From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report November 2016

The art of common sense

SKAGEN

Summary – November 2016

- SKAGEN Global outperformed its benchmark index by 0.6% in November. The fund had a return of 4.8% while the benchmark MSCI All Country World Index gained 4.2% (measured in EUR).*

- In 2016, the fund has gained 3.1% while the benchmark is up 8.5%. Hence, the fund's year-to-date relative performance is -5.4%.

- Citigroup, Comcast and Dollar General were the three best monthly contributors to absolute performance while Medtronic, NTT Docomo, and Teva were the three largest detractors.

- The fund initiated new positions in CMS Energy and Medtronic during November.

- We sold out of Lundin Mining and Adient last month.

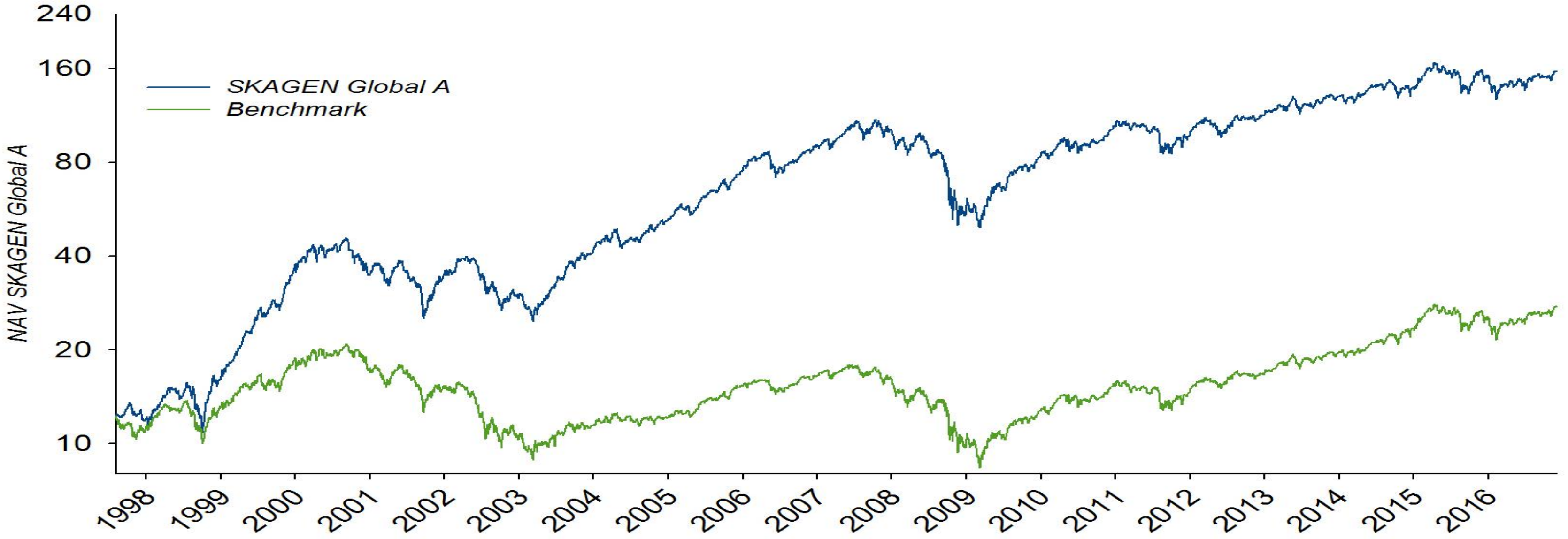
- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 13.4x and a Price/Book of 1.6x vs. the index at 15.1x and 2.0x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 32%.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

SKAGEN Global A results, November 2016

EUR, net of fees



	November	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	4,8%	4,8%	3,1%	-1,1%	6,1%	10,3%	6,1%	14,1%
World Index*	4,2%	5,5%	8,5%	3,3%	12,0%	14,3%	5,6%	4,3%
Excess return	0,6%	-0,6%	-5,4%	-4,4%	-5,9%	-4,0%	0,5%	9,8%

