

Medtronic, Inc.

United States of America/Equipment & Services

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UBS Research

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Early Approval of First Leadless Pacer; Reiterate Buy

FDA approval for Micra comes ~6 months ahead of guidance

We view the approval and launch of the first leadless pacemaker as a significant milestone for MDT and the market overall. It is well understood that this is a single chamber device and therefore, limited in market scope to around 15% of the WW pacing market. But we view Micra as one of MDT's key differentiated drivers, and the first of many new innovations in leadless devices, reducing the need for transvenous leads over the long term. We expect Micra to be priced at a premium vs. conventional pacemakers due to its lower complication rates and other obvious advantages. We currently project Micra revenues to be \$73 mil WW in F17, however this approval could potentially lead to upside to our estimates. We would expect management to update investors on the company's launch timelines on their F4Q16 call in May or the company's analyst meeting in June. We reiterate our Buy rating with greater conviction and our \$85 price target.

What's so great about Micra? In the Micra TPS study, which was the basis for FDA approval, patients who received Micra had 54% fewer hospitalizations and 87% fewer revisions than in the control group. Micra was successfully implanted in 99.2% of patients and there were no dislodgements. Micra also reduced complications associated with single-chamber pacemakers by half. In the trial, 96% of patients receiving Micra experienced no major complications and 98.3% had low and stable pacing thresholds at six months yielding projected average longevity for the device of more than 12 years.

Brief background on Micra The Micra Transcatheter Pacing System is a repositionable, retrievable, MRI-safe, leadless pacing system that is delivered into the heart transfemorally. The company received CE Mark approval in April 2015 based on data from the Medtronic Micra TPS Global Clinical Trial and the product was launched in Europe in June 2015. Medtronic leads the nascent market in leadless pacing, followed closely by STJ and their Nanostim device, which is expected to reach the U.S. in 2H16.

12-month rating	Buy
12-month price target	\$85.00
Price	\$76.14

Contributing authors: Yi Cheng

Trading data and key metrics

52-wk range	US\$78.79-64.52
Market cap.	US\$110bn
Shares o/s	1,419m (COM)
Free float	100%
Avg. daily volume ('000)	1,966
Avg. daily value (m)	US\$148.0
Common s/h equity (04/16E)	US\$53.3bn
P/BV (04/16E)	2.0x
Net debt / EBITDA (04/16E)	1.8x
RIC	MDT.N
BBG	MDT US

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

	04/16E	
	UBS	Cons.
Q1	1.02	1.02
Q2	1.03	1.03
Q3	1.06	1.06
Q4E	1.26	1.27
04/16E	4.36	4.37
04/17E	4.65	4.70
04/18E	5.34	5.25

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Company Profile: Medtronic, Inc.

Medtronic is a global manufacturer and provider of medical devices and equipment across a wide range of specialties including cardiac rhythm management, vascular intervention, structural and valvular disease, spinal disorders, neuro-modulation, surgical equipment and diabetes.

Statement of Risk

Our \$85 price target is based on 12.5x EV/EBITDA on FY18E EBITDA of \$10.6 bil. Risks to our price target include lower than expected deal synergies, failure of key pipeline products, unexpected slowdown in key markets and regulatory delays of key products.

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Highlights (US\$m)	04/13	04/14	04/15	04/16E	04/17E	04/18E	04/19E	04/20E
Revenues	16,589	17,006	20,261	28,715	29,717	31,727	33,623	35,470
EBIT (UBS)	4,770	4,828	5,269	6,256	6,508	7,378	8,022	8,650
Net earnings (UBS)	3,855	3,925	4,745	6,216	6,456	7,310	7,954	8,605
EPS (UBS, diluted) (US\$)	3.75	3.87	4.28	4.36	4.65	5.34	5.81	6.29
DPS (US\$)	1.04	1.12	1.24	1.55	1.86	2.23	2.46	2.70
Net (debt) / cash	479	2,313	(16,706)	(16,196)	(14,214)	(10,698)	(5,075)	1,014
Profitability/valuation	04/13	04/14	04/15	04/16E	04/17E	04/18E	04/19E	04/20E
EBIT margin %	28.8	28.4	26.0	21.8	21.9	23.3	23.9	24.4
ROIC (EBIT) %	27.4	28.7	12.3	9.1	9.6	11.3	12.8	14.4
EV/EBITDA (core) x	8.2	9.4	12.6	13.9	13.1	11.5	10.3	9.2
P/E (UBS, diluted) x	11.2	14.4	16.1	17.7	16.6	14.5	13.3	12.3
Equity FCF (UBS) yield %	10.4	8.2	5.7	4.4	6.6	7.7	8.3	9.1
Net dividend yield %	2.5	2.0	1.8	2.0	2.4	2.9	3.2	3.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$77.31 on 06 Apr 2016 19:39 EDT

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	47%	33%
Neutral	Hold/Neutral	42%	34%
Sell	Sell	11%	23%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Exceptions and Special Cases

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

Medtronic	MDT US	Buy	US\$77.31	06 Apr 2016
Company Name	Reuters	12-mo rating	Price	Price date

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

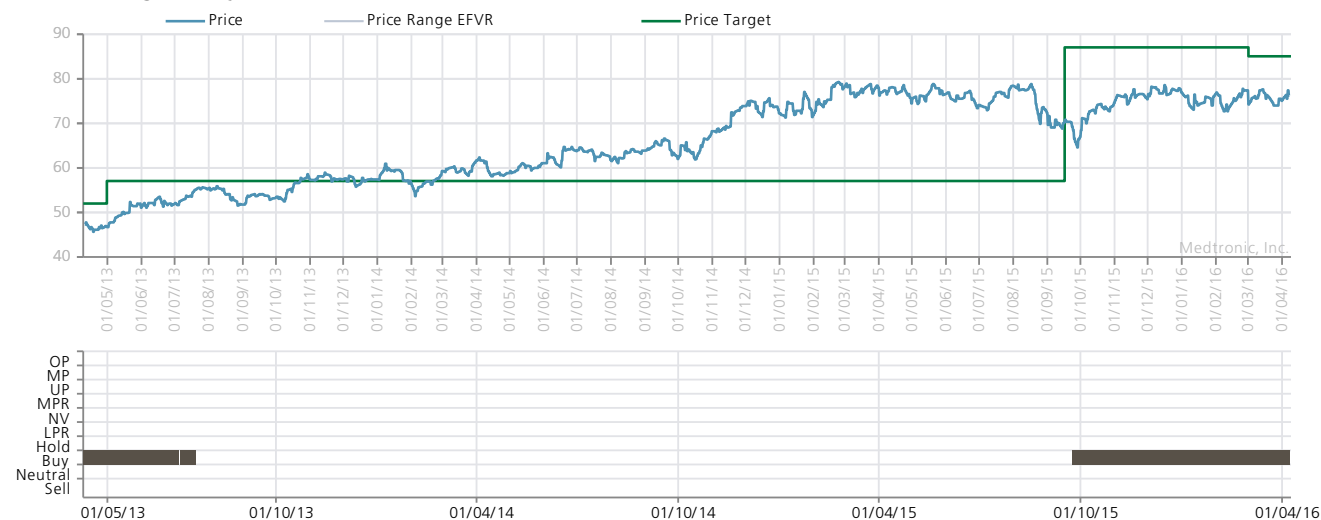
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6. A U.S.-based global equity strategist, a member of his team, or one of their household members has a long common stock position in Medtronic PLC.

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Global rating history -- Medtronic, Inc., MDT US



Source: UBS CIO as of 8 April 2016

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depositary receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans

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Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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