Ryan Weispfenning
Good morning and welcome to Medtronic’s fiscal year 2021 second quarter earnings video webcast. I’m Ryan Weispfenning, Vice President and Head of Medtronic Investor Relations.

Before we start the prepared remarks, I’m going to share with you a few details to keep in mind about today’s webcast:

• Joining me are Geoff Martha, Medtronic Chief Executive Officer and Karen Parkhill, Medtronic Chief Financial Officer. Geoff and Karen will provide comments on the results of our second quarter, which ended on October 30, 2020. After our prepared remarks, we’ll take questions from the sellside analysts that cover the company. Today’s event should last about an hour.

• Earlier this morning, we issued a press release containing our financial statements and divisional and geographic revenue summary. We also posted an earnings presentation that provides additional details on our performance, which can be accessed from our earnings press release or on our website at InvestorRelations.Medtronic.com.

• During today’s webcast, many of the statements we make may be considered forward-looking statements, and actual results may differ materially from those projected in any forward-looking statement. Additional information concerning factors that could cause actual results to differ is contained in our periodic reports and other filings that we make with the SEC, and we do not undertake to update any forward-looking statement.

• Unless we say otherwise, all comparisons are on a year-over-year basis, and are given on an organic basis, which adjusts for foreign currency. There were no acquisitions made in the last year that had a significant impact on our quarterly revenue growth. All references to share gains or losses are on calendar quarter basis, unless otherwise stated.

• Finally, reconciliations of all non-GAAP financial measures can be found in the attachment to our earnings press release or on our website at InvestorRelations.Medtronic.com.

With that, let’s get started.

Geoff Martha
Hello everyone and thank you for joining us today. Our Q2 results were significantly stronger than Q1 and came in well ahead of our expectations.
Our recovery from the depths of the pandemic has been faster-than-expected and we’re now approaching year-over-year growth. Now, while we continue to monitor COVID resurgence around the globe, healthcare systems are by and large better prepared, and patients are more willing to seek the care they need. Obviously, there’s some near-term uncertainty, but I am encouraged by the steps we’ve taken over the past year to position Medtronic not only for continued recovery, but to maximize our performance over the medium and long-term.

Now, building on the strength of our pipeline, we’re going on the offensive and winning share in several of our businesses. We’re investing in opportunities to create and disrupt big markets – and we’re seeing the results. We’re supplementing our pipeline with an increasing cadence of tuck-in M&A. And we’re in the process of implementing our new operating model and reenergizing our businesses with a competitive focus on market share and being bold. All of this is aimed at accelerating our growth and creating value for society and our shareholders.

Now, like last quarter, I’m going to lead off with a discussion on market share, and I’m pleased to note that we’re winning share in an increasing number of our businesses. Our pipeline is coming to fruition, and we’re benefitting from recent product approvals across the company. Since last quarter, we’ve received 50 product approvals, bringing our total to over 180 regulatory approvals in the US, Europe, Japan, and China since the start of the calendar year. We’re also benefitting from the actions we took earlier this year to partner with our customers through the pandemic. We’ve helped our customers in areas such as environmental safety, hospital productivity, patient engagement, and remote monitoring and support, and these partnerships are leading to increased market share in a number of accounts.

In Cardiac Rhythm, we’re notably outperforming the competition. We estimate we’ve gained nearly 2 points of share year-over-year. Our Pacemaker product line grew 6% globally, as our Micra™ leadless pacemaker family continued to perform extremely well, growing 75% globally and 84% in the US. Micra is now annualizing at approximately $350 million.

We also continue to see the benefit of our recently launched Cobalt™ and Crome™ high power devices, with BlueSync™ distance programming and a patient app for remote monitoring. These are both important features in the current environment. Our CareLink™ remote monitoring adoption is up 10% globally and transmissions on our unique CareLink Express™ system, which enables unattended in-clinic follow-ups, increased 40% quarter-over-quarter. Our CRT-D product line grew 4%, driven by the Cobalt and Crome launch and our improving replacement cycle.

