

COMPANY PROFILE

Medtronic PLC

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COMPANY OVERVIEW

Medtronic PLC (Medtronic or 'the company') is a medical technology and services company. The company develops, manufactures and markets its medical devices and technologies to hospitals, physicians, clinicians and patients. Medtronic is headquartered in Dublin, Ireland.

The company reported revenues of (US Dollars) US\$29,710 million for the fiscal year ended April 2017 (FY2017), an increase of 3% over FY2016. In FY2017, the company's operating margin was 17.9%, compared to an operating margin of 18.4% in FY2016. In FY2017, the company recorded a net margin of 13.6%, compared to a net margin of 12.3% in FY2016.

KEY FACTS

Head Office	Medtronic PLC 20 On Hatch, Hatch Street Lower Dublin Dublin Dublin Dublin IRL
Phone	353 1 4381700
Fax	
Web Address	www.medtronic.com
Revenue / turnover (USD Mn)	29,710.0
Financial Year End	April
Employees	84,000
New York Stock Exchange Ticker	MDT

SWOT ANALYSIS

Medtronic PLC (Medtronic or ‘the company’) is a medical technology and services company. Acquisition of Covidien helped Medtronic in becoming a leading medical technology and services company. However, changes in health care policy may affect the company's business.

<p>Strength</p> <p>Well-diversified revenue stream in terms of segments and geography Acquisition of Covidien has helped Medtronic in becoming a leading medical technology and services company</p>	<p>Weakness</p> <p>Product recalls may dent the company's brand image</p>
<p>Opportunity</p> <p>Favorable demographic trends likely to spur demand for Medtronic's products Acquisitions likely to further strengthen Medtronic's product portfolio Partnerships may help the company in strengthening its diabetes care business</p>	<p>Threat</p> <p>Intense competition in medical devices industry Health care cost containment measures could affect Medtronic's business Greater scrutiny and stringent regulations</p>

Strength

Well-diversified revenue stream in terms of segments and geography

Medtronic has a well-diversified revenue stream from its various business segments. In FY2017, the cardiac and vascular group management segment contributed 35.3% of its total revenues, followed by the minimally invasive therapies group (33.4%), the restorative therapies group (24.8%), and diabetes group (6.5%). A diversified revenue stream offsets the company's exposure to the risks associated with a particular business in medical devices market.

The company also has a well-diversified revenue stream in terms of geography. It serves hospitals, physicians, clinicians, and patients in approximately 160 countries worldwide. During FY2017, the company generated 60.4% of its total revenues from Americas, followed by Europe, Middle East and Africa (22.7%), Asia Pacific (11.6%), and Greater China (5.4%). A diversified geographic presence of Medtronic helps it in diversifying its business risks and strengthening its market shares across the globe.

Acquisition of Covidien has helped Medtronic in becoming a leading medical technology and services company

Earlier, Medtronic acquired Covidien, a global healthcare products company, for approximately \$50

billion. Covidien develops, manufactures and sells a diverse range of industry-leading medical device and supply products.

The combination with Covidien supports and accelerates Medtronic's three fundamental strategies which include therapy innovation, globalization and economic value. In therapy innovation, Medtronic now has expanded portfolio of innovative products and services. Medtronic would be a preeminent leader in delivering therapy and procedural innovations to address the major disease states impacting patients and healthcare costs around the world. In globalization, the company has presence in more than 160 countries, which helps it in serving better global market needs. In economic value, Medtronic has adopted an intense focus on aligning with its customers to create more value in healthcare systems around the world. With Covidien, Medtronic would be able to provide a broad array of complementary therapies and solutions. Post-acquisition of Covidien, the company established a new division operates as Minimally Invasive Technologies segment, a second largest segment of Medtronic recorded \$9,919 million in FY2017, which accounted for 33.4% of the company's total revenue and indicated an increase of 3.7% over FY2016.

Hence, the acquisition of Covidien marks a significant milestone for Medtronic in the industry, creating a company positioned to alleviate pain, restore health and extend life for more patients around the world.