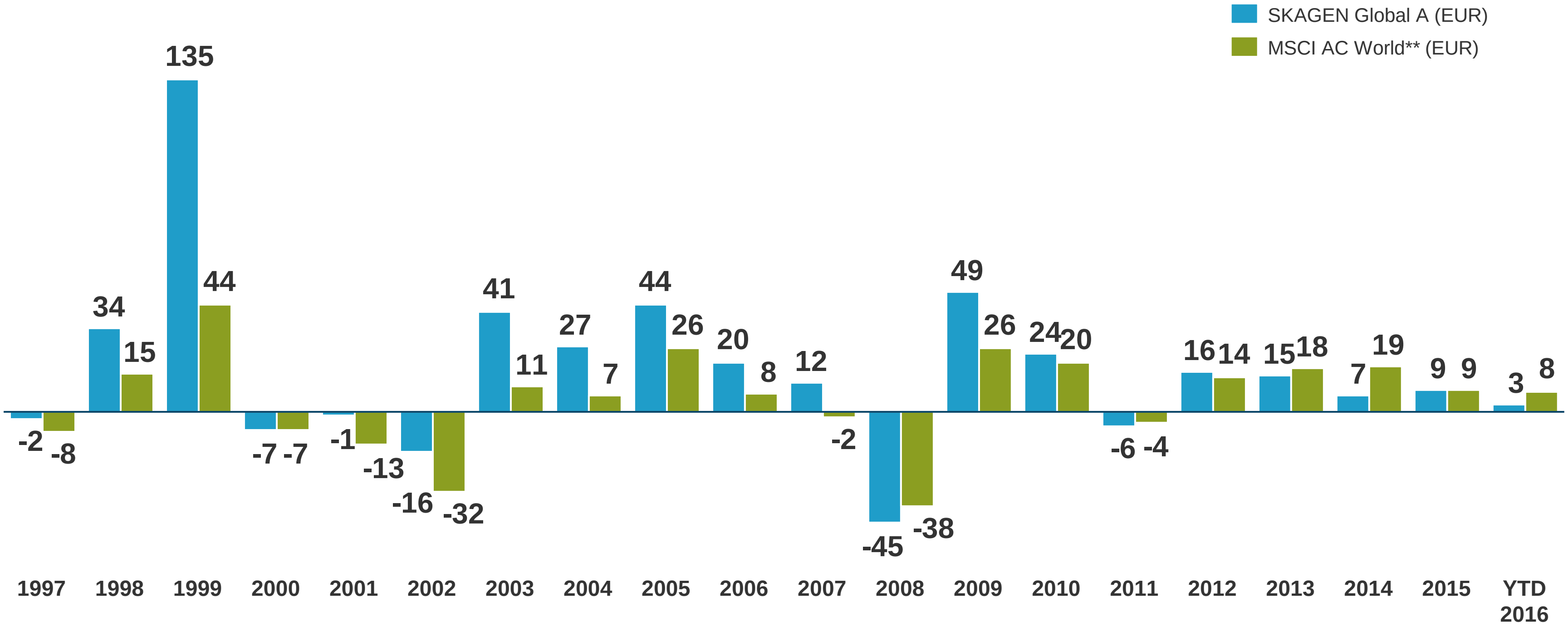
Note: All returns beyond 12 months are annualised (geometric return)

