-series insulin pumps that had a defective retainer ring, but the firm was able to switch over to a different retainer ring as a replacement.

**Fair Value and Profit Drivers** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

We're holding steady on our fair value estimate of $112 per share. Overall, we assume the recent uptick in medical utilization during 2024 to continue through calendar 2025. While hospital labor constraints have eased somewhat, we're mindful that increased demand last year appeared to slow down some labor-intensive procedures. We're doubtful providers can significantly expand capacity through the midterm.

We anticipate that the adoption of renal denervation, extravascular cardiac rhythm devices, and pulsed field ablation should support estimated 4% top-line growth through fiscal 2029. We remain comfortable with our modest expectations for renal denervation based on the pivotal studies and Medicare's decision to establish a transitional pass-through payment.

We expect Medtronic's new neuromodulation technology, neurovascular devices and insulin pumps, the introduction of pulsed field ablation for the atrial fibrillation market, and transcatheter heart valve sales to defend against pricing erosion during our explicit forecast period. We estimate 4% average annual revenue growth from the cardiovascular group through fiscal 2029, and 5% annualized growth in the neuroscience unit supported by growth of the spine business, thanks to the addition of the Mazor robot and ongoing innovation in neurovascular devices.

We continue to hold fairly optimistic gradual margin expansion over the longer haul to account for the shedding of more legacy Covidien businesses, efficiency programs, and higher-margin new products. Our estimated 200 basis point improvement in operating margin would peak at 21% in fiscal 2029.

**Risk and Uncertainty** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

Based on the average volatility of cash flows from a diverse product portfolio in relatively less discretionary therapeutic markets, our Morningstar Uncertainty Rating for Medtronic is Medium.

With more baby boomers in the Medicare age range, there could be future cuts to Medicare reimbursement for device-related procedures, which would translate into financial pressure for Medtronic's hospital customers. Innovation is the name of the game in medical devices, but the bar has been raised in the wake of healthcare reform. Successfully securing price premiums for new technology is no longer a given and now depends on favorable clinical data. Increasing regulatory attention and interest in conducting more extensive clinical trials and aftermarket studies could increase development costs for Medtronic.

Periodic product recalls and liability and inventory write-downs are occasional sore spots for the industry. In the past, there have also been US Department of Justice investigations into marketing practices and off-label use of different medical devices. Even if there isn't enough evidence to support charges, the controversy around this kind of investigation can add uncertainty and contribute to sales declines when practitioners move away from the product.

**Capital Allocation** Debbie S. Wang, Senior Equity Analyst, 12 Mar 2025

We reiterate our Standard Capital Allocation Rating for Medtronic. This rating encapsulates our view of sound balance sheet management, fair investment, and appropriate distributions.

The firm has whittled down its leverage since its acquisition of Covidien.

We're comfortable that Medtronic can generate enough cash to meet its debt obligations, as well as the dividends paid, and have enough to support development of its product pipeline.

We give Medtronic positive marks for the choices it has made to invest in programs that solidify its wide economic moat, including developing Symplicity Spyral for uncontrolled hypertension ahead of competitors, acquiring CoreValve to enhance its presence in the transcatheter aortic valve market, and more recent investments in the Mazor spinal robot , pulsed field ablation, and extravascular implantable defibrillators. Many of its investments in landmark clinical trials have also paid off as Medtronic has successfully expanded indications on its ICDs and CoreValve.

However, we give Medtronic demerits for prices paid on its acquisitions. In particular, the purchase of Covidien put a major dent in returns on invested capital. Looking forward, we are hopeful that the current management team will be more disciplined on this front.

We think Medtronic's distributions have been appropriate. The firm has long set a benchmark of 50% free cash flow distributed to shareholders. In the most recent years, the payout ratio has crept up closer to 70% to 80%. The firm has also raised its dividend for 47 consecutive years. Medtronic also supports a low level of share repurchases, with roughly $5 billion remaining on its repurchase authorization. Over the years, the firm has acquired shares that traded both at a discount and a premium to our intrinsic value, making for a neutral effect, from our standpoint.

### Analyst Notes Archive

**Medical Device Industry: Swept Up in the Tariffs, Diabetes Device Makers Bear the Brunt** Debbie S. Wang,Senior Equity Analyst,3 Apr 2025

Despite intensive medtech industry lobbying to secure a carve-out from the Trump administration's expansive tariffs on all countries, medical devices have been swept up in the tariff net. Why it matters: Inclusion of medical devices stands in stark contrast to the historical pattern of strategic exemptions of lifesaving and life-sustaining devices from tariffs. It seems that the diabetes device makers are bearing the brunt of the new tariffs, including Dexcom, Insulet, and Tandem Diabetes. On the other hand, the larger cardiac and orthopedic device makers, such as Boston Scientific, Edwards Lifesciences, and Zimmer Biomet, have seen little movement in shares. We expect these firms to shift manufacturing around to minimize the impact of the tariffs. The bottom line: While these tariffs are a shock to the industry, and we anticipate margin pressure in the near term, we see little to fundamentally change our view of the moatiness of this industry and the moats of individual device makers under coverage. Of all the firms, we think Tandem Diabetes may be the most vulnerable because of its reliance on components and manufacturing outside the US, and its relatively narrow bandwidth to shift most manufacturing to the US. The diabetes device makers could also see greater reverberations from the tariffs because there is considerable competition from European firms, including Roche and Ypsomed. Any reciprocal tariffs by Europe would only further hurt these US-based competitors.

