

US Satellite*

Recommended since 13.10.2020

27.06.2023



Country US	Market capitalization (bn) USD 116,4	Perf. since reco. (%)
Sector Health Care	Free float 99,9%	Medtronic Plc -18,6
Factset MDT-US	Closing price USD 87,00	Sector 21,2
ISIN IE00BTN1Y115	ESG Risk score* 22,8 Medium risk	



Profile

Founded in 1949, Medtronic plc specialises in medical technology for chronic diseases. Its business is divided into four segments: 1/ Cardiac & Vascular Group (36% of sales), which includes cardiac rhythm management, vascular intervention, valvular diseases; 2/ Minimally Invasive Group (29% of sales), which includes surgical equipment, respiratory devices, gastrointestinal disorders, kidney care; 3/ Restorative Therapies Group (27% of sales), covering spinal disorders, neuromodulation; 4/ Diabetes Group (8% of sales), covering the management of type 1 & 2 diabetes. The head office is located in Dublin (Ireland).

Strengths/opportunities

- ⊕ A leading company in cardiac devices, products for the spine, insulin infusion pumps, pain neurostimulators.
- ⊕ Constant innovation, with a large pipeline of new products.
- ⊕ A diversified portfolio, offering solid growth over time.

Weaknesses/threats

- ⊖ Increased competition in the field of diabetes.
- ⊖ Recall/litigation risks in case of defective products.
- ⊖ Changes in insurance coverage policy; reimbursement would impact the Group's profitability.

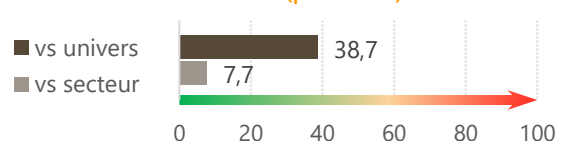
Investment case

- ⊕ As a major player in medical technologies, Medtronic benefits from leading positions in the majority of its products (particularly in the cardiac field) and a diverse portfolio enabling it to generate historically solid growth.
- ⊕ The new CEO, Geoff Martha, has a strong track record at Medtronic, having successfully managed the integration of Covidien (2014) and the turnaround in the Restorative Therapies Group. His arrival at the head of the Group at the beginning of 2020, combined with a sustained launch dynamic (rich pipeline of new products), has been positively perceived, with the expectation of better execution in the medium term. The long-term outlook is in line with this, with sales and EPS growth of 5% and 8% on average per year.
- ⊖ But a series of disappointments over the last 12-18 months (lower sales for the Hugo surgical assistance robot, production problems in the Diabetes division), slowing hospital capex and supply chain disruptions have put pressure on sales and margins. Our 2024 targets still appear weak, with organic growth of 4-4.5% and EPS of \$5.00-5.10 (-4% y/y). Nevertheless, the lifting of restrictions in the Diabetes division and a more favorable basis of comparison in H2 should enable an improvement. The opportunity/risk profile appears positive at current levels.

Valuation

The valuation is attractive, with a PE discount of 25% compared to its peers.

ESG risk vs. universe & sector (percentile)*



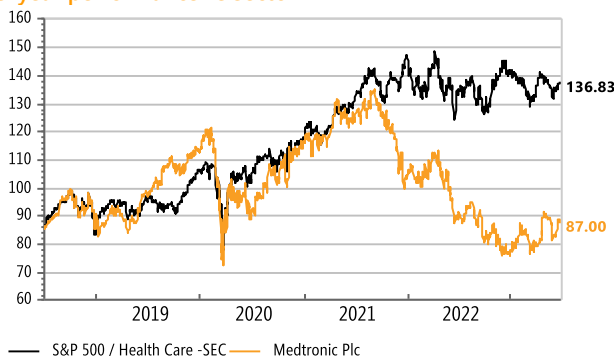
USD	04/2023	04/2024e	04/2025e
Sales revenue (mio)	31 227	32 181	33 670
Sales growth	2,2%	3,1%	4,6%
EBIT adjusted (mio)	8 256	8 041	8 638
% of sales	26,4%	25,0%	25,7%
Net income (mio)	7 045	6 699	7 210
Net income growth	-7,1%	-4,9%	7,6%
FCF/Sales	14,7%	17,4%	18,2%
Net debt/Ebitda	2,1x	1,9x	1,5x
Dividend yield	3,2%	3,0%	3,2%
PE	16,4x	17,2x	15,9x
P/BV	2,2x	2,2x	2,1x

Factset estimates

ESG - risks and key points

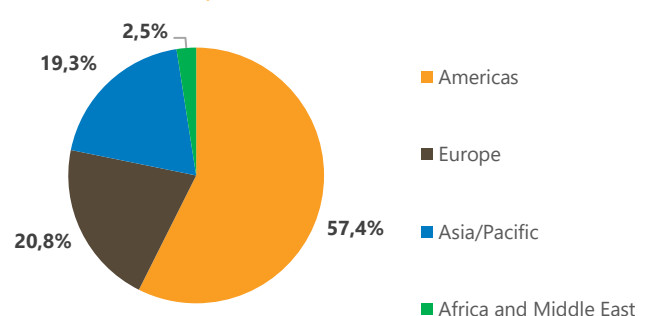
- ⊕ Medtronic's ESG risk level is medium.
- ⊕ Strong performance in corporate governance and management of ESG issues globally.
- ⊖ However, the risks of litigation and recall of defective products are higher than the industry average, due to strong exposure to the US market and the marketing of products (such as defibrillators, neurostimulators, etc.) that are more at risk. The Group has been involved in numerous controversies in the past.

5-year performance vs sector



Source: FactSet

Sales breakdown - 04/2023



*: see overleaf

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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