With operational headquarters in Minneapolis, Medtronic is one of the world's largest medical technology and solutions companies. Its devices focus on cardiac rhythm management, spinal and surgical navigation technologies, treatments for diabetes and neurological conditions, vascular therapies, and cardiac surgery. MDT is a component of the S&P 500.

Analyst's Notes

Analysis by David Toung, May 23, 2025

ARGUS RATING: BUY

- Diabetes separation will transform Medtronic
- We like Medtronic's decision to spin off its Diabetes business. This will enable the company to focus on its businesses (Cardiovascular, Neuroscience and Medical Surgical) that have higher margins and a combined global addressable market of nearly $100 billion.
- MDT's growth drivers (Renal Denervation, Cardiac Ablation, TAVR, and Leadless Pacing) remain on track to contribute to the top line.
- The Hugo robotic surgical system, available in more than 30 countries worldwide, is advancing through FDA review process. We expect U.S. launch by 2026.
- Given the market volatility and the pending impact of tariffs, we are lowering our price target to $105 from $120.

INVESTMENT THESIS

The separation of the diabetes business will transform BUY-rated Medtronic plc (NYSE: MDT) into a higher-margin MedTech company with a global addressable market of nearly $100 billion.

Our BUY-rating on Medtronic based on its growth drivers from newer products in cardiovascular, transaortic heart valves, and neuromodulation. We expect the U.S. launch of the Hugo robotic surgical platform by 2026. Furthermore, the company is committed to return to shareholders at least 50% of free cash flow through dividends and share buybacks. It recently increased its dividend 1.4%, marking the 48th consecutive year of dividend hikes. The dividend yield is 3.5%.

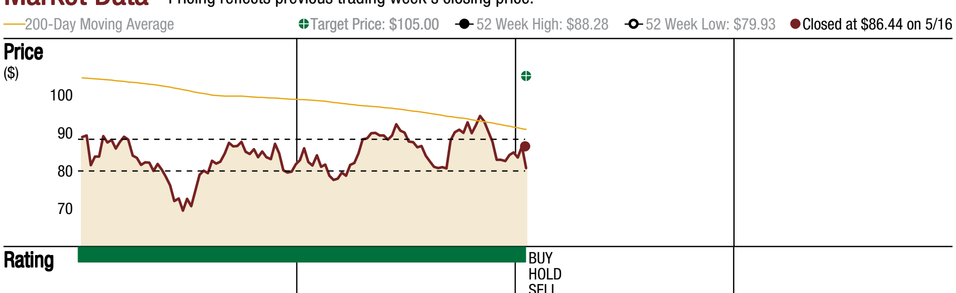
Amid recent market volatility, we note that the MDT shares (+1.8% YTD) have outperformed the S&P Healthcare Index (-4.9%) and the S&P 500 Index (-0.8%).

RECENT DEVELOPMENTS

We like Medtronic's decision to spin off its Diabetes business into a new standalone public company. This will enable the company to focus on its businesses (Cardiovascular, Neuroscience and Medical Surgical) that have a combined global addressable market of

Market Data

Pricing reflects previous trading week's closing price.



	FY2024 Q1	Q2	Q3	Q4	FY2025 Q1	Q2	Q3	Q4	FY2026 Q1	Q2	Q3	Q4	FY2027 Q1	Q2	Q3	Q4
EPS ($) Quarterly	1.20	1.25	1.30	1.46	1.23	1.26	1.39	1.62	1.24	1.34	1.43	1.64	1.32	1.43	1.54	1.76
EPS Annual	5.20				5.49				5.55 (Estimate)				6.05 (Estimate)			
Revenue ($ in Bil.) Quarterly	7.7	8.0	8.1	8.6	7.9	8.3	8.3	8.9	8.3	8.7	8.7	9.3	8.6	9.1	9.1	9.7
Revenue Annual	32.4				33.4				34.9 (Estimate)				36.5 (Estimate)			

