**FIRST CUT STOCK STUDY**

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| **COMPANY NAME** ResMed | **TICKER** RMD |
| **DATE OF STUDY** April 18, 2011 | **PRICE** $32.66 |
| **PREPARER OF STUDY** Linda Hathaway |  |

**Discuss why you consider this company to be a high quality, growth company that should be considered for inclusion in MicNOVA'a portfolio. Include comments on historical sales and EPS growth, pre-tax profit margins, return on equity and debt.**  I like that this company focuses on the sleep industry and invests significantly in R&D. They recently reduced the expense for diagnosis allowing patients to conduct tests in their homes instead of in a medical facility. This particular medical device is considered a growth product since people needing help with sleeping disorders is on the increase--primarily because of the obesity problem. They have a history of introducing innovative and non-invasive products that improve sleep apnea.

Historical sales growth is 11.2%; historical EPS is 23.3%.

Pre-tax profit and Return on Equity are both growing; the company has no debt and their free cash flow is strong, leaving them in a good position to weather any economic turmoil's. Value Line gives them an "A" for Financial Health.

Morningstar rates management with a "C" however, since the ongoing perks and compensation handed out to former chairman Peter Farrell and other executives is more than generous. They also don't like the "staggered terms and clubby feel of the board of directors."

**How does the company make money? Is it the best in the industry? Does it have a competitive advantage?**

They develop, manufacturer & distribute equipment for treating, diagnosing & managing sleep disordered breathing, including obstructive sleep apnea. Manufacturing began in Australia, but is now in Singapore, France and the U.S.. Products are marketing in over 70 countries.

 RMD has two main competitors, both large caps: Koninklijke Philips (PHG)--formerly Respironics, and Covidien (COV)--a spin-off from Tyco International. Both of these companies are large cap with many other divisions besides treatment for sleep apnea. However, competition is strong in this field and "competitive sampling hurt ResMed's growth in recent years. If these practices return, growth could be diminished.

**What is the projected growth rate for sales?** 13%

**Why did you select this rate? Discuss from where future growth will come.** I was conservative since Manifest Investing has 14.5% and the analyst's mean is 16.6% with a down tick in 2012. Value Line predicts 13% for sales and 15% for EPS growth.

**What is the projected growth rate for earnings per share? \_\_\_**13%**\_\_\_\_\_\_\_\_**

**Why did you select this rate?**  Even though EPS has had higher growth than sales, I like to keep EPS growth the same or lower than the sales rate of growth. Earnings follow sales.

**What is the projected high P/E? \_\_\_**28**\_\_\_\_\_\_\_\_**

**Why did you select this value?** The signature P/E is 30.4 and the Ellis Traub P/E is 24.3. P/Es have been trending down: Value Line project the average P/E will be 21.0 while Manifest Investing projects 22.0. I have gone with the latter estimate--22 is the midpoint between my high and low P/Es.

**What is the projected low P/E? \_\_\_\_**16**\_\_\_\_\_\_\_**

**Why did you select this value?** The historical volatility between the high and low P/Es are reflected in my choice.

**What is the projected low price? \_\_\_**$21.00**\_\_\_\_\_\_\_\_**

**Why did you select this value?** It is the forecasted low price--lower than the price that is 20% below the current price.

**At the current price the stock is a (check one) \_\_X\_\_\_Buy \_\_\_\_\_Hold \_\_\_\_\_\_Sell**

**At the current price the upside downside ratio is \_\_\_3.2\_\_\_\_\_ to 1**

**Projected compounded rate of return \_\_\_16.6%\_\_\_\_\_\_**

**Your recommendation is to:**

 **\_\_\_\_X\_\_\_\_ Buy**

 **\_\_\_\_\_\_\_\_Place on Watch List**

**Explain:** We have been looking for a midcap stock for diversification and ResMed falls in that category with sales of $1.2 billion. While we do have another company in the medical devices industry, I feel that ResMed is very specialized and does not duplicate what either Stryker or Abbot do.

Value Line considers this stock "a solid addition to most growth-oriented portfolios. However it is neutrally ranked and long-term capital appreciation potential is only slightly above average.

Manifest Investing gives ResMed a Quality rating of 77.8 and PAR of 12.3% (in the green)