In addition, we’re continuing to see strong adoption of our TYRX™ antibacterial envelopes, especially important during a pandemic where there’s a renewed emphasis on avoiding infections of any kind. TYRX revenue more than doubled, and it is utilized in over half of our US CRM implants. In Cardiac Diagnostics, we estimate we gained modest share year-over-year, as the launch of our LINQ II™ is offsetting Boston Scientific’s entry into the market.
In drug-coated balloons, we grew in the high-single digits and gained share both year-over-year and sequentially. We’re seeing strong adoption of our IN.PACT™ AV DCB, driven in part by its pivotal data that was published earlier this fall in the New England Journal of Medicine.

In Surgical Innovations, we held share year-over-year and our share is up nearly a point versus the prior quarter, driven by strong gains in Advanced Energy. We’re earning share with superior products like our LigaSure™ Exact dissector and our Sonicison™ Curved Jaw ultrasonic dissector. We’re also winning back share from reprocessors. In Advanced Stapling, our share was down year-over-year, with difficult comps given JNJ’s recall in the prior year. However, we did gain share sequentially on the strength of our Tri-Staple™ technology.

In our Restorative Therapies Group, we’re beginning to see important share gain from recent product launches. Starting with Pelvic Health, we estimate we regained 8 points of share in the US and 2 points in Europe sequentially from Axonics. This is the result of very successful launches of our InterStim™ Micro rechargeable device and our SureScan™ MRI leads. We’re quickly recapturing share in the rechargeable space with Micro as we get on contract in more and more accounts. From our FDA approval in August to the end of October, we believe our share of the US rechargeable market has gone from 0 to over 50% in just three months. And, we continue to see high trialing rates, at 125% of pre-COVID levels, driven in part by our Basic Evaluation lead, which is a strong leading indicator of future growth.

In Pain Stim, we continue to see strong momentum as the market adopts our DTM™ therapy on our Intellis™ platform. While we’re facing headwinds in replacements given where we are in our cycle, we estimate that we gained new implant share in the US. Also, our new SCS implants in the US grew in the high-single digits in the quarter, and we saw strong trialing increases year-over-year, a leading indicator of future growth in this business. Importantly, we’re seeing the majority of our new implant and trialing growth coming from competitive accounts, as we win share from competitors. This is all being driven by the strength of our DTM data, which showed superiority over conventional stim at 3 months. But, we strengthened this evidence last month, when we showed DTM superiority is sustained at 12 months.

In Brain Modulation, we’re building momentum with our Percept™ PC device, the first and only DBS system that can sense brain signals. Now, we launched Percept in the US this past quarter. While our US share was down year-over-year, Percept drove increasing new implant share gains each month as we went through the quarter, returning Brain Modulation to growth.

In ENT, we gained share both sequentially and year-over-year. We launched several new products in the quarter, including our next-gen nerve monitoring program, NIM Vital™, our PTeye™ system for parathyroid detection, and StealthStation FlexENT™, our new nav system to support outpatient ENT procedures. And going forward, we expect these launches to continue to drive share gains and market growth.

In Neurovascular, we had a good quarter in Aspiration, Coils, and Access, resulting in overall growth of our Neurovascular business. While we had share loss in Flow Diversion due to new
entrants in the US market, we estimate that our share in Neurovascular increased overall, as we won share from both Penumbra and Terumo.

Now, turning to the businesses where we are holding share, we estimate that our procedure share was steady in both drug-eluting stents and TAVR on a sequential basis.

In DES, we were one of the winners in the Chinese national tender and will receive volume that is being re-allocated from our multi-national and local competitors whose tender bids were not accepted. While our volume will increase significantly, this will be more than offset by significant price declines as dictated by the tender. This will impact our business over the coming quarters. That said, we believe participating in the Chinese stent market is a long-term strategic opportunity, as our increased access to more Chinese hospitals will provide opportunities to pull-through our full product line today, as well as in the future with products like TAVR and Renal Denervation.

