# I. Company Thesis

Medtronic plc (MDT) has a storied history dating back to its founding in 1949 by Earl Bakken and Palmer Hermundslie in a Minneapolis garage. Initially focused on medical equipment repair, the company quickly pivoted to innovation, developing the first battery-operated, wearable pacemaker in 1957. This pioneering spirit has driven Medtronic to become a global leader in medical technology, consistently pushing the boundaries of healthcare solutions.

Medtronics mission, to alleviate pain, restore health, and extend life, encapsulates its commitment to improving patient outcomes through innovative medical devices and therapies. The company operates in over 150 countries, serving millions of patients annually. Its broad portfolio spans cardiovascular, diabetes, neurological, and surgical technologies, positioning Medtronic as a diversified player in the medtech industry.

Recent developments underscore Medtronics strategic focus on growth and innovation. The company has been actively expanding its product pipeline, with significant launches such as the Micra pacemaker, PulseSelect PFA system, and the Hugo robotic system. These products are expected to drive substantial growth, potentially adding over 1 percentage point to annual sales. Medtronics commitment to innovation is further evidenced by its Simplera Sync continuous glucose monitor, which recently received FDA approval, bolstering its diabetes portfolio.

Medtronics financial performance reflects its robust market position and strategic initiatives. The company generated 5.2 billion in free cash flow in fiscal 2024, with projections to increase by another 500 million this year. This strong cash flow supports ongoing investments in research and development, tuck-in acquisitions, and shareholder returns through dividends and share buybacks. The companys disciplined approach to its product pipeline and market expansion is expected to yield organic revenue growth of up to 6 starting in fiscal 2024. This growth is supported by a recovery in gross margins and strong free cash flow generation, providing a solid foundation for future performance. Medtronics ability to capture market share in established segments, such as its TAVR franchise, and create new markets with innovative products like the Hugo robotic system, positions it well for sustained growth. The companys strategic initiatives and strong financial health make it a compelling investment opportunity, aligned with its mission to transform healthcare and improve patient lives globally.

# II. Company Basics

## CEO (Tenure) and Market Cap

Geoff Martha has been the CEO of Medtronic plc (MDT) since April 2020. The companys market cap is currently around 105 billion.

## Multiples (Current year)

MDT trades at an 18x multiple of the CY2025 cash EPS estimate.

## 1, 3-Year, 5-Year Return (Ann. Through 42624)

Not specified in the provided text.

## Business Mix ( of 2023 Sales)

Not specified in the provided text.

## Geographic Mix ( of Sales)

Not specified in the provided text.

## Recent Developments

Medtronic received FDA approval for its Simplera Sync continuous glucose monitor, which is expected to enhance its diabetes portfolio. The company also has significant product launches such as the Micra pacemaker, PulseSelect PFA system, and Hugo robotic system, which are projected to drive substantial growth.

## Valuation

The current price target for MDT is 105.00, based on an 18x multiple of the CY2025 cash EPS estimate.

# III. Investment Highlights

## Market Trends and Growth Projections

Medtronic (MDT) is well-positioned in the growing US Transcatheter Aortic Valve Replacement (TAVR) market, which has shown a 13.4 year-over-year increase as of May 2024. MDTs performance, although slightly below the market average at 11.0 year-over-year, indicates a solid growth trajectory. Notably, MDT gained 90 basis points of US TAVR market share in May, expanding to 20.5 from 19.6 in April. This market share gain highlights MDTs competitive positioning and potential for continued growth in this segment.

## Company Performance and Product Pipeline

MDT is expected to benefit from an improving medtech market as staffing shortages ease and its robust product pipeline, including recent launches like the Micra pacemaker, PulseSelect, and MiniMed 780G. These products are anticipated to add over 1 percentage point to annual sales growth, potentially driving organic revenue growth to 6 starting in fiscal 2024. The companys focus on product-pipeline discipline and innovation positions it well for sustained growth.

