Thank you. Good morning and welcome to Medtronic’s fiscal year 2021 first quarter conference call and webcast, Geoff Martha’s first quarter as Chief Executive Officer. Another first today is that we’re presenting our prepared remarks by video. We hope that you’ll appreciate this new format, and please let me know if you have any feedback.

Today’s earnings call should last about an hour. Geoff, along with Karen Parkhill, Medtronic Chief Financial Officer, will provide comments on the results of our first quarter, which ended on July 31, 2020. After our prepared remarks, we’ll take questions from the analysts.

Before I turn it over to Geoff, here’s a few things to keep in mind:

- Earlier this morning, we issued a press release containing our financial statements and a revenue-by-division summary. We also issued an earnings presentation that provides additional details on our performance.
- During today’s prepared remarks and Q&A session, 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, given risks and uncertainties, including those related to the impact COVID-19 has had and is expected to continue to have on our business. 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 year-over-year revenue comparisons mentioned during this call are given on an organic basis, which adjusts for three things: 1) the inorganic impact of our Titan Spine acquisition; 2) foreign currency; and 3) the extra week that we had in the first fiscal month this quarter compared to the first quarter of fiscal year 2020. The extra week is a result of our 52-53 week fiscal year calendar, which results in an extra week every five or six years.
- 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, I’ll turn it over to Medtronic Chief Executive Officer, Geoff Martha. Geoff?

OK. Thanks, Ryan, and I appreciate everyone joining us today. But before we dive into our Q1 results, I want to once again thank the frontline healthcare workers who continue to
fight COVID-19 every day. We are thankful beyond words for your sacrifice and tireless resolve. I also want to acknowledge all the Medtronic employees who have gone that extra mile to support our customers and patients during this difficult time. Thank you for showing that our Mission, written sixty years ago, still inspires us and really defines who we are as a company. I also want to acknowledge the wildfires burning in Northern California. Medtronic has been a long-time member of the Santa Rosa community, and while our operations aren’t currently affected, our thoughts are with those heroes battling these terrible blazes, and the people affected, including some of our employees. We hope for quick containment, and we’re standing by, ready to assist.

OK, now let’s switch gears to Q1. Our results reflect a strong recovery from the depths of the pandemic that we saw back in April. Procedure volumes began to recover this quarter in multiple markets around the world, and we drove market share gains in a number of our largest businesses. Our revenue declined approximately 17% on an organic basis year-over-year, and our adjusted EPS of $0.62, while down 51%, was well ahead of expectations.

We’ve seen a faster than expected recovery, our pipeline is kicking in, and we’re increasing our cadence of tuck-in M&A. But most importantly, we’re finding a new gear at Medtronic, and we’re becoming a more nimble and a more competitive organization. And in the coming weeks, you’re going to hear more from me on this topic, as we begin to outline the new Medtronic.

When the pandemic first hit, we had to postpone our biennial Investor Day, originally scheduled for June. Well, today we are announcing that we’ve rescheduled the meeting and will now going to host a virtual meeting with you on Wednesday, October 14th. We’re going to use that opportunity to lay out where we’re headed, including a deeper dive into our pipeline, now that it’s coming to fruition, as well as the actions we’re taking to simplify the company. So, we look forward to being with you virtually, at least, on October 14th.

Now, I’d like to do something a little different than our past earnings calls and lead with a discussion of market share. Collectively, our results in the month of June were stronger than many of our competitors, and that strength continued into July and now into the first few weeks of August. In some businesses, we’re benefitting from the actions we took at the start of the pandemic to better partner with our customers. In other businesses, we’re seeing the benefit of new product launches as our pipeline kicks in across the company. In fact, we’ve already had over 130 regulatory approvals this calendar year in the US, Europe, Japan, and China. We’ve included a key approvals slide in our earnings presentation that outlines all of this.

We’re gaining share in our largest businesses, like Spine and CRHF Pacing and High Power. For example, our U.S. Core Spine business declined in the high-single digits, which was better than the market. We estimate that we gained over a half a point of share in the second calendar quarter. Our differentiated offering of enabling technologies, which
includes robotics, imaging, and navigation, combined with our implants, is reshaping the Spine industry.

In CRHF, we estimate that we gained significant implant share in both the High and Low Power markets in the second calendar quarter, with the greatest gains coming in the US. Micra™, our leadless pacemaker, grew in the low-40’s globally and approximately 60 percent in the US.