** Inception date: 7 August 1997*

*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*

SKAGEN Global A has beaten its benchmark 15 out of 19 years

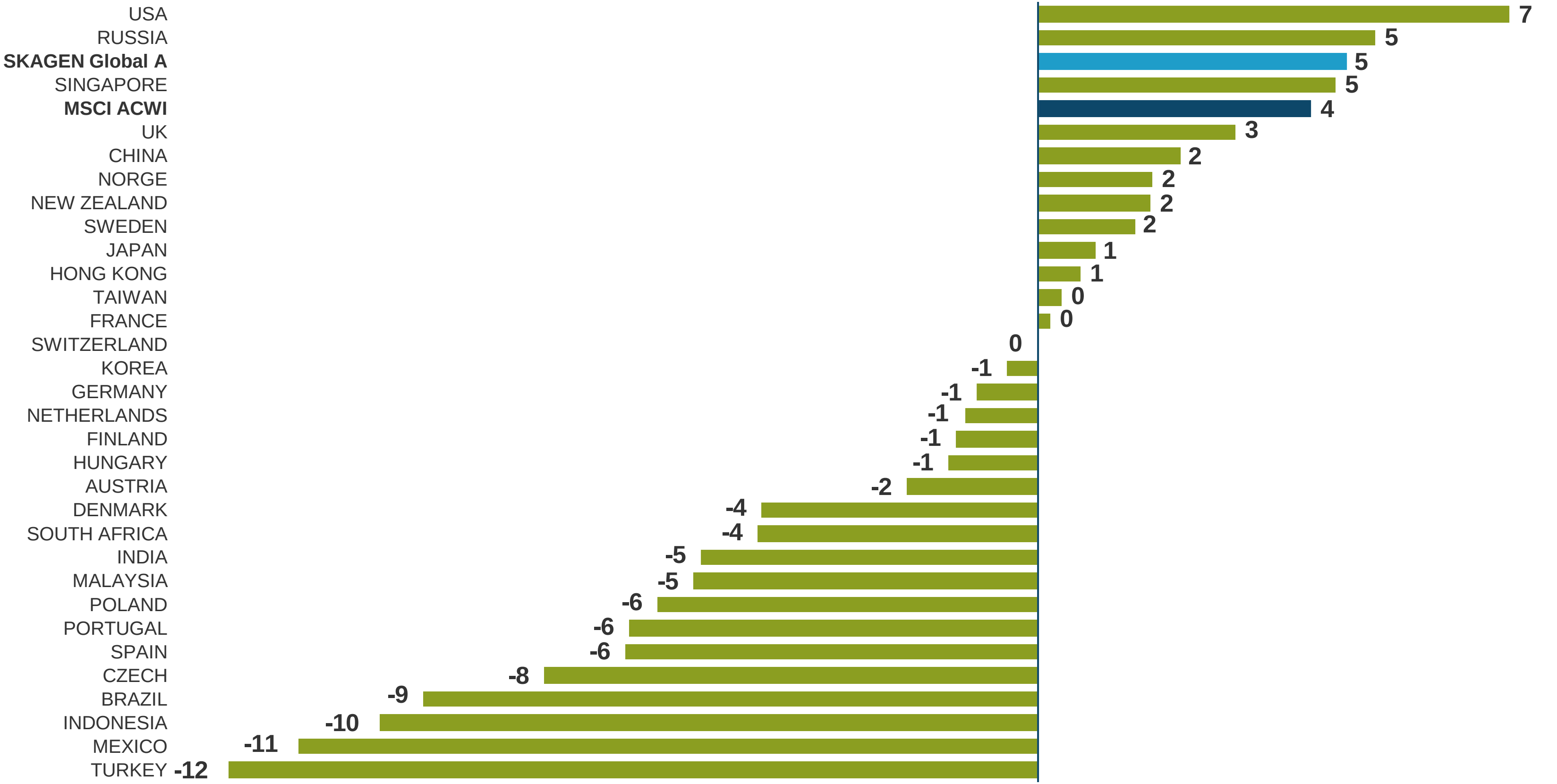


Note: All figures in EUR, net of fees

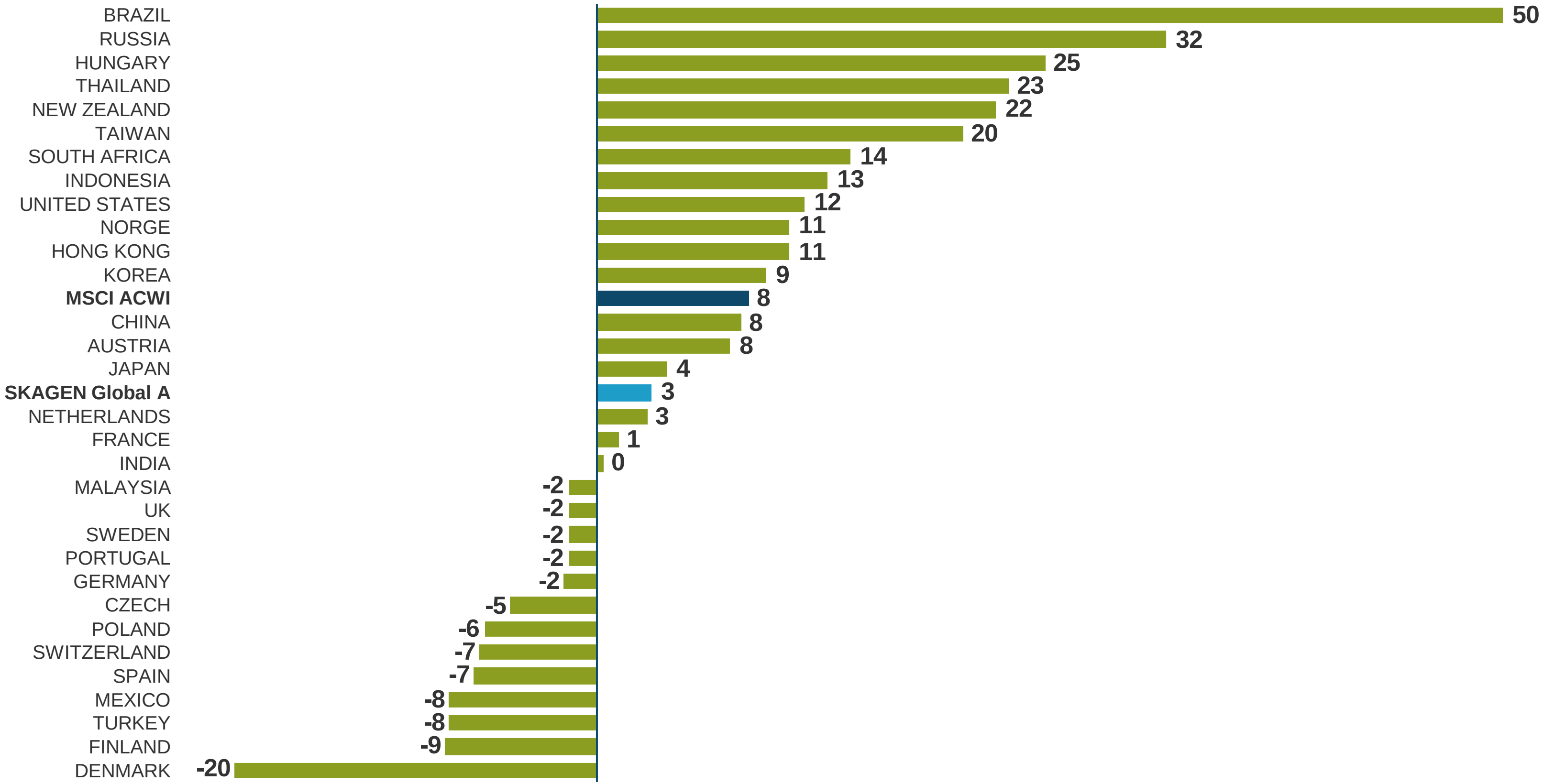
** Inception date: 7 August 1997*

*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 1997 and MSCI All Country World Index from 1 January 2010 onwards*

Markets in November 2016, EUR (%)



Markets in YTD 2016, EUR (%)