**Medtronic Earnings: Softer Revenue Growth, but Tight Spending Control Supports Profits** Debbie S. Wang,Senior Equity Analyst,18 Feb 2025

Medtronic posted fiscal 2025 third-quarter results that included slightly slower top-line growth of 4% in constant currency, but rigorous expense control kept earnings per share growth at 7%.Why it matters: Coming off the pandemic, Medtronic has endeavored to demonstrate that it can consistently match medical technology market growth in the midsingle digits and deliver high-single-digit EPS growth. While the firm has hit mid-single-digit revenue growth for nine consecutive quarters, the slight deceleration in the third quarter might have shaken market confidence in Medtronic's ability to stick with the pace. We're not particularly exercised about this slowdown, which was primarily related to US distributor destocking of surgical products. After this one-time event, we anticipate normalized growth in surgical to resume in fiscal 2026.The bottom line: Year to date, narrow-moat Medtronic is on track to meet our full-year projections on the top and bottom lines, which remain bounded by management guidance. We're leaving our $112 fair value estimate intact and think the shares remain undervalued. We continue to expect strength in diabetes, electrophysiology, structural heart, and neuromodulation to support revenue growth of 3.6%. We estimate adjusted operating margin will run 22.6% for fiscal 2025. Considering the margin gains in the third quarter, we think our projection is achievable.Coming up: Medtronic is at the beginning stages of kicking off new commercialization cycles, which we think can help maintain its mid-single-digit revenue growth goal. For example, the versatile Affera in pulsed field ablation drove Medtronic's PFA business up 22% in the quarter. We expect this double-digit growth to continue into fiscal 2026. We think Medtronic and competitor Boston Scientific could together upend and reshape what had been Johnson & Johnson's and Abbott's (legacy St. Jude) long-standing dominance in the atrial fibrillation ablation market.

**Medtronic Earnings: Fiscal Second Quarter Saw Solid Growth but New Launches Mute Margins**

Debbie S. Wang,Senior Equity Analyst,19 Nov 2024

Medtronic delivered fiscal second-quarter results that featured solid 5% organic top-line growth year over year. However, several new product launches weighed on gross margin to the tune of 50 basis points. Why it matters: In contrast to three years ago, Medtronic is now beginning to reap the rewards of innovation that has reached commercialization. Adoption of these new therapies should support mid-single-digit growth through the midterm. The firm has resolved some supplier issues that constrained supply of its new PulseSelect technology for atrial fibrillation ablation, which clears the way for accelerated growth. Diabetes continued to rack up quarterly double-digit growth on the strength of its 780G pump and new continuous glucose monitor. We anticipate the coming integration with Abbott's Libre system should also strengthen interest in the 780G. The bottom line: With Medtronic on track to meet our full fiscal-year estimates, we're leaving our fair value estimate unchanged at $112 per share. Shares remain undervalued, in our view, on questions about whether this narrow-moat firm can boost earnings growth. Current pressure on gross margin should ease as Medtronic's CoreValve nibbles at Edwards' market share in transcatheter aortic valve replacements; its Affera for ablation is adopted; and reimbursement for renal denervation is established. The array of new technologies puts Medtronic in a favorable position in key new markets with undertreated patients, and underscores our confidence in its economic moat. Coming up: We're eager to see what unfolds over the next few quarters with the rollout of renal denervation for uncontrolled hypertension. The technology is revolutionary and addresses the significant compliance and side effect challenges with the 75% of US patients who are uncontrolled. On the other hand, efficacy of renal denervation was less than initial small-scale studies suggested, which could damp widespread adoption.

**Medtronic Earnings: New Products Support a Strong Start to the New Fiscal Year** Debbie S. Wang,Senior Equity Analyst,20 Aug 2024

Medtronic kicked off its fiscal year with strong first-quarter results that are consistent with our full-year expectations. Though management has raised the lower end of its outlook, our projections remain bounded by the new range, and we're leaving our fair value estimate intact. Though Medtronic's business is typically characterized by some combination of waxing and waning products, we think there's been progress in shifting the balance to more new products to maintain the mid-single-digit top-line growth management seeks. The recent introduction of key new technologies that offer relevant innovation also underscores Medtronic's intangible assets that support its narrow economic moat.The quarter featured respectable growth, with quarterly revenue up 5% organically, while earnings before taxes rose 6% year over year. The cardiovascular and neuroscience categories displayed strength with 7% and 5% organic growth, respectively. We were pleased to see neuromodulation up 10% thanks to adoption of its novel closed-loop Inceptive device for chronic pain and Percept deep brain stimulation for Parkinson's. Considering the historical drawbacks of spinal cord stimulation, Medtronic's closed loop feature holds the promise of appreciably better efficacy as the system learns an individual's pain patterns. The portfolio seems to be putting pressure on competitors.Cardiac pacing grew in the low double digits, which is quite surprising for a largely mature category. However, we think the firm is executing and playing defense well with its leadless pacemaker Micra against Abbott's Aveir. We surmise these leadless products are mainly taking share from traditional leaded devices, and we are not expecting a long-term boom that's typically associated with a new therapy that taps into an undertreated population. Cardiac ablation saw improving growth, as adoption of pulsed field ablation, or PFA, more than offset declines in cryo ablation.