While many have been focused on how Micra™ is expanding the market and taking share, our new Cobalt™ and Crome™ ICD and CRT-D platforms are also beginning to drive meaningful implant share in High Power. We launched these devices mid-quarter in the US, and we’re now working with a growing number of providers across the country who have not implanted with Medtronic in years. Electrophysiologists are choosing Cobalt™ and Crome™ for their unique AF and heart failure therapeutic algorithms, the high 40 joule output, extended battery longevity, heart failure management capabilities, as well as their BlueSync™ remote programming and remote device management. These features provide layers of competitive advantage for us. We saw a 35% sequential increase in SmartSync™ accounts globally, and our proprietary RemoteControl™ programming technology, which was launched in the previous quarter, saw a 6-fold increase in adoption sequentially. In addition, utilization of our TYRX™ absorbable antibacterial envelopes increased by nearly 9 points sequentially to 50% of our US transvenous pacing and ICD implants as hospitals are focused on minimizing patient re-hospitalization rates during COVID.

We’ve also begun to return to sequential implant share capture in TAVR, one of our largest growth drivers. In the second calendar quarter, we maintained our share and market leadership in Europe and gained approximately one point of implant share sequentially in the US, as we opened new NCD accounts and saw great response from interventional cardiologists and cardiac surgeons to the bicuspid, leaflet immobility, and hemodynamic clinical data that we shared at ACC in the Spring. In fact, we’ve received approval from the FDA just last week to remove bicuspid labeling limitations for low risk TAVR on the strength of these data. This labeling change complements the approval we received earlier this summer as the only CE marked TAVR system with a Bicuspid indication for Intermediate risk patients. These are important regulatory milestones given the large size of the bicuspid patient population, including 60% of the low risk population.

I’ll also point out the share gains that we’re seeing in our Pain Stim business within Neuromodulation, where we’ve been rolling out our new DTM™ therapy. The superiority data that we have for DTM™ is resonating in the market. We’re taking advantage of this by focusing on customers that either don’t use Medtronic devices or split their business across multiple companies, and we’re having great success with this strategy. In fact, almost half of our DTM™ implants in the quarter occurred with these types of customers. And equally important, our SCS trials, which are a predictor of our future implants, were ahead of our expectations and even caught up to prior year levels in June. This bodes really well for our Pain Stim business going forward.
So while we’re driving share gains in many important businesses, there are also areas that we need to improve. In DBS and Pelvic Health, while we lost share in the quarter, we’re very bullish on where we’re headed. In DBS, we received FDA approval for our Percept™ PC deep brain stimulation system with BrainSense™ technology in late June. Percept™ is the first DBS to record brain signals while delivering therapy, and we expect this to drive share gains in this high growth market going forward. In fact, we believe this is the beginning of a multi-year run in DBS, with our directional lead launching next year, followed by a closed loop DBS system. We’re redefining the standard of care and creating a significant technology gap between us and our competitors.

In Pelvic Health, we just received FDA approval for our InterStim™ Micro device, which has important features over the competition. Our device is 50% smaller, it recharges far faster, and importantly, the recharger doesn’t need to be perfectly aligned for a successful charge. Additionally, Medtronic is the only company to offer physician practices the choice of recharge and recharge-free... and this is very important in the Neuromodulation space. The physician feedback on our InterStim™ Micro rechargeable product has been universally positive, and there are several early indicators that our share in the US is rebounding quickly, much like we saw in Europe following the Micro launch earlier this year. In just a few weeks, we’re winning back accounts, and we’re seeing cases where our competitor’s device is being explanted and replaced by Micro.

We’ve been waiting for this. Patients now have the ability to choose a smaller, better rechargeable product. Physician practices prefer to deal with ONE company, and our team is enjoying taking back the share.

Finally, in Diabetes, look, we’re missing out on the better growth of this market, and nobody at Medtronic is comfortable with this dynamic, and we’re pushing on several fronts to advance our technology. We’re actively increasing both our near- and our long-term growth opportunities, through increased organic investment, innovative funding with our recently announced Blackstone partnership, and inorganic activity, highlighted by the announcement earlier this month of our pending acquisition of Companion Medical. Companion’s smart pen technology expands our ecosystem to include the multi-daily injection portion of the diabetes market, with a patient population that is nearly 12 times larger than those that use insulin pumps. But make no mistake – we are still very focused on regaining technology leadership in the pump and sensor market. However, we’re also going to meet patients where they are, and provide them with realtime, data guided support. We expect to build a system that combines InPen with our Smart CGM technology, including our Nutrino and Klue artificial intelligence algorithms – all of this designed to deliver better outcomes and reduce the burden of managing the disease for MDI patients.