SKAGEN

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	184
Comcast	153
Dollar General	122
G4S	111
General Electric	99
Merck & Co	99
3M	75
AIG	74
Goldman Sachs	66
NN Group	65

Largest negative contributors

Company	NOK Millions
Medtronic Plc	-56
Ntt Docomo	-49
Teva Pharmaceutical Industries	-45
Sony	-22
Mayr Melnhof Karton	-19
China Mobile	-16
Unilever CVA	-15
Carlsberg	-12
Philips	-11
Baidu	-9

Value Creation MTD (NOK MM): 1184

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	316
AIG	212
Dollar General	138
Comcast	133
Microsoft	127
General Electric	124
Goldman Sachs	98
NN Group	81
Samsung Electronics	65
Merck & Co	64

Largest negative contributors

Company	NOK Millions
Teva Pharmaceutical Industries	-83
Cap Gemini	-68
Medtronic Plc	-56
Roche Holding	-55
Unilever CVA	-51
Ntt Docomo	-49
Kingfisher	-37
China Mobile	-29
Carlsberg	-25
Sony	-19

Value Creation QTD (NOK MM): 1388

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	227
Johnson Controls International	168
Merck & Co	167
Comcast	139
DSM	134
Dollar General	126
Microsoft	105
Lundin Petroleum	89
Sony	86
Lundin Mining	83

Largest negative contributors

Company	NOK Millions
Teva Pharmaceutical Industries	-400
Roche Holding	-301
Credit Suisse Group	-202
Lenovo Group	-127
AIG	-126
Barclays PLC	-117
Nordea Bank AB	-111
State Bank of India	-106
Autoliv	-105
Kingfisher	-99

Value Creation YTD (NOK MM): -1274

NB: Contribution to absolute return

Most important changes Q4 2016

Holdings increased

Q4

Medtronic	(New)
CMC Energy	(New)
Unilever	
China Mobil	
Autoliv	
Alphabet	

Holdings reduced

Q4

WM Morrison Supermarkets	(Out)
Lundin Mining	(Out)
Adient	(Out)
Citigroup	
AIG	
DSM	
G4S	
Volvo	

Holdings increased and decreased during November 2016

Key buys

- We initiated a new position in the mid-sized single-state regulated utility, **CMS Energy**, in November. In our view, the stock offers a compelling earnings and dividend growth story combined with a strong balance sheet and a top-rated management team.
- We also bought the medical device company, **Medtronic**, in November. We think the stock offers an attractive valuation skew supported by a solid balance sheet, healthy FCF generation, with structural tailwinds both in DM and EM markets with ageing demographics.

Key sells

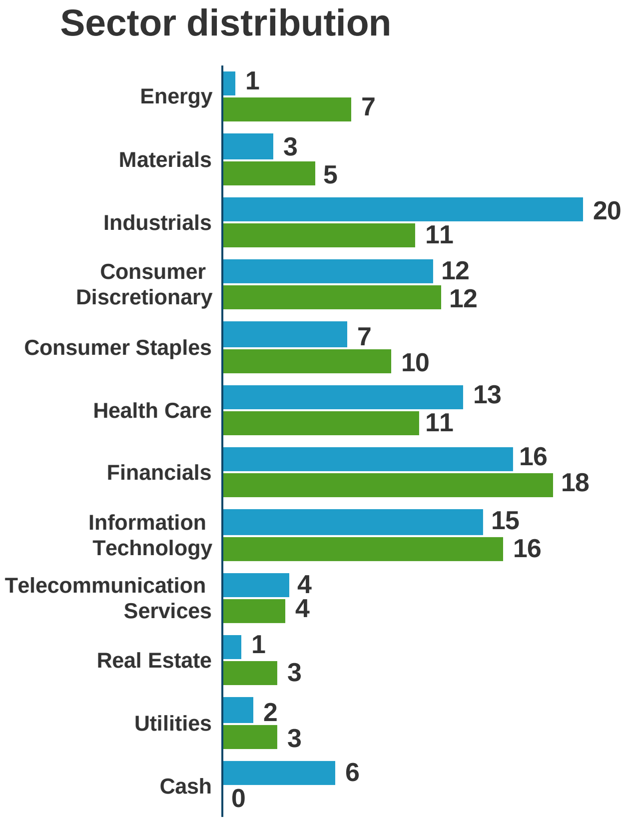
- **Lundin Mining** was sold out as the stock reached our target price after strong performance in 2016.
- As a shareholder in Johnson Controls International, we received shares in the spin-off of automotive seating supplier, **Adient**. We sold all the shares after receiving them, as we do not find the risk-reward attractive vs. our existing holdings.