**Medtronic Earnings: New Product Cycles Should Support Mid-Single-Digit Top-Line Growth** Debbie S. Wang,Senior Equity Analyst,23 May 2024

Narrow-moat Medtronic wrapped up its fiscal year with solid fourth-quarter results. With full fiscal year performance hitting very close to our estimates and our projections for fiscal 2025 bounded by management's outlook, we're holding steady on our fair value estimate. Reported annual revenue growth of 3.6% nearly hit our projection for 3.7% on the nose. Medtronic slightly exceeded our expectations on cost containment, but this was offset by incrementally higher amortization. The firm continues to see strength from pockets of innovation, including its Micra leadless pacemakers, the 780g insulin pump, and the limited launch of its Simplera Sync continuous glucose monitor in a handful of European countries. With key products approaching or in the early stages of commercialization, we're more comfortable that Medtronic can maintain its mid-single-digit revenue growth goal.We've been impressed with Medtronic's ability to reinforce its diabetes presence with 780g, especially in the face of tougher competition from Insulet's barnburner launch of its Omnipod 5 in 2022 and, more recently, Tandem's rollout of its lower-profile Mobi pump. We think this reflects the 780g's automated meal bolus correction feature, which remains distinctive. The firm is now making good on its aim to close the competitive technology gap on its continuous glucose monitor, and we expect the addition of the Simplera Sync sensor to support ongoing demand.Similar to rival Boston Scientific, Medtronic has seen favorable reception of its PulseSelect pulsed field ablation technology, which has drawn trial from both existing radio frequency and single-shot alternatives. We continue to expect PFA to both expand the atrial fibrillation ablation market and capture the lion's share of that market from thermal ablation technologies. Further, recent secondary analysis of Boston's Advent data demonstrated its PFA system was superior at reducing postprocedure AF burden.

**Medtronic Earnings: Pockets of Strength Supported Solid Growth in Fiscal Third Quarter** Debbie S. Wang,Senior Equity Analyst,20 Feb 2024

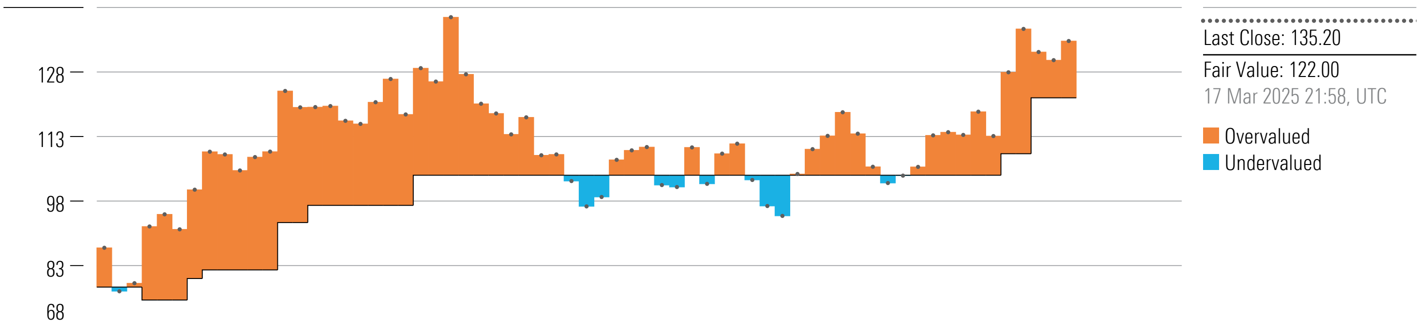
Wide-moat Medtronic delivered solid fiscal third-quarter results, and with the firm running slightly ahead of our projections on the top line, we've adjusted our revenue assumptions upward incrementally for the full year. However, this wasn't enough to materially move our valuation, and we're leaving our fair value estimate unchanged.Medtronic posted quarterly sales growth of 5%, in line with the larger medtech market, fueled by strength in structural heart and aortic, cranial and spinal technologies, and diabetes. Growth in the U.S. was lackluster, but international growth more than made up for this. Reported net income rose a respectable 8% thanks to Medtronic's efforts to keep expenses in check. We were pleased to see tighter control on headcount that resulted in 110 basis points of operating expense improvement.Diabetes led the way in the third quarter with 10% growth. We expect the business will remain robust in calendar 2024, as the new Simplera Sync sensor launches in Europe. This sensor takes two large steps to catch up with rival Dexcom's market-leading continuous glucose monitor. Simplera Sync is significantly smaller than its predecessors, disposable, easier to apply, requires no fingerstick, and is integrated with the 780g pump. While Simplera Sync wear is only seven days (compared with Dexcom's G7 at 10 days), it is still a major improvement across other features, and gives us more confidence that Medtronic can make up for lost ground in the CGM market that it hasn't historically prioritized.We're eager to see preliminary data from the SMART trial to evaluate the use of CoreValve Evolut in patients with smaller annuli (the ring that heart valve leaflets are attached to). Considering Medtronic is well established as a major transcatheter valve competitor, further penetration of this market could be driven by data supporting advantageous use in subsegments of patients.

Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 12 of 23

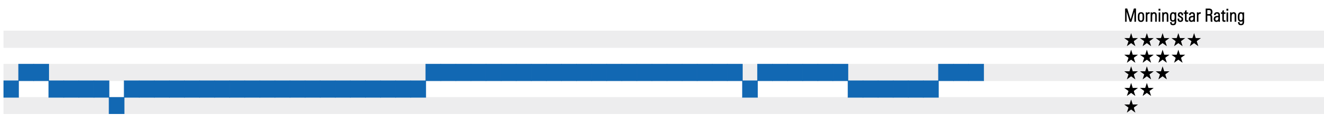
# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

## Competitors Price vs. Fair Value

### Abbott Laboratories ABT

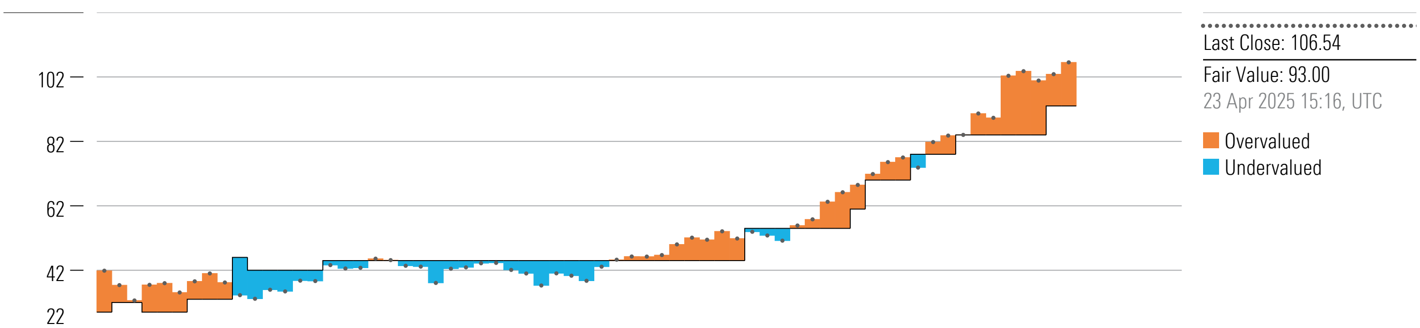



| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD |
|---|---|---|---|---|---|---|
| Price/Fair Value | 1.34 | 1.35 | 1.06 | 1.06 | 1.09 | 1.11 |
| Total Return % | 27.71 | 30.19 | -20.66 | 2.11 | 4.76 | 20.57 |

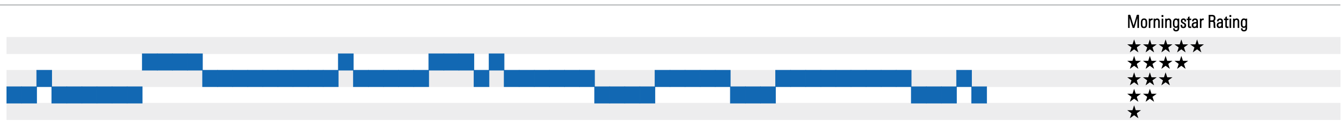



Total Return % as of 20 May 2025. Last Close as of 20 May 2025. Fair Value as of 17 Mar 2025 21:58, UTC.

### Boston Scientific Corp BSX




| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD |
|---|---|---|---|---|---|---|
| Price/Fair Value | 0.86 | 0.94 | 1.03 | 1.05 | 1.06 | 1.15 |
| Total Return % | -20.50 | 18.16 | 8.92 | 24.94 | 54.51 | 19.28 |



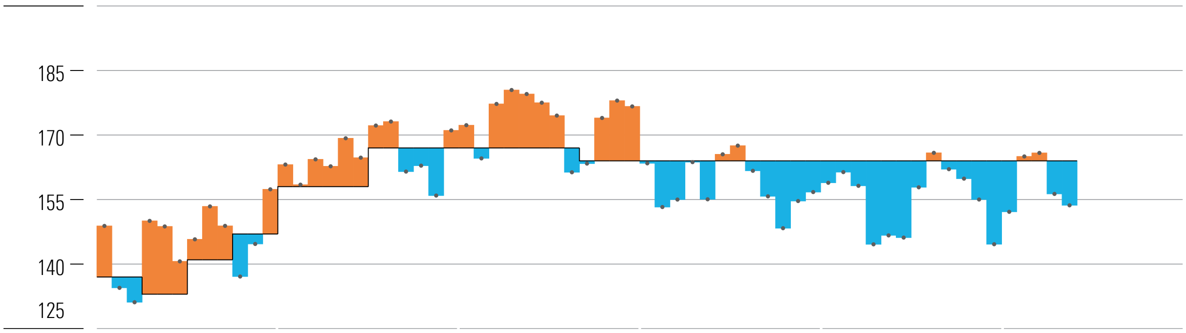

Total Return % as of 20 May 2025. Last Close as of 20 May 2025. Fair Value as of 23 Apr 2025 15:16, UTC.

Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

## Competitors Price vs. Fair Value

### Johnson & Johnson JNJ

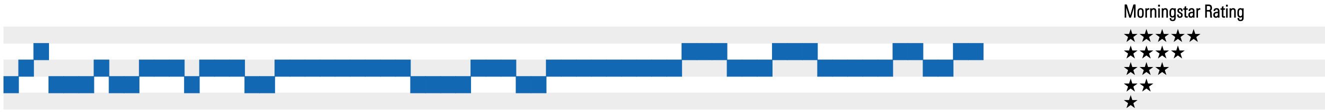



Fair Value: 164.00
19 Sep 2022 11:58, UTC

Last Close: 153.66
Overvalued
Undervalued

| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD | |
|---|---|---|---|---|---|---|---|
| | 1.07 | 1.02 | 1.08 | 0.96 | 0.88 | 0.94 | Price/Fair Value |
| | 10.62 | 11.36 | 5.86 | -8.61 | -4.60 | 7.11 | Total Return % |

Morningstar Rating




Total Return % as of 20 May 2025. Last Close as of 20 May 2025. Fair Value as of 19 Sep 2022 11:58, UTC.

Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 23

# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 86.37 USD<br>20 May 2025 | 112.00 USD<br>22 Nov 2022 18:45, UTC | 0.77 | 108.26 USD Bil<br>21 May 2025 | Narrow | Large Value | Medium | Standard | 7 May 2025 05:00, UTC |

## Morningstar Valuation Model Summary

| **Financials** as of 19 Feb 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year,** ends 30 Apr | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** |
| Revenue (USD Mil) | 31,686 | 31,228 | 32,363 | 33,356 | 34,923 | 36,607 | 38,354 | 40,195 |
| Operating Income (USD Mil) | 6,770 | 5,700 | 5,983 | 5,844 | 6,369 | 6,816 | 7,730 | 8,256 |
| EBITDA (USD Mil) | 8,460 | 8,193 | 7,791 | 8,316 | 8,825 | 9,301 | 10,219 | 10,724 |
| Adjusted EBITDA (USD Mil) | 9,477 | 8,407 | 8,630 | 8,566 | 9,075 | 9,551 | 10,469 | 10,974 |
| Net Income (USD Mil) | 5,040 | 3,759 | 3,676 | 4,075 | 4,620 | 5,010 | 5,793 | 6,235 |
| Adjusted Net Income (USD Mil) | 7,503 | 5,440 | 5,848 | 7,034 | 7,730 | 7,820 | 8,203 | 8,645 |
| Free Cash Flow To The Firm (USD Mil) | 5,886 | 2,416 | 5,507 | 4,884 | 5,641 | 5,978 | 6,783 | 6,924 |
| Weighted Average Diluted Shares Outstanding (Mil) | 1,351 | 1,333 | 1,330 | 1,288 | 1,284 | 1,284 | 1,284 | 1,284 |
| Earnings Per Share (Diluted) (USD) | 3.73 | 2.82 | 2.76 | 3.16 | 3.60 | 3.90 | 4.51 | 4.86 |
| Adjusted Earnings Per Share (Diluted) (USD) | 5.55 | 4.08 | 4.40 | 5.46 | 6.02 | 6.09 | 6.39 | 6.73 |
| Dividends Per Share (USD) | 2.52 | 2.72 | 2.76 | 2.80 | 2.91 | 3.03 | 3.15 | 3.27 |

| **Margins & Returns** as of 19 Feb 2025 | | Actual | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **3 Year Avg** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **5 Year Avg** |
| Operating Margin % | 17.2 | 21.4 | 18.3 | 18.5 | 17.5 | 18.2 | 18.6 | 20.2 | 20.5 | 18.3 |
| EBITDA Margin % | — | 26.7 | 26.2 | 24.1 | 24.9 | 25.3 | 25.4 | 26.6 | 26.7 | — |
| Adjusted EBITDA Margin % | — | 29.9 | 26.9 | 26.7 | 25.7 | 26.0 | 26.1 | 27.3 | 27.3 | 26.5 |
| Net Margin % | 13.1 | 15.9 | 12.0 | 11.4 | 12.2 | 13.2 | 13.7 | 15.1 | 15.5 | 13.9 |
| Adjusted Net Margin % | 19.7 | 23.7 | 17.4 | 18.1 | 21.1 | 22.1 | 21.4 | 21.4 | 21.5 | 21.5 |
| Free Cash Flow To The Firm Margin % | 14.4 | 18.6 | 7.7 | 17.0 | 14.6 | 16.2 | 16.3 | 17.7 | 17.2 | 16.4 |

| **Growth & Ratios** as of 19 Feb 2025 | | Actual | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **3 Year CAGR** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **5 Year CAGR** |
| Revenue Growth % | 2.4 | 5.2 | -1.5 | 3.6 | 3.1 | 4.7 | 4.8 | 4.8 | 4.8 | 4.4 |
| Operating Income Growth % | 4.7 | 29.9 | -15.8 | 5.0 | -2.3 | 9.0 | 7.0 | 13.4 | 6.8 | 6.7 |
| EBITDA Growth % | -0.5 | 17.7 | -3.2 | -4.9 | 6.7 | 6.1 | 5.4 | 9.9 | 4.9 | -14.7 |
| Adjusted EBITDA Growth % | 2.9 | 19.8 | -11.3 | 2.7 | -0.7 | 5.9 | 5.3 | 9.6 | 4.8 | 4.9 |
| Earnings Per Share Growth % | 1.2 | 40.0 | -24.4 | -2.0 | 14.5 | 13.8 | 8.4 | 15.6 | 7.6 | 11.9 |
| Adjusted Earnings Per Share Growth % | 1.2 | 25.7 | -26.5 | 7.7 | 24.2 | 10.3 | 1.2 | 4.9 | 5.4 | 11.9 |