See, Companion is just one more example of how we are going on the offensive as a company through an increased cadence of tuck-in acquisitions. In fact, in addition to Companion, we’ve done two other major tuck-in acquisitions this calendar year with Digital
Surgery and Medicrea. Combined, these three deals totaled approximately $1 billion in total consideration.

Data and analytics are the next big frontier in surgery. That’s why we acquired the pioneering technology company, Digital Surgery, the leader in surgical artificial intelligence. We’re integrating their technology into our soft tissue robotic assisted surgery system, and also intending to use their surgical video management and clinician decision support solutions beyond robotics. In fact, we plan on a limited launch this Fall for the Touch Surgery Enterprise, which is an extremely easy to use surgical video capture solution, paired with a computer and connected to the cloud.

Medicrea, a pending acquisition we announced last month, has differentiated technology that incorporates artificial intelligence into surgical planning for Spine cases and then uses that plan to create personalized spinal implants. With Medicrea, Medtronic will be the first company to offer an integrated Spine surgery solution that includes AI-driven surgical planning, personalized implants, and robotic-assisted surgical delivery. This further extends our competitive advantage in Spine.

We will continue to use the strength of our balance sheet to supplement our organic growth and help drive increased – and sustained – revenue growth into the future.

Next, let’s turn to our pipeline, which is not just a share-taking pipeline, it expands the total addressable market for Medtronic, as we intend to bring innovative technology to large healthcare opportunities, such as hypertension and cancer screening.

Starting with our Cardiac & Vascular Group, I’ve already mentioned the impact that our recent launches of Micra™ AV and Cobalt™ and Crome™ are having in our CRHF division. But in addition to that, our next-generation cardiac diagnostic, LINQ II™, received FDA approval in the quarter, and we began the limited US release and expect the full market launch by calendar year end. In our Cardiac Ablation Solutions business, we started the European limited release of our DiamondTemp™ cardiac ablation system, with its unique closed-loop, temperature-controlled RF system. In June, our Arctic Front Advance™ cryo system became the first ablation system to receive FDA approval to treat patients with persistent AF. And this Saturday, results from our STOP AF First trial – which studied our cryoballoon as a first line treatment for paroxysmal AF – will be presented virtually as a Late Breaking Trial at ESC. In our Coronary business, our Resolute Onyx™ drug-eluting stent became the first and only stent to receive CE Mark for one-month DAPT treatment for high bleeding risk patients, and we expect FDA approval for this differentiated labeling later this calendar year.

In CVG, we’ve also resumed a number of important clinical trials that were on hold due to the pandemic, including our pivotal trials for our Extravascular ICD, our Intrepid™ transcatheter mitral valve, our PulseSelect™ pulsed field ablation system, and our Symplicity™ Spyral renal denervation system. In our ON MED renal denervation trial, half
of the sites have resumed enrollment, and we’re aiming to complete the trial and present the data next calendar year. We’re in the lead with RDN, and this represents a multi-billion dollar opportunity to better treat the millions of patients around the world who suffer from hypertension.

As I’ve already mentioned, we are now launching a number of products across the Restorative Therapies Group like the DTM™ spinal cord stimulator, our InterStim™ Micro sacral nerve stimulator, and our Percept™ PC deep brain stimulator. Look, RTG is on a roll, and we expect these products to drive growth and take share going forward. And, we intend to keep the RTG momentum going well into the future. We are making large investments in new products for Neurovascular, for ENT, and for enhancements to our Mazor X™ spinal robotic system.

In Diabetes, we continue to execute on our near-term pipeline. We’re on track for the MiniMed™ 770G approval later this summer. We’ve received CE Mark approval for our MiniMed™ 780G advanced hybrid closed loop system and will launch this Fall. We also continue to make meaningful progress on our sensor pipeline. Our US pivotal trial for Synergy is now underway, enrollment is going well, and we’re getting great feedback on this disposable sensor that is 50% smaller than our current product.