Weakness

Product recalls may dent the company's brand image

Medtronic has recalled several of its products in recent years. For instance, in May 2017, Medtronic's division HeartWareInc recalled splice kit due to a design problem which would interrupt electrical connection that causes the pump to stop and leads serious adverse health consequences. In April 2017, the company recalled StartaMR adjustable valves and shuts due to design problem that could cause fluid buildup in the brain. In June 2016, the company recalled 60,941 RestoreSensor and RestoreSensorSureScan systems due to device recharging issues. In April 2016, the company recalled the battery pack used in its Covidien Oridion labeled Capnostream20 and Capnostream20p Patient Monitors, due to a battery manufacturing defect that may increase the risk of thermal damage in the battery pack. In the recent past, the company recalled 6,912 units of loading system of a recently approved heart device after reports of presence of particulates. Earlier, Medtronic announced that a previously communicated global voluntary recall to address an issue with certain lots of its Trellis-6 and Trellis-8 peripheral infusion systems has been classified as a class 1 recall by the FDA. This action was in response to a manufacturing error where the proximal and distal balloon inflation ports were labeled incorrectly, resulting in the potential for incorrect sequence of balloon deflation. If the physician using the device were to mistakenly deflate the balloons out of order, there was a potential for blood clots to travel downstream and become lodged in the lungs. Depending upon the size and location of these clots, there is the possibility of serious patient injury. Earlier, the recall involved 1,248 units manufactured and distributed by Covidien.

The company has been recalling products earlier also. For instance, Medtronic initiated four medical device notifications to customers worldwide about the SynchroMed implantable infusion system. Medtronic also recalled MiniMed paradigm insulin infusion sets with an issue of potential over or under

delivery of insulin. Previously, the company recalled interventional guidewires and Attain Hybrid guidewires used in placement of diagnostics in the coronary and peripheral vasculature as there was a potential hazard of delamination and detachment of wire coating. The FDA classified all the above recalls in Class I category. According to the FDA, a Class I category of recall is a situation in which there is a reasonable probability that the use of a violated product would cause serious adverse health consequences or death. Hence, such product recalls may affect the company's brand image.

Opportunity

Favorable demographic trends likely to spur demand for Medtronic's products

The aging population in the US is expected to further expand in the coming years. According to the US Census Bureau, there were approximately 46.2 million Americans aged 65 or older in the US who comprised approximately 14.5% of the total US population in 2014. By the year 2060, the number of elderly is expected to climb to 98.2 million of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase to 19.7 million by the year 2060. The aging population in the US, Medtronic's largest geographic market, could drive demand for Medtronic's products.

Acquisitions likely to further strengthen Medtronic's product portfolio

Medtronic has acquired several businesses in the recent past. For instance, in August 2016, the company and HeartWare International, a leading innovator of less-invasive, miniaturized circulatory support technologies for the treatment of advanced heart failure, entered into a definitive merger agreement under which Medtronic would acquire HeartWare in a transaction valued at approximately \$1.1 billion. This acquisition would expand Medtronic's portfolio of diagnostic tools, therapies and services for patients suffering from heart failure. This transaction is aligning with Medtronic's mission of alleviating pain, restoring health and extending life, and is in line with the company's strategy to surround the physician with innovative products while focusing on patients and disease states.

During the same month, the company acquired Smith & Nephew's gynecology (GYN) business for approximately \$350 million. This addition of the GYN portfolio would expand and strengthen Medtronic's minimally invasive surgical offerings and would further complement its existing global GYN business. The company believes that this acquisition would create opportunities to further explore and develop global therapies and solutions that improve GYN surgery. In February 2016, Medtronic acquired privately-held Bellco, a pioneer in hemodialysis treatment solutions. Bellco's portfolio supports the company's legacy renal access business and would be a foundational component of its recently formed Renal Care Solutions business. The integration of Bellco's portfolio of solutions would help Medtronic to further advance its efforts to provide comprehensive care for dialysis patients worldwide.