| **Valuation** as of 19 Feb 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** |
| Price/Earning | — | 22.3 | 18.2 | 15.8 | 14.3 | 14.2 | 13.5 | 12.8 |
| Price/Sales | — | 3.9 | 3.3 | 3.3 | 3.2 | 3.0 | 2.9 | 2.8 |
| Price/Book | — | 2.4 | 2.1 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 |
| Price/Cash Flow | — | — | — | — | — | — | — | — |
| EV/EBITDA | — | 16.4 | 14.1 | 15.1 | 14.3 | 13.6 | 12.4 | 11.8 |
| EV/EBIT | — | 24.2 | 20.4 | 22.2 | 20.3 | 19.0 | 16.7 | 15.7 |
| Dividend Yield % | — | 3.0 | 3.4 | 3.2 | 3.4 | 3.5 | 3.7 | 3.8 |
| Dividend Payout % | 45.4 | 66.6 | 62.8 | 51.3 | 48.4 | 49.7 | 49.3 | 48.6 |
| Free Cash Flow Yield % | — | — | — | — | — | — | — | — |

| **Operating Performance / Profitability** as of 19 Feb 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year,** ends 30 Apr | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** |
| ROA % | 4.1 | 4.1 | 4.6 | 5.2 | 5.7 | 6.4 | 6.8 | 0.0 |
| ROE % | 7.3 | 7.3 | 8.1 | 9.1 | 9.7 | 10.8 | 11.2 | 0.0 |
| ROIC % | 9.1 | 9.1 | 9.8 | 10.6 | 11.3 | 12.5 | 13.2 | — |

Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 23

# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 86.37 USD<br>20 May 2025 | 112.00 USD<br>22 Nov 2022 18:45, UTC | 0.77 | 108.26 USD Bil<br>21 May 2025 | Narrow | Large Value | Medium | Standard | 7 May 2025 05:00, UTC |

| Financial Leverage (Reporting Currency) | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year, ends 30 Apr | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Debt/Capital % | 13.0 | 14.7 | 16.8 | 14.4 | 13.0 | 11.7 | 11.2 | 9.7 |
| Assets/Equity | 1.7 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.6 |
| Net Debt/EBITDA | 1.8 | 1.7 | 2.1 | 2.0 | 1.8 | 1.5 | 1.1 | 0.9 |
| Total Debt/EBITDA | 2.8 | 2.9 | 2.8 | 2.8 | 2.4 | 2.2 | 2.0 | 1.7 |
| EBITDA/ Net Interest Expense | 40.3 | 69.5 | 28.1 | 12.6 | 15.5 | 16.8 | 19.0 | 19.9 |

| Forecast Revisions as of 19 Feb 2025 | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|
| Prior data as of 21 Nov 2024 | Current | Prior | Current | Prior | Current | Prior |
| Fair Value Estimate Change (Trading Currency) | 112.00 | 112.47 | — | — | — | — |
| Revenue (USD Mil) | 33,356 | 32,363 | 34,923 | 33,521 | 36,607 | 35,092 |
| Operating Income (USD Mil) | 5,844 | 5,983 | 6,369 | 5,881 | 6,816 | 6,408 |
| EBITDA (USD Mil) | 8,566 | 8,630 | 9,075 | 8,608 | 9,551 | 9,119 |
| Net Income (USD Mil) | 7,034 | 5,848 | 7,730 | 7,065 | 7,820 | 7,763 |
| Earnings Per Share (Diluted) (USD) | 3.16 | 2.76 | 3.60 | 3.19 | 3.90 | 3.62 |
| Adjusted Earnings Per Share (Diluted) (USD) | 5.46 | 4.40 | 6.02 | 5.48 | 6.09 | 6.04 |
| Dividends Per Share (USD) | 2.80 | 2.76 | 2.91 | 2.80 | 3.03 | 2.91 |

| Key Valuation Drivers as of 19 Feb 2025 | |
|---|---|
| Cost of Equity % | 7.5 |
| Pre-Tax Cost of Debt % | 5.8 |
| Weighted Average Cost of Capital % | 7.1 |
| Long-Run Tax Rate % | 18.0 |
| Stage II EBI Growth Rate % | 5.5 |
| Stage II Investment Rate % | 22.0 |
| Perpetuity Year | 20 |

Additional estimates and scenarios available for download at https://pitchbook.com/.

| Discounted Cash Flow Valuation as of 19 Feb 2025 | USD Mil |
|---|---|
| Present Value Stage I | 23,904 |
| Present Value Stage II | 60,162 |
| Present Value Stage III | 68,434 |
| **Total Firm Value** | **152,500** |
| Cash and Equivalents | 8,006 |
| Debt | 25,024 |
| Other Adjustments | 0 |
| **Equity Value** | **135,482** |
| Projected Diluted Shares | 1,288 |
| **Fair Value per Share** (USD) | **112.00** |