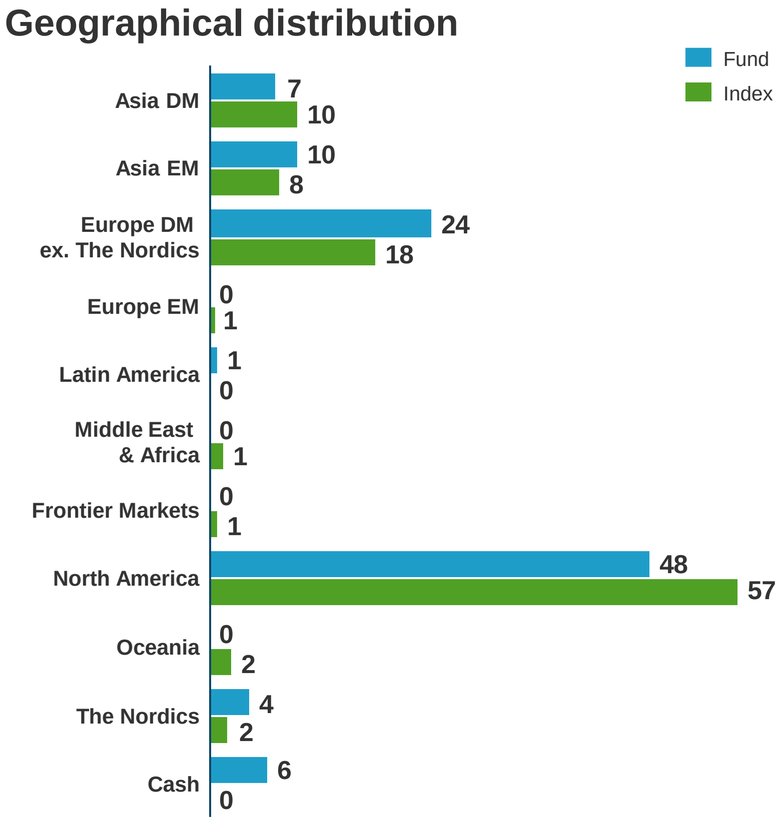
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Price target
AIG	5,4	63,3	16,7	11,6	0,7	90
UNILEVER	4,9	37,9	20,4	18,8	7,4	44
CK HUTCHISON	4,9	94,5	11,6	10,5	0,9	140
CITIGROUP	4,7	56,4	11,9	10,8	0,8	70
GENERAL ELECTRIC	4,5	30,8	20,6	18,4	3,3	36
SAMSUNG ELECTRONICS	4,4	1 356 000	9,0	7,5	1,1	1 500 000
ROCHE	4,3	226,7	15,4	14,5	10,5	360
MICROSOFT	3,9	60,3	20,3	18,5	6,7	68
MERCK	3,9	61,2	16,2	15,8	3,9	76
CHINA MOBILE	3,8	84,7	14,2	13,1	1,6	120
Weighted top 10	**44,9**		**14,6**	**12,7**	**1,5**	**30 %**
Weighted top 35	**87,7**		**15,0**	**13,4**	**1,6**	**32 %**
MSCI AC World			**17,0**	**15,1**	**2,0**	

As of 30 November 2016

SKAGEN Global sector and geographical distribution





Key earnings releases and corporate news, November 2016

AIG

(5.4%)

Costs and capital return on track, but underwriting is still a challenge

Summary: Our operational turnaround case is all about commercial P&C. The company continued to reduce costs, improving the expense ratio to 27.6% (vs. 29.6% in 3Q15), and seems to be ahead of its very ambitious targets. With regard to underwriting, the strong improvement we saw last quarter did not continue this quarter. While the core loss ratio improved 190bps to 64.8%, it deteriorated from 61.7% in 2Q. Management remains confident about its 62%/60% targets by 2016/17 as they are making progress in portfolio optimisation. The big disappointment was adverse prior year reserve developments (adding 5 points to the combined ratio). AIG has returned USD 9.8bn to shareholders YTD. With the recently announced divestitures, the company seems to be on track to exceed its deployment target of at least USD 25bn through year end 2017 – current market cap is USD 65bn.

Investment case implications: Compared to our original investment thesis, AIG continues to deliver on exiting non-core assets and increasing financial leverage, from a very low base, to return a significant amount of capital to shareholders in the form of buy-backs below book value. After an exceptionally strong 2Q, this quarter showed a mixed picture with regard to the operational turnaround in its underperforming commercial P&C business. While cost reductions seem to be ahead of targets, underwriting did not continue its improvement this quarter, and the adverse developments in prior year's reserve is clearly an issue we hoped AIG had moved past.

GE

(4.5%)

GE and Baker Hughes launch oil & gas partnership

Summary: GE's Oil & Gas division has merged with Baker Hughes to create a free-standing, publicly traded company in which GE will own 62.5% of the shares. Baker Hughes' shareholders will also receive a USD 7.4bn cash dividend from GE (funded by debt). The new company will generate USD 34bn in revenue by 2020 and USD 8bn EBITDA, assuming an oil price between USD 45 and USD 60/bbl until 2019. As part of the deal, GE will sell its Water business (worth USD 2-3bn).

Investment case implications: Minor positive. We recently highlighted the need for GE management to keep up its execution in the sluggish macro environment. This merger seems logical given the complementary product footprint of the two companies and the new entity will be a formidable competitor to Schlumberger and Halliburton. In the past, GE has lacked financial discipline in its M&A transactions but this deal, valued at roughly 11x 2018 EV/EBITDA, seems more financially prudent. Ultimately, the oil price trajectory over the next few years will determine whether the deal is deemed a success.

Key earnings releases and corporate news, Nov 2016 (cont.)