Speaking of TAVR, we held procedure share in the US, Europe, and Japan sequentially. We expect to be back to gaining share year-over-year in the US next quarter, as we anniversary our share loss from our fiscal third quarter last year. The market is responding to our competitive messaging on our valve hemodynamics, which is a key determinant of valve selection in low-risk patients. We are also getting favorable customer response to our data in bicuspid patients, which make up a large portion of the low-risk population. And we’re continuing to increase our field personnel and open new accounts in the US, which we expect to lead to share gains going forward, both from Edwards, as well as winning share in Boston Scientific accounts given their recent decision to remove their Lotus valve from the market.

In MITG, we estimate we held share in both GI and Respiratory. In Respiratory, we saw a strong acceleration in ventilator sales, with our revenue increasing nearly 4-fold year-over-year and growing nearly 50% over Q1. This was driven by our ability to increase production and shift our mix to our high-acuity PB980 ventilator to fulfill backorders and meet customer demand, particularly in the US and Europe. We do expect ventilator revenue to decline sequentially in the back half of our fiscal year, returning to more normal levels in FY22.

In Spine, we estimate that we held share year-over-year, with a slight gain in the US. We’re seeing strong, double digit growth in our surface-enhanced titanium interbodies that came from our acquisition of Titan Spine last year, which is now in our organic results. In Spinal robotics, while large capital equipment purchases continue to be pressured as a result of COVID, we estimate that we sold over one and a half times the number of robots that Globus did. We continue to grow our share in the spine robot market, which is a good leading indicator for our future spine implant sales. In addition, we’re expanding the capabilities of our Mazor X™ robot. We received approval earlier this month for our navigated interbodies, as well as our Midas Rex™ high-speed powered drills.

While we’re growing and holding share in many important businesses, there are also areas in which we are losing share and we’re working to improve. In Diabetes, we’ve discussed with you our plans to return this business to market growth, and we’re seeing positive early signs as
we lay the groundwork to create a business that can compete and win. We performed better than expected in Q2, but there is much more to do, and we’re laser focused on doing what it takes to return to market growth.

The MiniMed™ 780G launch is off to a great start in Europe, and we just started the limited release of the 770G in the US last week. As a reminder, we plan to enable 770G users to upgrade their pump to a 780G through a software download once we get 780G approval. We’re also pleased by the recent CMS proposal to cover all CGM devices. If finalized, it would ensure patients transitioning into Medicare have continued coverage for their integrated CGM. And it will open up the US Medicare market to our closed loop insulin pump systems, as early as April.

Regarding Companion Medical, the acquisition closed in September, and we’re excited to have the team on board. Companion revenue was minimal in Q2, but we expect it to become more meaningful going forward. We announced the integration of our CGM data into the Companion InPen app two weeks ago. This will allow InPen™ users to have their Medtronic CGM readings in real-time alongside insulin dose information, all in one view. We were able to deliver this solution ahead of schedule, in just two months instead of two quarters. This speaks to the strong integration work that is happening between our Diabetes team and Companion Medical. It’s also a great example of how Medtronic is operating with speed and a sense of urgency across the company.

Now, let’s turn to our pipeline, which has a number of future opportunities for us to win share, as well as create and disrupt big markets. We covered this in detail with you last month at our Investor Day, so I’m going to give you the abridged version today.

In CVG, we continue to make good progress on several opportunities highlighted at Investor Day. It appears to have been missed by the Street last week, but last Monday was a huge day for the treatment of AF. Our ArcticFront™ cryoballoon was the subject of a simultaneous AHA data presentation and New England Journal of Medicine publication that promises to redefine the role of our cryo-ablation technology, making it first-line therapy in the treatment of paroxysmal AF. We currently have CE Mark for this indication and anticipate FDA approval in the first half of next calendar year. Regarding our DiamondTemp™ cardiac ablation system, it continues to roll out in Europe, and we’re targeting a US launch in the first half of next calendar year.