FY ends Apr 30

Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 27% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$80.68
Target Price	$105.00
52 Week Price Range	$75.96 to $96.25
Shares Outstanding	1.28 Billion
Dividend	$2.84

Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	10.80%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	37.1%
Return on Equity	14.6%
Net Margin	13.9%
Payout Ratio	0.51
Current Ratio	1.85
Revenue	$33.54 Billion
After-Tax Income	$4.66 Billion

Valuation

Current FY P/E	14.54
Prior FY P/E	14.70
Price/Sales	3.09
Price/Book	2.15
Book Value/Share	$37.46
Market Capitalization	$103.48 Billion

Forecasted Growth

1 Year EPS Growth Forecast	1.09%
5 Year EPS Growth Forecast	9.00%
1 Year Dividend Growth Forecast	1.43%

Risk

Beta	0.68
Institutional Ownership	84.01%

Analyst's Notes ...Continued

nearly $100 billion.

Specifically, Medtronic is devoting capital to developing its soft-tissue robotic surgery platform and its renal denervation device to control hypertension.

Timeline of the separation expected to be completed within 18 months. Preferred path for capital transaction is IPO of 20% of the New Diabetes Company, followed by a split-off. Separation of Diabetes business expected to accretive to Medtronic's gross margin, operating margin and EPS.

Medtronic reported results for 4Q25 on May 21. Adjusted EPS was $1.62, beating the consensus estimate by $0.16 and increasing 11%. On a currency-neutral basis (FXN), adjusted EPS grew 15.8%. GAAP net income was $1.057 billion or $0.82 per share, compared to $654 million or $0.49 per share a year ago.

Net sales was $8.927 billion, increasing 3.9% as reported and 5.4% organic. Organic growth excludes the impact of foreign exchange and acquisitions and divestitures.

Key growth drivers in the quarter included Cardiac Rhythm & Failure (+10% worldwide), Neuromodulation (+10.2%), and Diabetes (+12.0%).

By measures of profitability, the adjusted gross margin was 65.1%, down 70 basis points from a year ago. This was driven by unfavorable product mix and impact from foreign exchange. The adjusted operating margin was 27.8%, up 90 basis points. This was driven by improvement in labor efficiency and lower charges for scrap and obsolescence. This partly offset by higher spending for R&D.

Operational highlights in the quarter include:

Cardiac Ablation Solutions (CAS) saw nearly 30% sales growth, driven by strong uptake of pulsed field ablation products to treat atrial fibrillation.

Submission to the FDA in 1Q of calendar 2025 of the Hugo robotic surgical system for approval in urological indication. If approved, this will be the first indication approved in the U.S. for Hugo.

Launched the brain-computer interface for the BrainSense Adaptive deep brain stimulation (aDBS) implant.

For full fiscal year 2025, adjusted EPS was $5.49, increasing 5.6% as reported and 9.8% FXN. GAAP net income was $4.662 billion or $3.61 per share, compared to $3.676 billion or $2.76 per share a year ago. Net sales was $33.537 billion, increasing 3.6% as reported and 4.9% organic.

EARNINGS & GROWTH ANALYSIS

Medtronic issued new guidance for fiscal 2026. It expects organic revenue growth of approximately 5%. Excluding the potential impacts from increased tariffs, it expects adjusted EPS growth of approximately 4%. The company a net tariff impact to COGS in FY26 of approximately $200 million to $350 million. For a quarterly breakout, it expects minimal impact in 1Q26, 10% in 2Q26, 30% in 3Q26 and 60% in 4Q26. Accounting for the tariff impact, Medtronic expects adjusted EPS for fiscal 2026 of