Samsung Electronics (4.4%)

The right strategic steps and realistic expectations

Summary: Samsung Electronics (SEC) announced its strategic update following the letter from the activist investor Elliott Management. The SEC board committed to the following steps. 1) Allocate 50% of FCF for 2016 and 2017 for shareholder return (versus 30-50% previously for 2015-2017). 2) Increase dividend per share by c36%. 3) Utilise the balance of 50% of FCF for FY16 and unallocated share for FY15 for share buy-back starting end-January. The shares bought back will be cancelled. 4) Initiate quarterly dividend payments starting 1Q17 at 1/4 of FY16 dividend. 5) Seek to further enhance capital allocation beyond 2017. The company aims to maintain a net cash balance of KRW 65-70tr versus current 70tr through 2017 and will then review this based on “business and economic developments and return excess cash beyond the net cash target to shareholders”. At the conference call, management stated that it will review the creation of a holding/operating company structure as suggested by Elliott and that this review might take six months. The board will also review the suggestion of an overseas listing, but were uncertain how much value this would add. SEC will furthermore create a new governance committee comprising independent directors to provide feedback on board proposals/decisions linked to shareholder value and committed to elect at least one outside director. The committee will engage with external shareholders.

Investment case implications: Clearly a step in the right direction, although not fulfilling all of Elliot’s wishes (but in-line with our thinking as we expected SEC to meet some, but not all, of the activist’s suggestions). Excluding M&A, SEC should generate FCF of KRW c22tr for 2017 which would give a shareholder remuneration of KRW 11tr or KRW 79k per share. For our pref. share this equals a yield of 6% (again, with a 50% pay-out ratio and net cash position approaching 1/3 of current market cap).

G4S (2.5%)

Strong operational performance continues

Summary: Key highlights from Q3 results include: Organic growth 6.5% YoY vs. Q2: 5.4%; Q1: 4.5% (FY15: 3.9%). EBITA 8.2% YoY vs. Q2: 9.7%; Q1: 6.5%; (FY15: 5.7%). Net income >10% YoY. Operating cash flow 9M >60% YoY vs. H1 +52% YoY. On track to reduce leverage to 2.5x ND/EBITDA by 2017 y/e.

Investment case implications: Combination of accelerated organic growth (6.5% YoY) and further margin expansion is driving >10% earnings growth and very strong cash generation (OpCF +60% YoY). Leverage metrics obviously falling as both the denominator and numerator are improving. Story is fully on track.

Key earnings releases and corporate news, Nov 2016 (cont.)

NN Group

(2.9%)

Reports good capital generation in Q3

Summary: Operating result of EUR 319m up 15% YoY (ex-positive private equity dividend in 2015 Q3) largely driven by higher capital gains and revaluations. Netherlands non-life COR at 101.8% improved YoY (vs. 105.6%) but is still above the 97% target with motor and weather events elevating claims levels. Free cash flow to holding at EUR 298m and roughly EUR 200m quarterly capital generation well support the annual guidance. Net ROE 8.1% (vs. 12.2% 2015 Q3). Solvency II ratio down sequentially from 252% to 236% due to market movements. NN continues to evaluate the bid for Delta Lloyd but no material update at this stage (the buyback program remains suspended pending the bid).

Investment case implications: In line with investment thesis. Our thesis assumes that solid free cash flow generation (driven by further internal improvements on cost and underwriting) combined with prudent capital allocation by management provides an opportunity to drive value in light of NN's valuation at 0.4x P/B. The stock has risen by 30% since the low point in early July, and has paid a dividend.

Medtronic

(2.6%)

Soft revenues in FY17/Q2

Summary: Medtronic reported FY17/Q2 revenues of USD 7.3bn (+2% organic) and USD 1.12 EPS (+9% YoY). Full-year cash EPS guidance lowered from mid-point USD 4.65 to USD 4.60 (est. at USD 4.65) as revenue remained soft due to a number of factors (including Saudi Arabia scaling back, lower UK bulk purchases, diabetes pump product launch gap), some of which may well continue. Gross margin at 68.8% and operating margin at 27.2% were up sequentially (+20 bps, +80 bps) but down YoY (-30 bps, -20 bps). Separately, the board member James Lenehan (ex-President at Johnson & Johnson) reported a USD 150,000 open market share purchase following the share pullback on lower revenue guidance.

Investment case implications: Medtronic is a global medical device company comprised of the legacy Medtronic business and the acquired Covidien (Tyco spin-off) in 2014. Receding top-line growth has dampened the market's enthusiasm for the company and the trend of lower revenue growth continued this past quarter. Fundamentally, we think the company is well positioned (#1 and #2 in most segments) in the medical device landscape and it should be able to eke out HSD EPS/DPS growth as temporary headwinds from a stronger USD, softer EM and slower innovation cycle subside. Synergies from the Covidien acquisition provide further optionality. Valuation looks attractive with 8-9% free cash flow yield a couple of years out backed by a solid balance sheet. We have followed in the board member's footsteps and further built up our position recently.

The 10 largest companies in SKAGEN Global

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings that it intends to keep: Sun America and Chartis.