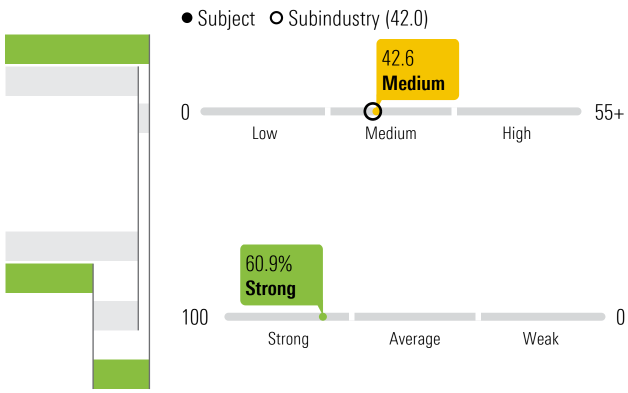
Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 16 of 23

# Medtronic PLC MDT ★★★★ 20 May 2025 21:29, UTC

| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 86.37 USD<br>20 May 2025 | 112.00 USD<br>22 Nov 2022 18:45, UTC | 0.77 | 108.26 USD Bil<br>21 May 2025 | Narrow | Large Value | Medium | Standard | 7 May 2025 05:00, UTC |

## ESG Risk Rating Breakdown

| Exposure | |
|---|---|
| Company Exposure[1] | 42.6 |
| – Manageable Risk | 39.3 |
| **Unmanageable Risk[2]** | **3.3** |
| **Management** | |
| Manageable Risk | 39.3 |
| – Managed Risk[3] | 23.9 |
| **Management Gap[4]** | **15.4** |
| **Overall Unmanaged Risk** | **18.7** |




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

## ESG Risk Rating


ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 60.9% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

## ESG Risk Rating Assessment[5]

ESG Risk Rating is of May 07, 2025. Highest Controversy Level is as of May 08, 2025. Sustainalytics Subindustry: Medical Devices. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

**Peer Analysis** 07 May 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

| Company Name | Exposure | | Management | | ESG Risk Rating | |
|---|---|---|---|---|---|---|
| **Medtronic PLC** | 42.6 \| Medium | 0 – 55+ | 60.9 \| Strong | 100 – 0 | 18.7 \| Low | 0 – 40+ |
| Boston Scientific Corp | 42.9 \| Medium | 0 – 55+ | 61.5 \| Strong | 100 – 0 | 18.6 \| Low | 0 – 40+ |
| Abbott Laboratories | 41.8 \| Medium | 0 – 55+ | 55.6 \| Strong | 100 – 0 | 20.4 \| Medium | 0 – 40+ |
| Artivion Inc | 46.6 \| Medium | 0 – 55+ | 33.9 \| Average | 100 – 0 | 32.1 \| High | 0 – 40+ |
| Johnson & Johnson | 47.1 \| Medium | 0 – 55+ | 62.2 \| Strong | 100 – 0 | 19.9 \| Low | 0 – 40+ |

Morningstar Equity Analyst Report | Report as of 21 May 2025 20:49, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

# Appendix
## Historical Morningstar Rating

**Medtronic PLC** MDT 20 May 2025 21:28, UTC

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dec 2025 | Nov 2025 | Oct 2025 | Sep 2025 | Aug 2025 | Jul 2025 | Jun 2025 | May 2025 | Apr 2025 | Mar 2025 | Feb 2025 | Jan 2025 |
| — | — | — | — | — | — | — | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2024 | Nov 2024 | Oct 2024 | Sep 2024 | Aug 2024 | Jul 2024 | Jun 2024 | May 2024 | Apr 2024 | Mar 2024 | Feb 2024 | Jan 2024 |
| ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2023 | Nov 2023 | Oct 2023 | Sep 2023 | Aug 2023 | Jul 2023 | Jun 2023 | May 2023 | Apr 2023 | Mar 2023 | Feb 2023 | Jan 2023 |
| ★★★★ | ★★★★★ | ★★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2022 | Nov 2022 | Oct 2022 | Sep 2022 | Aug 2022 | Jul 2022 | Jun 2022 | May 2022 | Apr 2022 | Mar 2022 | Feb 2022 | Jan 2022 |
| ★★★★★ | ★★★★★ | ★★★★★ | ★★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2021 | Nov 2021 | Oct 2021 | Sep 2021 | Aug 2021 | Jul 2021 | Jun 2021 | May 2021 | Apr 2021 | Mar 2021 | Feb 2021 | Jan 2021 |
| ★★★★ | ★★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ |
| Dec 2020 | Nov 2020 | Oct 2020 | Sep 2020 | Aug 2020 | Jul 2020 | Jun 2020 | May 2020 | Apr 2020 | Mar 2020 | Feb 2020 | Jan 2020 |
| ★★★ | ★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★ |