Also in CVG, we’re enrolling pivotal trials for our Extravascular ICD, our Intrepid™ transcatheter mitral valve, our PulseSelect™ pulsed field ablation system, and our Symplicity™ Spyral renal denervation system. Now RDN represents one of our biggest opportunities, to become an important therapy to treat the millions of patients around the world who struggle with hypertension. We’re aiming to complete the ON MED trial and present the data next calendar year.
In MITG, we are excited about bringing our soft-tissue robotic system to the market. We continue to expect to file for CE Mark and US IDE approval in the first calendar quarter of 2021, although these filings are likely to occur later in the calendar quarter, as COVID is slowing some of our onsite activities.

In RTG, we’re making large investments in new products for Neurovascular and ENT, and in enhancements to our Mazor X™ spinal robotic system. We’re also focused on expanding indications in spinal cord stimulation, and bringing to market our steerable lead and closed-loop system in DBS.

In Diabetes, we continue to work with the FDA on the most efficient filing strategy for the 780G, while on the sensor front we submitted our Zeus sensor to the FDA in October, and we have completed our Synergy pivotal trial and will file it when we complete the manufacturing module. We continue to get great feedback on Synergy, which is disposable, it’s much easier to use, and half the size of our current sensor.

These are just a few of the many innovative products in our pipeline. We expect them to be the foundation for material future revenue growth, and we’re excited to keep you updated on our progress.

I’ll now have Karen take you through a discussion of our second quarter financials and our outlook. And then I’m going to come back with some concluding remarks before we go to Q&A. Karen, over to you.

Karen Parkhill
Thank you, Geoff.

Our second quarter organic revenue of $7.6 billion declined 1.5%. And adjusted EPS of $1.02 declined 22% from last year. However, compared to the prior quarter, our revenue increased 18% and adjusted EPS grew by 65% as our end markets continued to recover.

In fact, we continued to see sequential revenue improvement each month. And, despite the number of COVID cases rising in many of our markets, October was better than September in all of our groups and regions – with the exception of China, given the impact of the national tender in drug-eluting stents.

MITG led the way with its growth rate increasing by over 20 points in both Surgical Innovations and Respiratory, GI, and Renal. SI benefitted from increased elective procedure volumes in Europe and the United States, driven in part by elective procedures that were delayed from the spring and early summer. RGR’s improvement came from strong ventilator sales, as well as from GI, Patient Monitoring, and Renal Care products. Across MITG, we had growth in a number of our businesses in the second quarter, including Advanced Energy, Lung Health, Airways, Ventilators, and Patient Monitoring.
CVG and RTG also delivered double-digit improvements from the first quarter, with increased procedure volumes and share capture. And, several businesses returned to growth from the prior year. In CVG, we grew in Pacing, CRT-Ds, TYRX, Aortic, and Drug-Coated Balloons. And in RTG, we grew in DBS, Neurovascular, Pelvic Health, and China Orthopedics.

On the P&L, while we continue to see the expected deleveraging year-over-year, the recovery in our business is evident in the sequential improvement in our adjusted margins: over 300 basis points in our gross margin and nearly 600 basis points in our operating margin. Our better-than-expected revenue flowed through to the bottom line, resulting in EPS well ahead of expectations.

Turning to our balance sheet, our financial position remains strong. In the quarter, we completed another Euro debt offering – 6.25 billion – and used the proceeds to reduce our US dollar debt and pre-fund our March Euro debt maturities, driving roughly $80 million of additional annualized savings. This was our third Euro transaction in the past year and a half. Combined, we have issued over 18 billion. And our portfolio now sits with a weighted average maturity of over 12 years and a weighted average coupon of less than 2%, among the lowest of the large cap issuers – and THE lowest among our competitors in MedTech.

As I shared with you at our Investor Day last month, we remain focused on investing – both organically and inorganically – through tuck-in acquisitions and minority investments – to drive our long-term growth strategies. Last month, we announced the acquisition of Ai Biomed to expand our ENT portfolio. In addition, we closed our acquisition of Avenu Medical in Peripheral Vascular earlier this month, and we announced the completion of our Medicrea acquisition in Spine last week.