In the recent past, Medtronic acquired Aircraft Medical, a privately-held medical device company based in Edinburgh, Scotland, that develops affordable, handheld high-quality video laryngoscopes used by anesthesiologists and critical care professionals to intubate patients. Aircraft Medical's offerings complement the company's portfolio and this acquisition would expand Medtronic's portfolio of solutions for dealing with difficult airways and addresses the preventable issue of respiratory compromise, which

consists of respiratory insufficiency, failure and arrest, dramatically increases the likelihood of adverse outcomes and cost of patient care. Earlier, the company completed the acquisition of Twelve, a privately-held medical device company based in Redwood City, California, focused on the development of a transcatheter mitral valve replacement (TMVR) device. This acquisition supports Medtronic's therapy innovation strategy, as TMVR represents an important growth opportunity for the company's business. The combined strengths of both the organizations would significantly accelerate Medtronic's ability to deliver an exciting and differentiated therapy to patients, physicians and healthcare systems around the world.

Previously, Medtronic acquired Lazarus Effect, a Campbell, California-based and privately-held medical device company focused on acute ischemic stroke products that facilitate the capture and removal of clots. Lazarus Effect's 'mesh cover' technology complements the company's ischemic stroke portfolio, and further enhances its Neurovascular business's ability to deliver next generation technologies. With this acquisition, Medtronic strengthens its commitment to providing innovative solutions to clinicians and patients fighting stroke. The company acquired Medina Medical, a Menlo Park, California-based and privately-held medical device company focused on commercializing state-of-the-art treatments for vascular abnormalities of the brain including cerebral aneurysms. Medina Medical's breakthrough technology makes it a natural fit with Medtronic's neurovascular portfolio, further strengthening its hemorrhagic stroke portfolio. Medtronic entered into an agreement to acquire RF Surgical Systems, a US-based medical device company focused on the detection and prevention of retained surgical items. The RF Surgical system is designed to be used as an adjunct to manual counting methods to help prevent surgical sponge-related "never events," which are serious and harmful clinical events. As reported by Medtronic, the proprietary detection system of RF Surgical Systems uses a low radio frequency (RF) signal to track and detect surgical gauze, sponges and towels (embedded with a RF tag) through blood, dense tissue and bone. The technology, as stated by Medtronic, aims to reduce patient complications due to surgery, lessen unnecessary procedures, and increase efficiencies within the operating room.

Earlier, the company acquired Diabeter, an independent Netherlands-based diabetes clinic and research center dedicated to providing comprehensive and individualized care for children and young adults with diabetes. This acquisition marked Medtronic's first entry into diabetes integrated care model approach. It also acquired Sophono, a privately held developer and manufacturer of innovative magnetic hearing implants in the US. Sophono's magnetic bone conduction hearing implants are currently available in 42 countries and have been implanted in more than 4,000 patients. The acquisition of Sophono would enable Medtronic's ear nose and throat (ENT) business in increasing its focus on novel therapies and innovative technology solutions. These acquisitions are likely to further strengthen Medtronic's product portfolio.

Partnerships may help the company in strengthening its diabetes care business

Medtronic has been partnering with several companies to strengthen its diabetes business. For instance, in March 2017, Medtronic entered in to partnership agreement with Atlas General Hospital in Belgrade, Serbia. Under this partnership, these two companies provide advanced surgical technologies and treatment which focuses on improving quality and accessibility of Spine Care for Serbian patients. In May 2016, the company and Qualcomm through its wholly-owned subsidiary, Qualcomm Life, announced a global, multi-year collaboration to jointly develop future generation continuous glucose monitoring (CGM) systems that aim to improve health outcomes for people with diabetes. The collaboration seeks to

leverage Medtronic's market-leadership in diabetes management and Qualcomm Life's expertise in developing reference designs for wireless, single-use and small integrated modules to create more affordable, easier-to-use CGM systems, including a new sensor and smaller design that can provide near real-time and retrospective glucose data. This collaboration would help the company to develop innovative and affordable CGM systems that would fundamentally change type-2diabetes management.