## Recent Developments and Approvals

Medtronics recent FDA approval for the Simplera Sync continuous glucose monitor is a significant milestone, enhancing its diabetes portfolio. The Simplera Sync, which is half the size of MDTs existing sensor, is expected to integrate with the 780G pump, further strengthening MDTs market position in diabetes management. Additionally, the companys pipeline includes the Hugo robotic system and the Interstim sacral neuromodulation product, which are projected to support higher revenue growth than managements guidance for fiscal 2024.

## Financial Performance and Free Cash Flow

Medtronics financial health is robust, with free cash flow reaching 5.2 billion in fiscal 2024 and projections to increase by another 500 million this year. This strong cash flow supports ongoing investments in research and development, tuck-in acquisitions, and shareholder returns through dividends and share buybacks. The companys disciplined approach to its product pipeline and market expansion is expected to yield significant returns.

## Valuation and Analyst Ratings

Wells Fargo Securities rates MDT as Overweight (BUY) with a price target of 105.00, based on an 18x multiple of the CY2025 cash EPS estimate. This valuation aligns with MDTs current expectations and reflects confidence in the companys ability to achieve its growth targets. However, potential risks include slower TAVR market growth, share losses, and delays in product launches or clinical trials.

## Strategic Initiatives and Market Expansion

Medtronics strategic initiatives, including capturing share in established markets and creating new markets with innovative products, position it well for future growth. The companys TAVR franchise, benefiting from a duopoly in a market expected to expand to 10 billion by 2028, and new market opportunities like the Hugo robotic system, underscore its potential for sustained revenue growth.

## Conclusion

Medtronics strong market position, robust product pipeline, and solid financial performance make it a compelling investment opportunity. The companys strategic focus on innovation and market expansion, coupled with its disciplined financial approach, supports its growth prospects. However, investors should remain aware of potential risks, including market fluctuations and delays in product launches or approvals.

# IV. Investment Concerns

1. Market Growth and Competition

While the US TAVR market is growing at a 13.4 year-over-year rate, Medtronics (MDT) growth in this segment is slightly below the market average at 11.0. This lag could indicate potential challenges in maintaining or increasing market share, especially against competitors like Edwards Lifesciences (EW), which is growing at 14.1 year-over-year. MDTs ability to gain 90 basis points of market share in May is a positive sign, but sustaining this trend will be crucial.

1. Product Launch Delays and Approvals

Delays in product launches and clinical trial approvals pose significant risks. For instance, the renal denervation launch has already been delayed by at least a year, which could impact revenue growth projections. Any further delays in the pipeline, including the Hugo robotic system and the PulseSelect PFA system, could hinder MDTs ability to meet its growth targets.

1. End Market Weakness

Weakness in key end markets could adversely affect MDTs performance. The company is expected to benefit from easing staffing shortages, but any resurgence in these issues could slow down growth. Additionally, the performance of new products like the Simplera Sync continuous glucose monitor and the Micra pacemaker will be critical in capturing market share and driving revenue.

1. Regulatory and Pricing Pressures

MDT faces regulatory and pricing pressures, particularly in international markets like China, where pricing cuts have been implemented. These factors could compress margins and impact profitability. The companys operating margin is projected to be 25.7 for fiscal 2025, below pre-pandemic levels of 29-30, indicating ongoing challenges.

1. Financial Performance and Valuation

Although MDTs free cash flow is strong, with 5.2 billion generated in fiscal 2024 and an additional 500 million projected for this year, inflationary pressures on gross margins remain a concern. The company trades at a 15x 2025 PE multiple, which aligns with its current growth expectations. However, achieving a higher multiple of nearly 18x depends on MDT reaching a 6 revenue growth rate, which is not guaranteed.

1. Share Losses

Greater-than-expected share losses in key markets could impact MDTs financial performance. The company has shown resilience by capturing market share in the TAVR segment, but sustaining this momentum is critical. Any significant loss of share to competitors like EW could negatively affect revenue and profitability.

1. Macroeconomic Factors

Broader macroeconomic factors, such as inflation, currency fluctuations, and geopolitical tensions, could also pose risks. These factors can affect consumer spending, healthcare budgets, and overall market conditions, impacting MDTs ability to achieve its financial and operational targets.