In our Minimally Invasive Therapies Group, we continue to make progress on bringing our soft-tissue robotic system to market. Our final validation and verification testing is going very well, and surgeon feedback continues to be positive. On the last earnings call, we told you that our timeline had been disrupted by COVID-19, but we’ve been managing through this and mitigating the impact to our timelines. In fact, we expect to be in a position to file for CE Mark and US IDE approval in the first calendar quarter of 2021. COVID could of course change that, but we thought it was important to update you on where we are today, and to let you know that we have a high level of confidence as we move toward commercialization.

In MITG, we’ve also been rapidly developing new solutions to treat COVID-19, including adding remote management capability to our Puritan Bennet™ 980 ventilator, integrating our Nellcor™ pulse oximetry sensors with Vapotherm’s closed-loop high flow ventilation system, and enhancing our Vital Sync™ remote monitoring solution to allow caregivers to remotely monitor our pulse oximetry and our capnography devices through a mobile application.

Many of these features were developed in days and weeks, which in the past might have taken us months and quarters, but because we’ve found new ways to move faster. We’re partnering with others, whether that’s on technology development or in supply chain relationships. We’re working with our regulators to ensure they have everything they need to streamline their decision-making. And, our own people are stepping up across the company. As one example, we increased our internal ventilator production five-fold in a matter of just a few months, from 200 a week to over a thousand a week.
This is what I mean when I say Medtronic is finding a new gear. We’ve been operating with a high sense of urgency, and we’re going to carry this forward. I’ve discussed in the past how our organization needs to simplify and become less bureaucratic. In the coming weeks, you’re going to hear more about the actions we’re taking to become a more nimble and a more competitive organization, empowering our business units while also allowing them to take advantage of Medtronic’s global scale. I am really excited about this direction, and I’m convinced that by empowering our general managers, we can become more competitive, we can accelerate our innovation, we can serve our customers better, and we’re gonna unlock a lot of value for our shareholders.

So with that, let me now ask Karen to take you through a discussion of our first quarter financials and our outlook. Karen, over to you.

Karen Parkhill
Thank you.

As Geoff mentioned, our first quarter organic revenue decline of approximately 17 percent was better than initially expected and an 8 point improvement over last quarter. CVG and RTG, in particular, had double-digit improvements from their fourth quarter decline. Within CVG, Cardiac Rhythm & Heart Failure improved the most – declining in the mid-teens – thanks to both rebounding procedures and share capture from new products. And, within RTG, Core Spine and Pain Stim had strong sequential improvements with the bounce back of these more deferrable procedures in the United States.

I would note that our organic revenue decline excludes the benefit we received from an extra week of sales in the first fiscal month of the quarter, which we estimate added approximately $360 to 390 million in revenue, less than our extra week would have been without a pandemic. But it’s important to note this benefit was offset by our plan to reduce customer bulk purchases.

Hopefully you’ll recall from prior earnings calls that we intended to use a good portion of the benefit from this extra week to reduce the practice of customers placing large bulk orders, as we’re working to better balance these across the quarter. We began this process earlier than planned due to depressed demand with COVID in the fourth quarter – and we still had some residual reduction in customer inventory levels this quarter. As we look ahead, the vast majority of the bulk reduction is behind us. There are only a small number of areas, such as our TAVR business, where we’ve been transitioning to a consignment model in select US accounts, and where we should see another quarter or two of modest headwind.

On the bottom line, our adjusted EPS was 62 cents, a decline of 51 percent, including an estimated benefit from the extra week of approximately 6 to 10 cents. As our revenue improved throughout the quarter, we saw a strong flow-through to our bottom line, resulting in EPS well ahead of expectations.
That said, with the decline in revenue, we continued to see deleveraging down our P&L. Several of our plants ran at less than full capacity, resulting in a larger period expense of our fixed overhead costs and a decline in our gross margin as we expected. We also had increased SG&A and R&D spend, as I signaled last quarter, given both the extra week and the increased investments we are making in our pipeline and product launches. As a result, our operating margin was 16.5%, down 12 points year-over-year, but an improvement of 40 basis points from last quarter.