Unilever is a manufacturer of branded and packaged consumer goods. Main segments are food (24% of sales), refreshment (19%), personal care (38%), and home care (19%). The company operates in more than 180 countries and emerging markets now account for more than 50% of sales. We think the market underestimates the long-term organic growth in emerging markets and Unilever's ability to increase margins. Due to very high ROIC, growth will be produced with a minimal "growth" CAPEX, enabling the company to grow and maintain a high pay-out ratio.

Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (as % of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same proportion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

The 10 largest companies in SKAGEN Global (continued)

Samsung Electronics is one of the world's largest producers of consumer electronics. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces domestic appliances, cameras, printers, PCs and air conditioners.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification, 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).

Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.

China Mobile is the leading mobile operator in China with more than 800 million subscribers. After losing out in 3G, the company is aggressively rolling out its 4G network. On an absolute basis, we find the strong, steadily growing free cash flow significantly undervalued. From a relative perspective, we again see the company trading at a significant discount to what we have to pay for similar cash flows elsewhere in general and vs. telecom operators outside of China specifically; especially given the consolidated nature of the Chinese telecom market.

CMS Energy (CMS US) USD 41.50

Mean reversion	Special situation	Long-term value builder
0%	25%	75%

History, business model and source of investment idea

- Operating since 1886, CMS Energy is a mid-sized single-state regulated utility operating in Michigan (utility friendly state). The utility has 8.9 GW of electric capacity (1.8m electric customers) and 309 bcf gas storage (1.7m gas customers). The average rate-base earned ROE is 10.3%. CMS ranks #403 on the 2016 Fortune 500 list. Capacity footprint (2016): 34% Gas, <24% Coal, 21% Renewables, 10% Oil, 8% Nuclear, 3% Purchases
- Customer base with regard to electric gross margin (2015): 50% Residential, 32% Commercial, 9% Industrial, 9% Other
- Reputable management team. Chairman: John Russell (b. 1958, CEO until July 2016, USD 21m shares); CEO: Patti Poppe (b. 1969, appointed in 2016, USD 5m shares); CFO: Tom Webb (b. 1952, appointed in 2002, USD 12m shares)
- Case identified through SKAGEN Global internal proprietary research in conjunction with previous sector holding

ESG

- No severe issues identified but carbon emission rates and billing practices merit continued observation. We note that CMS recently shut down coal capacity, thus dramatically reducing its coal footprint from 41% to <24%. Valuation methods bake in an asymmetric skew in bear vs. bull case to account for heightened carbon risk.

Rationale for investment

We take a non-consensus view on CMS and argue that the stock is fundamentally undervalued based on the following:

- First, CMS offers a compelling earnings and dividend growth story combined with a strong balance sheet and a top-rated management team with a long history of hitting targets. More specifically, the USD 17bn capex plan, going all the way to 2025, provides unrivalled visibility and drives 6-8% EPS/DPS growth over many years to come. We think the market has yet to fully realise the true LT value of this proposition – it's a case of simplicity trumping complexity and we expect a slow upward grind in the share as CMS is well equipped to perform in a broad swath of macro scenarios.
- Second, CMS provides investors with several "free options" that can provide further upside or cushion the downside: (i) Michigan Energy Law; (ii) M&A take-out candidate; and a (iii) US federal infrastructure program.

Triggers

- Positive outcome of Michigan Energy Law legislation implies further upside optionality on capex (short-term)
- US launching a grand-scale infrastructure program post the presidential election to boost growth (medium-term)
- Consistently hitting EPS/DPS targets while maintaining solid credit ratings will drive the stock price (medium-term)
- Take-out candidate as a single-state, mid-cap+ utility with superior EPS visibility and regulatory support (long-term)

Risks

- Natural gas price. Rising gas prices will put pressure on consumer rates and could force CMS to scale back capex.
- Regulatory risk. Adversary ruling on rate cases; Michigan gubernatorial elections scheduled for Nov 2017.
- Interest rate risk. Several interest rate hikes in rapid succession by the Fed will likely de-rate the stock's multiple.

Target price

Applying a blend of P/E and DDM valuation techniques leads to a base case 2-yr price target of USD 54/share. In a bull case scenario we can see the stock going to USD 62/share while a bear case development implies a fair value of USD 35/share.

Key Figures

Market cap	USD 11.6bn
Daily turnover	USD 90m
No. of shares	280m
ND/EBITDA	4.9x
ROE 2016	13.7%
P/E 2018	17.8x
P/B 2016	2.7x
EV/EBITDA 2018	9.2x
DY 2016	3.0%
# of analysts	16
with Sell/Hold	75%

Largest Owners

1. Blackrock 9.8%
2. Vanguard 9.6%
3. JP Morgan 7.8%

www.cmsenergy.com

3U acid test

Unpopular

- 75% SELL/HOLD recommendations
- The utilities sector remains a highly unpopular choice among investors; for example, utilities had the highest underweight (>30%) of all sectors in BAML's Fund Manager Survey published in November 2016.

Under-researched

- CMS has long been a mid-cap stock and thus received limited attention from the broader investment community (may change as market cap is approaching USD 12bn).
- Many utility sector analysts/investors try to nail down the earnings for the next 2-3 quarters whereas SKAGEN takes a multi-year view; an approach that shifts focus to valuation factors that may be less appreciated on a short-term basis.