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	28,913	30,117	31,686	31,227	32,364
COGS	9,424	10,483	10,145	10,719	11,216
Gross Profit	19,489	19,634	21,541	20,508	21,148
SG&A	10,109	10,148	10,292	10,415	10,736
R&D	2,331	2,493	2,746	2,696	2,735
Operating Income	5,222	4,895	5,908	5,830	5,520
Interest Expense	1,092	925	553	636	719
Pretax Income	4,055	3,895	5,517	5,364	4,837
Income Taxes	-751	265	456	1,580	1,133
Tax Rate (%)	—	7	8	29	23
Net Income	4,789	3,606	5,039	3,758	3,676
Diluted Shares Outstanding	1,351	1,354	1,351	1,333	1,330
EPS	3.54	2.66	3.73	2.82	2.76
Dividend	2.16	2.32	2.52	2.72	2.76
GROWTH RATES (%)					
Revenue	-5.4	4.2	5.2	-1.4	3.6
Operating Income	-21.3	-6.3	20.7	-1.3	-5.3
Net Income	3.4	-24.7	39.7	-25.4	-2.2
EPS	3.8	-24.9	40.2	-24.4	-2.1
Dividend	8.0	7.4	8.6	7.9	1.5
Sustainable Growth Rate	1.0	2.8	1.6	0.9	1.3
VALUATION ANALYSIS					
Price: High	$122.15	$135.89	$114.31	$92.02	$92.68
Price: Low	$72.13	$98.38	$75.77	$68.84	$75.96
Price/Sales: High-Low	5.7 - 3.4	6.1 - 4.4	4.9 - 3.2	3.9 - 2.9	3.8 - 3.1
P/E: High-Low	34.5 - 20.4	51.1 - 37.0	30.6 - 20.3	32.6 - 24.4	33.6 - 27.5
Price/Cash Flow: High-Low	27.5 - 16.3	25.7 - 18.6	24.4 - 16.1	22.0 - 16.5	16.9 - 13.8

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	3,714	1,543	1,284
Working Capital ($ in Millions)	10,665	12,624	11,146
Current Ratio	1.86	2.39	2.03
LT Debt/Equity Ratio (%)	38.8	47.3	47.7
Total Debt/Equity Ratio (%)	45.9	47.3	49.8
RATIOS (%)			
Gross Profit Margin	68.0	65.7	65.3
Operating Margin	18.6	18.7	17.1
Net Margin	15.9	12.0	11.4
Return On Assets	5.5	4.1	4.1
Return On Equity	9.7	7.2	7.2
RISK ANALYSIS			
Cash Cycle (days)	145.2	152.1	156.9
Cash Flow/Cap Ex	5.4	4.1	4.3
Oper. Income/Int. Exp. (ratio)	11.0	9.4	7.7
Payout Ratio	69.7	81.4	89.0

Please see important information about this report on page 4

Analyst's Notes ...Continued

$5.50-$5.60.

Looking beyond fiscal 2026, Medtronic expects a return to high single-digit EPS growth upon the Diabetes separation and the share retirement benefits of the separation.

We are reducing our estimate for adjusted EPS for FY26 to $5.55 from $5.87. We are establishing a new estimate of $6.05 for FY27.

Our five-year forecast EPS growth rate is 9%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Medtronic is Medium, the middle peg on our five-point scale. Cash flow from operations for fiscal 2025 was $$7.044 billion, compared to $6.787 billion in the year-ago period.

Medtronic is committed to returning at least 50% of free cash flow to shareholders through dividends and share buybacks. It recently increased its dividend 1.4%, marking the 48th consecutive year of dividend hikes. The company is also deploying capital for tuck-in M&A.

The company pays an annualized dividend of $2.84 for a yield of about 3.5%. Our estimates for the dividend are $2.84 for fiscal 2026 and $2.88 for fiscal 2027.

MANAGEMENT & RISKS

Geoff Martha is the CEO and chairman of the board. Martha has been CEO since 2020 and joined the company in 2011.Thierry Pieton joined the company as CFO in March 2025. He takes over from Gary Corona, who was interim CFO, succeeding Karen Parkhill, who resigned in June 2024 to become CFO of HP Inc.

Medtronic faces integration risks from acquisitions. It also faces competitive risks as it seeks to protect its market share lead from rivals that are expanding their sales forces and product offerings. In addition, Medtronic faces regulatory and reimbursement risks.