**Abbott Laboratories** ABT 20 May 2025 21:28, UTC

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dec 2025 | Nov 2025 | Oct 2025 | Sep 2025 | Aug 2025 | Jul 2025 | Jun 2025 | May 2025 | Apr 2025 | Mar 2025 | Feb 2025 | Jan 2025 |
| — | — | — | — | — | — | — | ★★★ | ★★★ | ★★★ | ★★ | ★★ |
| Dec 2024 | Nov 2024 | Oct 2024 | Sep 2024 | Aug 2024 | Jul 2024 | Jun 2024 | May 2024 | Apr 2024 | Mar 2024 | Feb 2024 | Jan 2024 |
| ★★ | ★★ | ★★ | ★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★ | ★★★ |
| Dec 2023 | Nov 2023 | Oct 2023 | Sep 2023 | Aug 2023 | Jul 2023 | Jun 2023 | May 2023 | Apr 2023 | Mar 2023 | Feb 2023 | Jan 2023 |
| ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ |
| Dec 2022 | Nov 2022 | Oct 2022 | Sep 2022 | Aug 2022 | Jul 2022 | Jun 2022 | May 2022 | Apr 2022 | Mar 2022 | Feb 2022 | Jan 2022 |
| ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★ | ★★ | ★★ | ★★ |
| Dec 2021 | Nov 2021 | Oct 2021 | Sep 2021 | Aug 2021 | Jul 2021 | Jun 2021 | May 2021 | Apr 2021 | Mar 2021 | Feb 2021 | Jan 2021 |
| ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ | ★★ |
| Dec 2020 | Nov 2020 | Oct 2020 | Sep 2020 | Aug 2020 | Jul 2020 | Jun 2020 | May 2020 | Apr 2020 | Mar 2020 | Feb 2020 | Jan 2020 |
| ★★ | ★★ | ★★ | ★★ | ★ | ★★ | ★★ | ★★ | ★★ | ★★★ | ★★★ | ★★ |

**Boston Scientific Corp** BSX 20 May 2025 21:29, UTC

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|---|---|---|---|---|---|---|---|---|---|---|---|
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# Research Methodology for Valuing Companies

**Overview**

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

**1. Economic Moat**

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

**2. Estimated Fair Value**

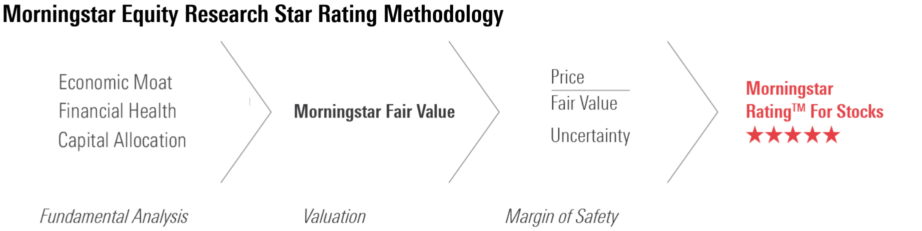
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

**Stage I: Explicit Forecast**

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

**Morningstar Equity Research Star Rating Methodology**




**Stage II: Fade**

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

**Stage III: Perpetuity**

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

**3. Uncertainty Around That Fair Value Estimate**

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

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# Research Methodology for Valuing Companies

thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

| | Margin of Safety | |
|---|---|---|
| Qualitative Analysis Uncertainty Ratings | ★★★★★Rating | ★Rating |
| Low | 20% Discount | 25% Premium |
| Medium | 30% Discount | 35% Premium |
| High | 40% Discount | 55% Premium |
| Very High | 50% Discount | 75% Premium |
| Extreme | 75% Discount | 300% Premium |

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

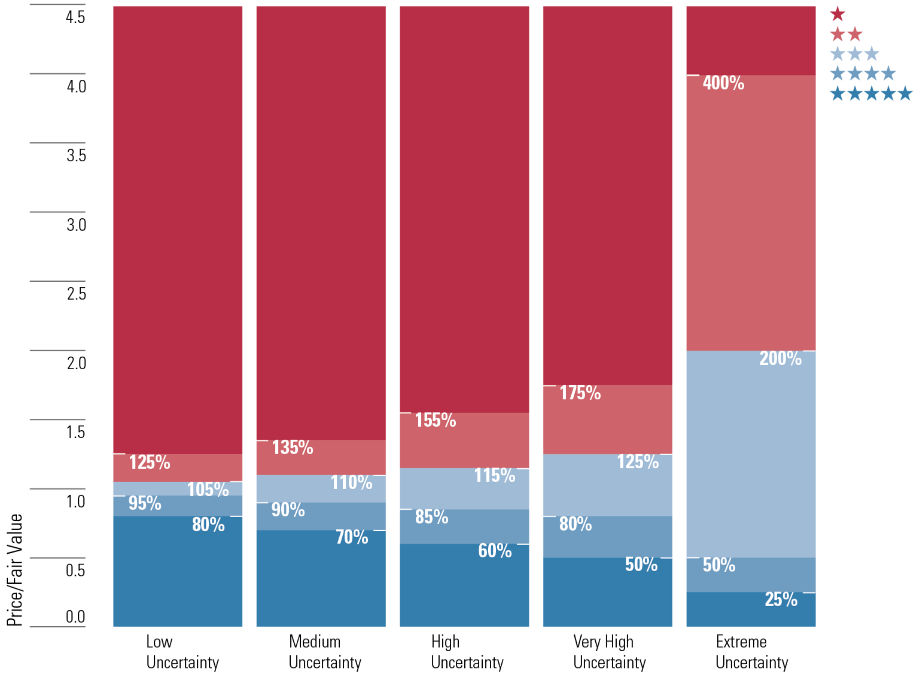
### 4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

### Morningstar Star Rating for Stocks

**Morningstar Equity Research Star Rating Methodology**




Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

### Other Definitions

**Last Price:** Price of the stock as of the close of the market of the last trading day before date of the report.

**Capital Allocation Rating:** Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

# Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

**Capital Allocation Rating:** Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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**Sustainalytics ESG Risk Rating Assessment:**The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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