In January 2016, Medtronic partnered with the Chengdu municipal government to manufacture and deploy advanced diabetes therapies in Chengdu, China. By manufacturing both advanced insulin pumps and hemodialysis products in Chengdu, the company would benefit from the expertise of this global medical technology hub, while expanding access of its innovative therapies to China's growing population. In the recent past, the company entered into an agreement with Glooko, a company engaged in providing diabetes data unification and analytics. The partnership would incorporate information from Medtronic insulin pumps and continuous glucose monitors (CGM) into Glooko's unified, cloud and mobile-based diabetes management platform. In addition, Medtronic will be able to integrate other health and wellness data sources, such as food, medication, fitness and biometric data with its CareLink platform. Combining this with insulin and CGM data could provide additional insights for patients and providers and could be beneficial to improve diabetes management.

Earlier, Medtronic entered into partnership with Samsung Electronics (Samsung), a consumer electronics company committed to transformative mobile health and wellness solutions to enhance diabetes management and empower overall patient health. The partnership would combine Samsung's understanding of consumer mobile technology to deliver secure and convenient access to Medtronic's integrated diabetes management systems that provide clinically-proven outcomes. Previously, IBM and Medtronic entered into partnership to combine analytics and cognitive computing with diabetes medical devices and health data to develop a new generation of personalized diabetes management solutions. IBM and Medtronic are exploring ways to develop diabetes care management solutions that will optimize patient outcomes and health economics, leveraging Medtronic's devices and care management offerings, including therapies and coaching, and IBM's Watson Health Cloud platform. Medtronic's partnership with these companies is likely to strengthen its diabetes care business.

Threat

Intense competition in medical devices industry

Medtronic competes in both therapeutic and diagnostic medical markets in more than 160 countries. It faces significant competition across its product lines and in each market in which its products are sold. It competes with various medical technology companies on the basis of many factors, including product reliability, product performance, product technology, product quality, product services, and price. Its major competitors include Baxter International, Boston Scientific, Edwards Lifesciences Corporation, Insulet Corporation, St. Jude Medical, Stryker, Zimmer Biomet Holdings, Johnson & Johnson, Roche Holding and Abbott Laboratories. Intense competition is likely to put Medtronic's market position under duress and to keep revenue growth under pressure.

Health care cost containment measures could affect Medtronic's business

Health care policy changes, including the US health care reform legislation signed in 2010, may have a material adverse effect on the company. In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators, and third-party payers to control these costs and, more generally, to reform the US health care system. Certain of these proposals could limit the prices Medtronic is able to charge for its products or the amounts of reimbursement available for its products and could limit the acceptance and availability of its products. The adoption of some or all of these proposals could have a material adverse effect on Medtronic's financial position and results of operations.

Further, in March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010. The legislation imposes significant new taxes on medical device makers in the form of a 2.3% excise tax on all the US medical device sales beginning in 2013. Under the legislation, the total cost to the medical device industry is expected to be approximately \$20 billion over 10 years. This significant increase in the tax burden on the medical devices industry could have a material, negative impact on Medtronic's results of operations and its cash flows. Other elements of this legislation, such as comparative effectiveness research, an independent payment advisory board, payment system reforms, including shared savings pilots, and other provisions, could meaningfully change the way health care is developed and delivered, and may materially impact several aspects of Medtronic's business.

Greater scrutiny and stringent regulations

Medtronic's medical devices and business activities are subjected to rigorous regulation, by the FDA and numerous other federal, state, and foreign governmental authorities. Each of these agencies requires the company to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of the medical devices. This may also increase the scrutiny from the competitors. For example, authorization to commercially distribute a new medical device in the US requires a demonstration that the new medical device is substantially equivalent to a legally marketed device (pre-market notification of the FDA). This could subject Medtronic's products to clinical trials that could invalidate its products by the competitors.

Medtronic is also subject to foreign trade controls by several US government agencies, including the Bureau of Industry and Security and the Office of Foreign Assets Control. Outside the US, Medtronic is required to be in compliance the norms of the regulatory agencies concerned with the particular region.

Any changes in the regulation in the domestic or foreign markets in which Medtronic conducts its business could impact the company's profitability.

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