

Medtronic, Inc.

United States of America/Equipment & Services
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UBS Research

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12-month rating	Buy
12-month price target	\$94.00
Price	\$80.56

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A Most Improved F3Q: Post Call Take-Aways

- Top- and bottom-line beat, preliminary 2018 and long-term outlook intact
- Top-line beat broad-based, led by CVG and MITG
- Expected FX impact on FY18 EPS has eased by ~5c since Jan
- Valuation: \$94 target, based on 13.5x EV/EBITDA on FY19E EBITDA of \$11.0 bil

Management delivered 6% CC top-line growth vs. 4-5% Street estimates, and 10% CC bottom-line growth, in-line with its long-term growth model. F3Q results represent a welcoming recovery from the company's prior quarter results and demonstrates management's ability to deliver total returns in the low- to mid-teens, driven by mid-single digit revenue growth, 200-400 bps of operating leverage, 100-200 bps from debt repayment and share repurchases, and dividend yield of ~2-3%. As hoped, MDT's F3Q results provide further evidence that med device end markets and utilization trends remain relatively healthy in the U.S. We reiterate our Buy rating and \$94 price target on our large-cap diversified top pick MDT.

Top-line beat broad-based, led by CVG and MITG

Upside in sales was relatively broad-based, including higher than expected sales in MITG (+\$41 mil), CVG (+\$31 mil), RTG (+\$9 mil) and Diabetes (+\$7 mil). TAVR was a bright spot within CVG, growing ~30% WW (up >35% U.S.) driven by share gains following the launch of the 34mm Evolut R valve. We expect the SURTAVI data at ACC and the company's approval and involvement in raising awareness and adoption in intermediate-risk as further positive catalysts for the TAVR market. Stay tuned.

Expected FX impact on FY18 EPS has eased by ~5c since Jan

For FY18, management expects FX to negatively impact revenues by \$100-300 mil and EPS by 5-15c, representing an improvement from the 10-20c comments made in January. Formal FY18 guidance is expected on the F4Q call in May, but the company's comments on FX suggest a potential reported EPS range of ~\$4.85-4.95, slightly better than anticipated. Management reiterated FY17 guidance of mid-single-digit sales growth and double-digit EPS growth (or EPS of \$4.55-4.60).

Valuation: \$94 target, based on 13.5x EV/EBITDA on FY19E EBITDA of \$11.0 bil

Our \$94 price target is based on a 13.5x target multiple on 2019E EBITDA. Please see Figure 3 for a detailed review of changes to our estimates.

Trading data and key metrics

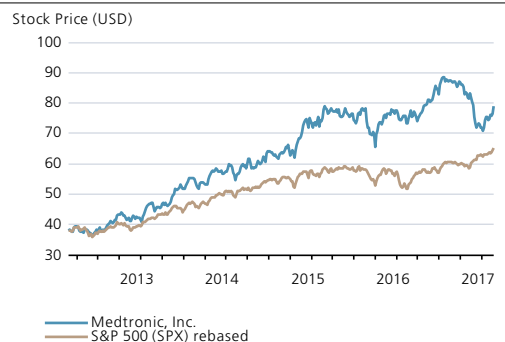
52-wk range	US\$88.92-70.61
Market cap.	US\$111bn
Shares o/s	1,372m (COM)
Free float	100%
Avg. daily volume ('000)	1,843
Avg. daily value (m)	US\$136.8
Common s/h equity (04/17E)	US\$51.7bn
P/BV (04/17E)	2.1x
Net debt / EBITDA (04/17E)	2.1x
RIC	MDT.N
BBG	MDT US

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

	04/17E			Cons.
	From	To	% ch	
Q1	1.03	1.03	0	1.03
Q2	1.12	1.12	0	1.12
Q3	1.10	1.12	2	1.11
Q4E	1.31	1.30	-1	1.31
04/17E	4.55	4.57	0	4.56
04/18E	4.87	4.87	NM	4.95
04/19E	5.42	5.43	0	5.42

Performance



Sources: Bloomberg, UBS

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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Medtronic, Inc.

Investment Thesis

Investment Case

Our Buy rating is based on the following: 1) Large cap diversified medical supplies and devices leader in the sweet spot of balancing scale with innovative high growth programs; 2) Participating in almost every high-growth opportunity across our universe, like DCBs, TAVR and Afib Ablation; and 3) Medtronic is one of best-in-class at leveraging scale and breadth to its advantage.

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, neuromodulation, surgical equipment and diabetes.

Statement of Risk

Our \$94 price target is based on 13.5x EV/EBITDA on FY18E EBITDA of \$11.0 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)	04/14	04/15	04/16	04/17E	04/18E	04/19E	04/20E	04/21E
Revenues	17,006	20,261	28,833	29,598	30,791	32,315	34,008	35,767
EBIT (UBS)	4,828	5,300	6,196	6,145	6,646	7,324	8,033	8,609
Net earnings (UBS)	3,925	4,745	6,230	6,348	6,665	7,342	8,026	8,726
EPS (UBS, diluted) (US\$)	3.87	4.28	4.37	4.57	4.87	5.43	5.98	6.55
DPS (US\$)	1.12	1.24	1.52	1.72	2.06	2.31	2.66	3.00
Net (debt) / cash	2,313	(16,706)	(18,606)	(19,063)	(17,696)	(15,092)	(11,769)	(11,769)
Profitability/valuation	04/14	04/15	04/16	04/17E	04/18E	04/19E	04/20E	04/21E
EBIT margin %	28.4	26.2	21.5	20.8	21.6	22.7	23.6	24.1
ROIC (EBIT) %	28.7	12.4	8.9	8.8	9.5	10.7	12.0	13.0
EV/EBITDA (core) x	9.4	12.6	13.7	13.9	12.7	11.4	10.3	9.6
P/E (UBS, diluted) x	14.4	16.1	17.2	17.6	16.5	14.8	13.5	12.3
Equity FCF (UBS) yield %	8.2	5.7	3.9	4.8	5.7	6.6	7.4	8.1
Net dividend yield %	2.0	1.8	2.0	2.1	2.6	2.9	3.3	3.7

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\$80.56 on 21 Feb 2017 18:43 EST

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	45%	28%
Neutral	Hold/Neutral	39%	25%
Sell	Sell	15%	17%

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 December 2016.

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).

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