We expect both our organic and inorganic investments to fuel a longer-term revenue growth acceleration, ultimately creating strong returns for our shareholders, supplemented by our strong and growing dividend. We are an S&P Dividend Aristocrat, having increased our dividend for 43 years, and our current yield of 2.1% places us in the upper quintile of S&P 500 Healthcare companies.

Now, turning to our outlook. Particularly with the rising cases of COVID around the world, the impact to our business remains difficult to predict. So, we will continue to not provide our typical guidance. That said, I do want to give you our sense of the recovery ahead.

While it is still early in our third quarter, we’ve seen our average weekly sales track ahead of the same weeks in the second quarter. So, while there are pockets of more restrictions and delayed procedures around the globe, the impact to us has thus far been limited. As we have said before, hospitals are better equipped now to handle COVID patients and remain open to serve non-COVID patients. And, over time and with education, patient fear is not as heightened as it was last spring and early summer.
While there is still uncertainty ahead, if the recovery trend continues as it has to date, our third quarter revenue could be flat to slightly up year-over-year on an organic basis. And, we would continue to expect to return to normal organic revenue growth on a 2-year stacked basis by our fiscal fourth quarter.

By group next quarter, MITG growth could be in the low-single digits, a little lower than the second quarter given the benefit we had from strong ventilator sales. RTG and Diabetes should deliver improvements from the second quarter, with a decline in the low-single digits. And, CVG should be roughly flat, as we continue to recover and take share.

On the P&L, while we are continuing to invest in our product pipeline and launches during the pandemic, we still expect sequential operating leverage as we recover. For both our gross and operating margins, we would expect a couple points of improvement in the third quarter versus the second. And we continue to expect to return to more normal operating margins in the fourth quarter.

Regarding currency, assuming rates hold constant, the tailwind on revenue in the third quarter should be similar to the second, and the full year benefit could be roughly 150 million dollars. On the bottom line, we’d expect a 4 cent headwind per quarter for the remainder of the year.

As I wrap up, while the pandemic could impact our outlook, our ability to continue to invest in our pipeline, develop our markets, and execute on product launches will allow us to outpace our markets. I’m proud of the hard work from our employees this year, and I’m excited about the impact we are having on millions of patients’ lives around the world. With our competitive spirit and focus on being bold, we will be at the forefront of the recovery.

Back to you, Geoff.

Geoff Martha
OK. Thank you, Karen.

Now to wrap up, I hope you’re seeing the strong execution that our organization is delivering. I want to take a moment to thank our employees across the globe for the great performance they have collectively produced this quarter.

To sum up the second quarter: we’re improving our growth, advancing our pipeline, and winning share. And we’re doing all this while operating in the midst of a global pandemic, and while we make bold and comprehensive changes to our operating model.

And one last note: Regarding our operating model, we’re making solid progress on decentralizing and delayering our businesses. We’re empowering our twenty operating units, gaining greater visibility into our end markets, upping our competitive game, and holding our business leaders more accountable. We’re leveraging the strengths of our enterprise by centralizing manufacturing and certain core technology development. We’ve increased our
focus on allocating capital to our best opportunities, and we’re supplementing this with an increased cadence of tuck-in acquisitions.

And we’re enhancing the culture of this company by increasing our competitiveness and being bold, adding this on top of all these great attributes of our Mission-driven culture.

We expect this to lead to more innovation, accelerate our growth, and unlock a lot of value for our shareholders.

So with that, let’s now move to Q&A.

Following Q&A:
Geoff Martha
OK. Thanks for the questions. We really appreciate your support and continued interest in Medtronic. We hope that you’ll join us on our Q3 earnings webcast – which we anticipate holding on February 23rd – where we’ll update you on our quarterly progress. So, thanks for tuning in today, stay healthy and safe, and for those of you in the US, I’d like to wish you and your families a very Happy Thanksgiving. Have a great day.