Turning to our balance sheet, our financial position is strong, with ample liquidity to act on opportunities. We remain focused on investing – both organically and inorganically through tuck-in acquisitions and minority investments – to drive our long-term growth strategies. We’ve increased our cadence of M&A, and we’re increasing our level of R&D investment, with partners like Blackstone Life Sciences who will invest more than $300 million over the next several years to help us accelerate specific pump and CGM programs in Diabetes. These creative strategies will enable us to accelerate our planned investment and our growth. I view this as a key win for our company, the patients we serve, and you, our shareholders.

Turning more to the macro level, we expect both our organic and inorganic investments to fuel a longer-term revenue growth acceleration, creating strong returns for our shareholders, supplemented by our growing dividend. As an S&P Dividend Aristocrat, we’ve increased our dividend for 43 years, and our current yield of 2.3% is in the upper quartile of S&P 500 Healthcare companies.

Looking ahead, the uncertainty of the COVID-19 pandemic continues to make it difficult to provide our traditional annual and quarterly guidance. However, as we shared last quarter, we intend to be as transparent as possible to help you understand how we’re thinking about the trajectory of our business.

We’ve experienced a faster than expected recovery. On the top line, May was better than April, and June was better than May, and that improvement has continued into July and August. While there’s still uncertainty regarding the recovery, if these trends hold, we would expect our second quarter organic growth rate to improve at a rate similar to what we saw between the fourth and first quarters, where the fourth was down 25% and the first declined 17%. From there, we expect sequential improvement in the third and fourth quarters, and we still expect to be back to normal growth in the fourth quarter on a 2-year stacked basis.

When we look at our second quarter expectations by group, MITG should be better than the company average, given continued increased demand in our Respiratory business and increased volumes in Surgical Innovations. CVG has a potential to be a little better than company average, given its new product introductions. Diabetes is expected to perform
roughly inline. And, RTG could be a little below the total company, given its higher mix of capital equipment sales, but we’re still seeing some sequential improvement.

Looking at the P&L, we’re investing to support numerous product launches, and we’re investing in R&D programs to ensure our pipeline remains full. Despite the pandemic, we’re not pulling back. Instead, we’re focused on making the necessary investments to accelerate our revenue growth and ensure the long-term health of our company.

Having said that, we could see a couple points of sequential improvement in both our gross and operating margins in the second quarter compared to the first. And, we expect continued margin improvement through the second half until we return to more normal margins sometime toward the end of our fiscal year.

Regarding currency, the picture has improved with a weakening dollar. On revenue, assuming recent rates hold constant, our second quarter impact flips to a slight tailwind, after two years of a headwind, and the full year benefit is now over a hundred million dollars. On the bottom line at recent rates, the second quarter headwind should be similar to the first, and the full year has improved by about a nickel from the twenty cent impact I mentioned last quarter.

As I wrap up, I would want you to take away that whatever the recovery looks like, we intend to outpace our end markets. We’re focused on competing and winning – and we have the industry’s best and broadest pipeline, the resources and the people to do it. The future is bright, and I’m proud to be part of this team driving imperatives to fuel our growth and also fulfill our Mission, ensuring that millions of people around the world can benefit from our products and services.

Back to you, Geoff.

**Geoff Martha**

OK. Thanks, Karen.

I hope you got a sense today for our recovery trajectory, as well as how we’re changing at Medtronic, and we’ll continue this conversation at our Investor Day on October 14th. During the pandemic, our entire leadership team came together to determine how we could better serve our customers and evolve our culture. We worked together to find this new gear, and we’re on our way to becoming a more nimble and competitive organization. We’re playing offense, and we’re energized to use this moment – when our pipeline is kicking in – to expand our markets and take share. And importantly, we’re driving toward faster and broader topline growth, not just as we emerge from the pandemic, but sustainable growth over the long-term.

So with that, let’s now move to Q&A. In addition to Karen and me, we also have our four group presidents – Mike Coyle, Bob White, Brett Wall, and Sean Salmon – here to answer your questions. As usual, we want to get to as many questions as possible, so please help
us by limiting yourself to one question, and if necessary, a related follow-up. If you have additional questions, please contact Ryan and our Investor Relations team after the call. Operator, first question please.

**Following Q&A:**

**Geoff Martha**

OK. Thanks for your questions. I appreciate your support and interest in Medtronic. We look forward to presenting our long-term strategy at our October 14th Investor Day, and then updating you on our quarterly progress on our Q2 earnings call, which we anticipate holding on November 24th. Thanks for joining us today, stay healthy and safe, and have a great day.