COMPANY DESCRIPTION

With operational headquarters in Minneapolis, Medtronic is one of the world's largest medical technology and solutions companies. Its devices focus on cardiac rhythm management, spinal and surgical navigation technologies, treatments for diabetes and neurological conditions, vascular therapies, and cardiac surgery. MDT is a component of the S&P 500.

VALUATION

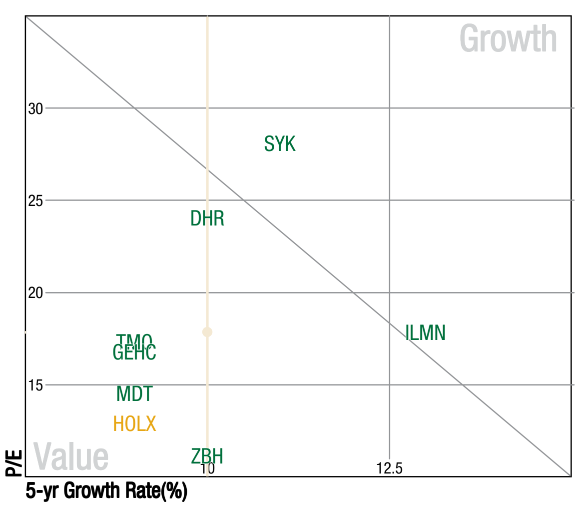
MDT trades at 14.6-times our FY26 EPS estimate, below the average multiple of 22.1 for our coverage universe of medical technology stocks. We see this as an attractive valuation. Our target price is $105 (lowered from $120).

On May 23, BUY-rated MDT closed at $80.68, down $0.23.

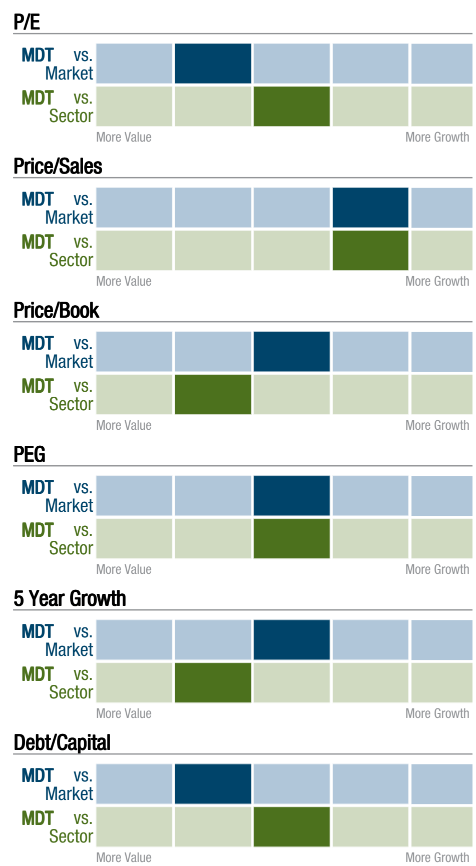
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MDT versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how MDT stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MDT might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
TMO	Thermo Fisher Scientific Inc.	148,604	9.0	17.3	15.2	9.9	BUY
SYK	Stryker Corp.	143,931	11.0	28.1	12.3	10.4	BUY
DHR	Danaher Corp.	132,070	10.0	24.1	15.8	12.1	BUY
MDT	Medtronic PLC	103,476	9.0	14.5	13.9	9.0	BUY
GEHC	GE HealthCare Technologies Inc	31,667	9.0	16.8	11.0	14.1	BUY
ZBH	Zimmer Biomet Holdings Inc	18,329	10.0	11.2	11.9	6.6	BUY
ILMN	Illumina Inc	12,723	13.0	17.9	-22.3	13.3	BUY
HOLX	Hologic, Inc.	12,096	9.0	12.9	13.8	8.3	HOLD
Peer Average		**75,362**	**10.0**	**17.8**	**9.0**	**10.5**	



Please see important information about this report on page 4

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

Argus Research Disclaimer