Under-valued

- Yes. CMS offers multi-year visibility coupled with attractive EPS/DPS growth (6-8% p.a.) over 5+ years supported by a strong balance sheet and a top-quality management team well aligned with shareholders. This combination is underappreciated by the market as the premium to the group remains too low.
- CMS offers attractive risk-adjusted defensive characteristics that are compelling from a (global equity) portfolio construction point of view.
- Our base case indicates a fair value of USD 54/share (~30% upside) with an attractive risk-reward on a 2-year view.

Medtronic (MDT US) USD 82

Mean reversion	Special situation	Long-term value builder
0%	80%	20%

History, what they do and source of investment idea

- Founded in 1949 as a medical repair shop, Medtronic has grown into a USD 28bn revenue medical device company with operations in 150 countries. In 2014, Medtronic acquired the peer Covidien for USD 50bn in an inversion deal. Medtronic ranks #1 or #2 in most product segments and has consistently achieved high margins over many years.
- Group key financials (2015): 72% GM, 32% OM, USD 4.3bn FCF, 7% 2015-2019e EPS CAGR, 33% PR
- 4 divisions (2015 Sales, % of Group): Cardiac and Vascular Group USD 10bn / 35%; Minimally Invasive Therapies Group USD 10bn / 34%; Restorative Therapies Group USD 7bn / 25%; Diabetes Group USD 2bn / 6%
- Geographic sales split (2015): 55% US, 33% Non-US DM, 12% EM. Growth rate is 3-6% in DM; 10-15% in EM
- CEO (2011): Omar Ishrak (b. 1956), USD 40m shares; CFO (2005): G. Ellis (b. 1958), USD 14m shares. Management 2015-2017 LTIP is based on 2 equally weighted criteria: (i) 14% average ROIC; (ii) 5% sales cumulative CAGR
- Investment idea derived from SKAGEN Global internal proprietary research.

ESG

Medtronic operates within our ethical guidelines, but some controversies within the social and governance categories require assiduous monitoring.

Rationale for investment

1. While a blend of weak EM markets/strong USD, deal synergies not (yet) visible and fear of receding top-line growth has dampened the market's enthusiasm, we consider these items temporary set-backs with limited impact on Medtronic's fundamental value. In fact, we think Medtronic has many self-help tools for meeting – or even exceeding - its targets of mid-single-digit revenue growth, 2-4% leverage at EPS level and 50% of FCF returned to shareholders. Thus, we forecast Medtronic beating 2018 EPS by mid-to-high-single %, supporting a re-rating;
2. In light of a maturing US bull market, Medtronic offers an attractive valuation skew supported by a solid balance sheet, healthy FCF generation (>7% FY1 FCF yield), HSD EPS/DPS growth and structural tailwinds both in DM and EM markets with ageing demographics. Medtronic's in-line valuation with the S&P 500 looks unjustified if it can meet the financial targets;
3. Free option on US tax reform potentially allowing repatriation of cash trapped overseas for capital return/bolt-ons

Triggers

- Cash repatriation (USD 12bn in cash) in case of a tax law change post the US presidential election (short-term)
- Evidence of sustained top-line growth with operating leverage (synergies, pipeline, cost cuts) (medium-term)
- Structural growth in EM where the company has ample room to profitably expand its footprint (long-term)

Risks

- Medical device industry matures faster than expected with widespread commoditisation of key products
- US authorities retroactively invalidate inversion deals (Medtronic/Covidien deal break-up)

Target price

Price target of USD 115 from P/E, EV/EBITDA & FCFY implies 19x FY1 P/E + dividends and offers nearly 40% upside

Medtronic

Key Figures	
Market cap	USD 114bn
# shares / Float	1.4bn / 100%
Daily turnover	USD 440m
ND/EBITDA	2.3x
2017 P/E	17.6x
2018 P/E	16.0x
2018 EV/EBITDA	12.3x
2016 P/B	2.2x
2017 ROE	11.4%
2016 DY	2.0%
# of analysts	25
with Sell/Hold	27%

Largest Holders

1. Vanguard 6.9%
2. Capital Group 6.5%
3. Blackrock 6.1%

www.medtronic.com

3U acid test

Unpopular

- 28% SELL/HOLD recommendations
- Large medical device companies are typically perceived as much less exciting candidates than their smaller peers since the former often lack the "take-out” potential
- Harsh and populist political rhetoric associated with the US 2016 presidential election has indiscriminately imperilled the US healthcare sector

Under-researched

- 25 analysts, so not under-researched per se. However, the sell-side/buy-side community seems to be struggling with identifying the key share price drivers because of the complexity of this large, diversified conglomerate (“less is more”)

Under-valued

- Yes. The lack of a “big-boom” catalyst coupled with the market’s short time horizon (12 months) gives us an opportunity to enter this grinder, i.e. a name with a moderately upward sloping trajectory, typically generating double-digit return per annum (but not doubling)
- Our base case indicates a fair value of USD 115/share (40% upside) . In a bull-case scenario, the stock could hit USD 150 whereas a bear-case outcome may take it to around USD 70. Hence, the valuation skew seems favourable for long-term investors

For more information please visit:

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