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## Medtronic (MDT)

Last week we noted that Medtronic's days sales of inventory (DSIs) in the 1/18 quarter jumped by seven days over the year-ago period. Management noted in the conference call that currency translation resulted in an increase to inventory balances at the end of the quarter. While this seems plausible, we also would have expected inventories to have declined some given that they were already elevated in the 10/17 quarter from preparation of new product launches and a sensor supply issue.

MDT recently released its 10-Q for the quarter in which is broke out the components of its inventories. The following table shows the percentage composition for the last six quarters:

	1/31/2018	10/31/2017	7/31/2017	4/30/2017	1/31/2017	10/31/2016
Raw Materials % of inventory	20.2%	20.8%	20.4%	20.0%	21.6%	20.6%
In-Progress % of inventory	13.9%	14.2%	13.8%	13.7%	14.4%	14.3%
Finished Goods % of inventory	65.9%	65.1%	65.7%	66.2%	64.0%	65.1%
	100%	100%	100%	100%	100%	100%

We stated in last week's review that we would be less concerned about the inventory increase if it was not focused on finished goods. However, it appears that virtually all the increase in inventories in the 1/18 quarter was in the finished goods component. In addition, the 10-Q's explanation for the increased cash flow drain from inventories for the nine months ended 1/18 was that there was "an increase in cash paid for inventory" which leaves us little to go on.

We do not see this as a huge risk issue yet, but the longer inventories remain elevated, the greater the chance of an upcoming markdown or write-off which could unexpectedly nick profits.

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